



Donors, Dollars & DALYs: Core Funding in Mozambique
Population Services International

**ASSESSING THE ADDED VALUE OF PSI
MOZAMBIQUE'S CORE FUNDING
ARRANGEMENT FROM THE EMBASSY OF
THE KINGDOM OF THE NETHERLANDS IN
MOZAMBIQUE**

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Submitted by Itad

Report

Donors, Dollars & DALYs: Core Funding in Mozambique

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Acronyms

CDC	Center for Disease Control (USA)
DAC	Development Assistance Committee
DALY	Disability Adjusted Life Year
DANIDA	Danish International Development Agency
DFID	Department for International Development (UK)
DoD	Department of Defence (USA)
EKN	Embassy of the Kingdom of the Netherlands (Mozambique)
FICA	Federal Insurance Contributions Act (USA)
FP	Family Planning
GDP	Gross Domestic Product
GNI	Gross National Income
HIV	Human Immunodeficiency Virus
HKI	Helen Keller International
ILAC	Institutional Learning and Change Initiative
LLINs	Long-Lasting Insecticide-treated Nets
MC	Male Circumcision
NGO	Non-Government Organisation
OECD	Organisation of Economic Cooperation and Development
PPP	Purchasing Power Parity
PSI	Population Services International
UNFPA	United Nations Populations Fund
USAID	United States Agency for International Development
VCT	Voluntary Counselling and Testing

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Executive summary

1.1. Overview

The Mozambique country platform of Population Service International (PSI) receives core funding from the Embassy of the Kingdom of the Netherlands (EKN). Because this arrangement is unusual both within PSI and EKN, the two parties are keen to understand the effect and added value that such core funding has, in comparison to the more common project funding approach. The resulting analysis has additional interest for the wider development sector, since core funding is generally perceived to be preferable to project funding, yet prior to this study no satisfactory methodology existed to ascertain the added value of core funding.

This study developed an original methodology in order to test the added value of core funding in PSI Mozambique. Drawing on contribution analysis and process tracing, we worked with PSI Mozambique to establish a hypothesis of the effect that core funding has had on its operations and programming. We then tested that hypothesis using an evaluation framework, with relevant indicators to determine whether the hypothesis could be true or partly true (see Section 3.2). The hypothesis and evaluation framework are tailored to PSI Mozambique, and therefore may not be directly applicable to other NGOs. However, the process used in this study provides a valuable starting point for developing further approaches to measuring the added value of core funding. Further details of the development and implementation of the methodology can be found in Section 3.

The study establishes a number of outputs and outcomes that arose from PSI Mozambique's core funding, as well as establishing the preconditions and organisational developments that allowed PSI Mozambique to maximise their use of core funding. The findings highlight that PSI Mozambique was able to attract core funding from EKN because the relationship was managed in the manner of a company securing capital from an organisational investor, while maintaining ownership over its strategic priorities. PSI Mozambique was then able to add value to that core funding by implementing and making the most of a matrix management approach and agile planning approach that echoed its focus on social marketing for health outcomes. As a result, the outputs included **greater innovation, greater range of products and greater efficiency**; while the short-term outcomes included **greater effectiveness, deeper penetration into communities** and the potential medium-term outcomes included **increasing impact over a fixed period for less cost as a result of improved cost-efficiency**.

1.2. Summary of Key Findings

The principle findings regarding the added value of core funding are as follows:

The analysis determined that certain **pre-conditions** at PSI Mozambique and EKN facilitated the provision of core funding, as tested for in the evaluation framework:

- **Relationships with donors markedly improved** at PSI Mozambique following the appointment of a new PSI country director in 2011.
- Under new leadership PSI Mozambique developed a **long term strategic view**, and pushed donors for greater control over its activities.
- This was supported due to the **venture philanthropy approach** held by the EKN Grant Manager (although not common to EKN).
- These preconditions supported the foundations of core funding being established, in terms of **trust and transparency** between PSI Mozambique and EKN, and an **alignment of donor and organisational strategic priorities**.

The analysis established the **organisational changes** that could be attributed to the receipt of core funding by PSI Mozambique, in terms of strategic agility, operational flexibility, innovation, and ownership of strategy:

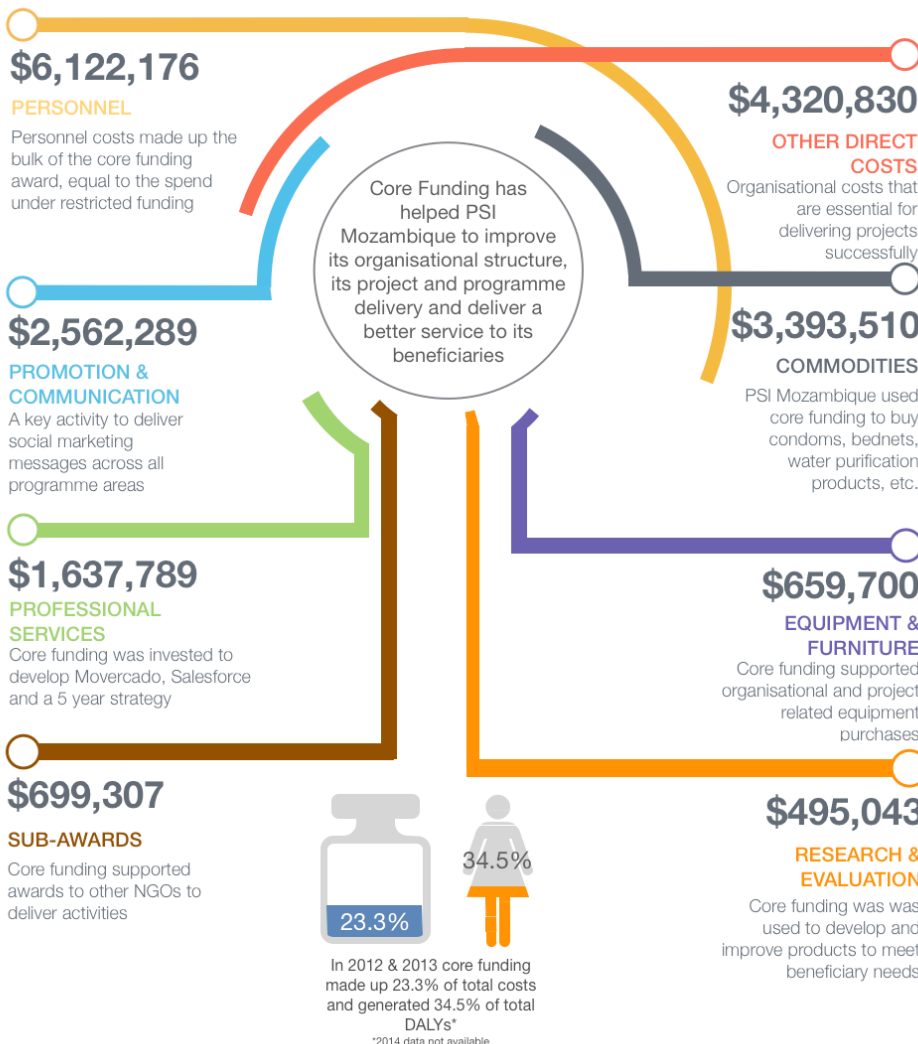
- The receipt of core funding mostly affected PSI Mozambique's strategic agility by facilitating **improved strategic planning** to respond to risk predictions and the ability to make **changes to the organisational structure** to mitigate against risk.
- PSI Mozambique's ability to respond to need also increased as a result of core funding due to **improvements to supply chain management**, and **restructuring to a matrix management approach**, creating a more responsive, flexible and resilient organisation.
- The analysis highlighted the importance of **integral learning** at PSI Mozambique, enabled by the new matrix management approach that core funding supported. This is because staff now work across a range of different projects, have a clear overview of what is and is not working, and share knowledge and learning as standard. Similarly the new agile planning approach has encouraged **internal innovation**, which has revolutionised how PSI works, most obviously through the development of the Movercado on-line platform.
- The relative freedom and flexibility provided by the EKN core funding also allows PSI Mozambique to take a more commercialised approach to market research and beneficiary (customer) needs. There is strong evidence that this has **strengthened the quality, relevance and legitimacy** of PSI Mozambique's new and redesigned products and services.

Finally, the analysis determined **the impact of these changes** at PSI Mozambique in terms of efficiency and effectiveness, conducting a financial review of how PSI Mozambique had used core funding within the organisation:

- The financial review found **improved programme efficiency** as a result of how PSI Mozambique applied core funding alongside restricted funding.
- In terms of programme effectiveness, the analysis found that PSI Mozambique is applying innovations that are due to core funding, to use non-traditional methods of **increasing its penetration into communities**, such as the on-line platform Movercado.
- In terms of organisational effectiveness, analysis of DALYs and analysis of the allocation of core funding at a transactional level established that **core funding made up 28.8% of total organisational cost, but core funded activities were responsible for 35.9% of all the DALYs that PSI Mozambique generated in 2013.**
- Qualitatively, organisational effectiveness was demonstrated to have improved as a result of the organisational changes and innovations supported by core funding, including the matrix management approach, Movercado, and a commercial, consumer focused approach to product development. There is strong evidence that this has resulted in **improved internal communication and organisational flexibility; greater accountability to key stakeholders, and increased efficiency in managing multiple projects.**

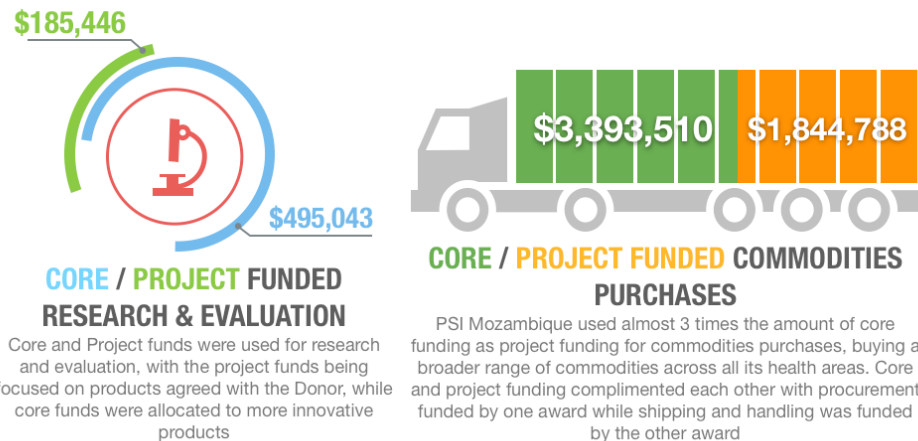
Funding PSI Mozambique

CORE FUNDING 2012 - 2014: \$19,943,219



Core and Project Funding working together

Core funding and project funding are managed to the same degree of success. Benefits and impacts of both can be complimentary or divergent. PSI Mozambique successfully managed both types of funding to make the most of the flexibility of core and the control of project funding



1. Introduction

The Embassy of the Kingdom of the Netherlands in Mozambique (EKN) entered into a funding arrangement with Population Services International (PSI) Mozambique to provide US\$19,943,219 core funding over three years. As part of this arrangement, PSI Mozambique is required to evaluate the impact on its operations of receiving core funding from EKN.

Both PSI Mozambique and EKN want to understand better the effect and added value of core funding and to build the evidence base around the benefits and challenges of core funding as a funding modality, distinct from the more traditional restricted project funding.

This study puts forward a methodology for assessing the impact of core funding and attempts to establish the added value of a core funding arrangement; not only for PSI Mozambique in terms of organisational and programmatic improvements, but also for EKN in terms of social value created by PSI Mozambique's programmes, that can be attributed to EKN and its funding arrangement.

The report is structured in five sections. Section 2 provides background to the evaluation. It explains the nature and purpose of core funding and also a short organisational history of PSI Mozambique. Section 3 details the methodology. It explains the evaluation design that was used and the different tools and methods that were applied. Section 4 presents the findings of the evaluation grouped according to the evaluation question. Section 5 provides conclusions.

It is worth noting that there are no 'recommendations' as such, as this was not the purpose of the report. Instead we hope that this report contributes to the growing body of work around measuring and evaluating unrestricted core funding for both NGOs and donors.

2. Background

2.1. Core Funding

In this study we define core funding as long-term, conditional (because the NGO still has to report on whether results have been achieved) and untied to specific projects.

Core funding is a funding modality that provides unrestricted funds to an NGO that can be used according to its priorities and strategic focus. Core funding is often considered by NGOs to be central to organisational development as it can be channelled into the development of key systems and processes that can rarely be funded through restricted funding, such as financial, fundraising, monitoring and evaluation (M&E) and data management systems.

PSI Mozambique and EKN both believe that providing core funding to NGOs is a better approach (especially to health outcomes) than traditional project funding. They believe that it enables organisations to be more efficient, more agile and responsive, have greater control over their longer-term strategy and provide better value for money for donors.

There is, however, very little evidence across the international development sector to support this view, and an initial literature review (Appendix 6.4) suggests that in fact few donors provide core funding and most NGOs find tracking core funding challenging. Our review of the secondary literature found only a small number of studies and all suffered limitations in either scope or methodology. Most notably, none of the available studies provide a rigorous assessment of the value of core funding to NGOs or a comparison of the strengths and limitations of core as opposed to project funding. This is surprising, given donors' interests in demonstrating that their grants to NGOs provide value for money, and the importance that NGOs attach to securing core funding.

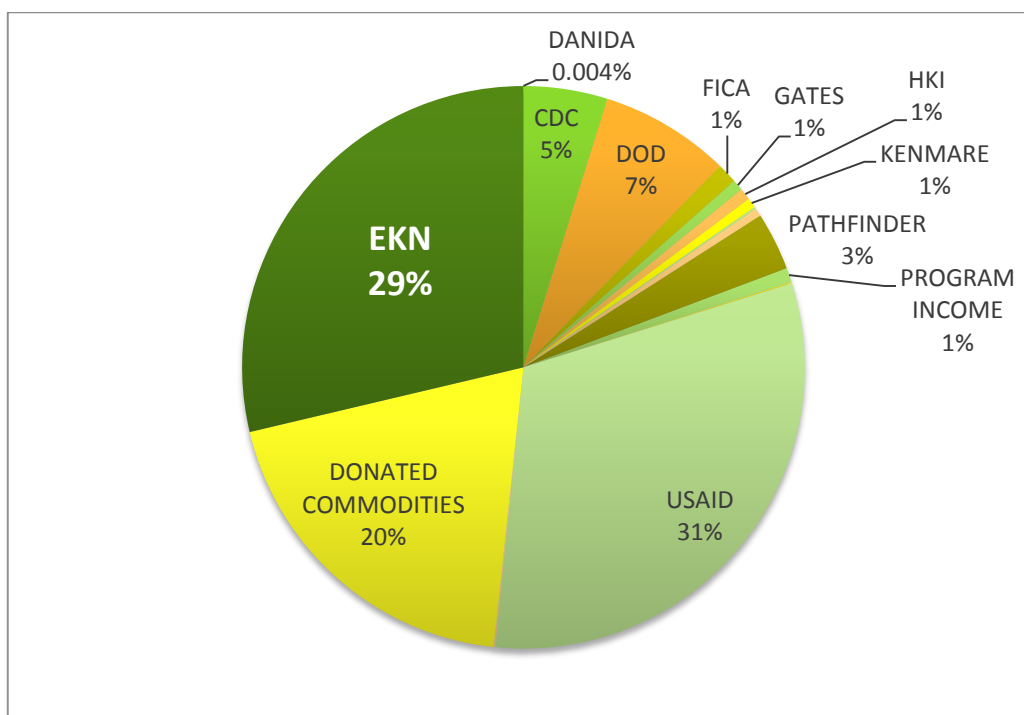
2.2. PSI Mozambique

PSI has been operating in Mozambique for 20 years and focuses on social marketing to deliver improved health outcomes. It has three main focus areas – child survival, HIV and reproductive health. Its core products include a range of condoms, mosquito nets, a safe water solution (Certeza) and a nutrient powder for young children (SuperBebe).

In 2011 a new management team was put in place in Mozambique. The actions and decisions of this management team have framed this evaluation, although where appropriate we do refer to conditions prior to this as a comparison to the current situation.

Chart 1 below outlines the major sources of funding for PSI Mozambique as of December 2013.

Chart 1 PSI Funding Sources January - December 2013¹



Between 2011 and 2014 PSI Mozambique successfully managed two similar sized awards, one core funding (EKN) and one restricted funding (USAID). PSI Mozambique has been receiving core funding from EKN under the current arrangement for three years (and for three years prior to the current arrangement). For roughly the same period, PSI Mozambique has been receiving USAID funding that is more typically framed as project funding, although there are aspects of the agreement with USAID that would be considered unique:

- The agreement with USAID covered an Integrated Social Marketing (ISM) approach, which allowed PSI Mozambique to use USAID funding across different areas of the business:
 - Distribution and marketing of LLINs;
 - Marketing of Certeza;
 - Communication activities covering the Malaria program;
- Movercado (see box 3) was used extensively in the USAID project, while being a pilot application in other areas;
- PSI Mozambique was able to mix restricted USAID funding with unrestricted funding to deliver efficient programs.

¹ Final Dutch 2013 Annual Financial Report, PSI, February 2014

Table 1 Expenditure under the EKN award and the USAID award between 2011 and 2014

	Core Funding Project (USD)	Restricted Funding Project (USD)
Personnel	6,122,176	6,078,306
Commodities	3,393,510	1,844,788
Promotion & Communication	2,562,289	3,588,348
Sub-awards	699,307	2,906,985
Equipment and Furniture	712,277	124,096
Research and Evaluation	495,043	185,446
Consultants/Professional Services	1,637,789	342,186
Other Direct Costs	4,320,830	4,120,659
Total	19,943,219	19,190,815

Although our report focuses on the impact of core funding on PSI Mozambique, we have found it useful to consider how core funding and project funding interact with each other in the delivery of PSI Mozambique's activities. This has helped in our understanding of the impact that core funding has had on PSI Mozambique. Notably, how it has used core funding to compliment restricted funding, or to pursue emerging opportunities that would not have been possible with project funding given its restricted nature.

3. Methodology

A number of studies have attempted to evaluate core funding and core funding programmes, with greater or lesser degrees of success. This is largely due to the difficulty in tracking core funding through an organisation's operations and making the connection between the core funding arrangement and the results generated in the organisation's programming.

The original approach agreed between Itad and PSI at the start of the evaluation focused on developing a hypothesis that reflected PSI Mozambique's understanding of the benefits of core funding, testing that hypothesis through a series of evaluation questions; and then assessing the added value of core funding through a comparison with restricted project funding. The aim was to elucidate whether the two funding modalities produced different results. Over the course of the evaluation however, it was acknowledged that it was not possible to perform a direct comparison as PSI Mozambique, use different types of funding in different ways. As such a comparative analysis was actually not the right approach. More appropriate was for the evaluation to tease out how PSI Mozambique uses core and project funding in complementary ways to deliver results.

A challenge for this evaluation was to determine a sufficiently robust methodology that would provide a process whereby we could identify the core funding, track it through the organisation and confidently attribute outputs and results to the core funding. As attribution was the key issue that we needed to address, we reviewed two of the current methods that consider attribution as a central concept in their processes: contribution analysis and process tracing, using elements of each to inform our evaluation design.

3.1. Analytical Methods

3.1.1 Contribution Analysis

John Mayne (2008) suggests that contribution analysis explores attribution through assessing contribution of a programme to observed results. It sets out to verify the theory of change behind a programme and, at the same time, takes into consideration other influencing factors.

Mayne proposes that causality is inferred from the following evidence:

1. The programme is based on a reasoned theory of change: the assumptions behind why the programme is expected to work are sound, are plausible, and are agreed upon by at least some of the key players;
2. The activities of the programme have been implemented;
3. The theory of change is verified by evidence: the chain of expected results occurred; and
4. Other factors influencing the programme have been assessed and have either been shown not to have made a significant contribution or, if they have, the relative contribution has been recognised.

Contribution analysis is potentially a useful tool in scenarios where two or more donors and agencies are collaborating on a programme and it is not possible to directly assess the impacts of a particular donor on overall outcomes or impacts. In this case, we considered contribution analysis to be a relevant method to apply to measuring core funding, which is likely to have contributed to overall results across the organisation and can be difficult to track and attribute impact to.

3.1.2 Process Tracing

David Collier (2011) asserts that process tracing is a fundamental tool of qualitative analysis and in an article for *Political Science and Politics* put forward a new framework for carrying out process tracing, focusing on the causal framework.² Collier defines process tracing as 'the systematic examination of diagnostic evidence selected and

² Collier, D. *Understanding Process Tracing*, *PS: Political Science and Politics* 44, No. 4 (2011): 823-30

analysed in light of research questions and hypotheses posed by the investigator,³ which is similar to Mayne's framework for contribution analysis outlined above.

In 2013, Oxfam released guidance for using process tracing in its policy-influencing interventions.⁴ Oxfam has further articulated the causal framework proposed by Collier in its guidance into eight steps:

1. Undertake a process of (re)constructing the intervention's theory of change, to clearly define the intervention being evaluated.
2. Work with relevant stakeholders to identify intermediate and/or final outcomes considered by stakeholders to be the most significant for the evaluation to focus on.
3. Systematically assess and document what was done under the intervention to achieve the selected targeted outcomes.
4. Identify and evidence the extent to which the selected outcomes have actually materialised, as well as any relevant unintended outcomes.
5. Undertake 'process induction' to identify salient plausible causal explanations for the evidenced outcomes.
6. Gather required data and use 'process verification' to assess the extent to which each of the explanations identified in Step 5 are supported or not supported by the available evidence.
7. Write a narrative analytical report to document the above research processes and findings.
8. Summarise aspects of the above narrative analysis by allocating project/campaign 'contribution scores' for each of the targeted and/or associated outcomes.

Our consideration of process tracing also led us to the OECD Methodology for Analysing Budget Support (OECD 2012)⁵, which has processes that were relevant when analysing the impact of core funding on PSI Mozambique. The OECD Methodology for Analysing Budget Support uses a three-step approach, of which Step 1 (assessment of inputs, direct outputs and indirect outputs) was most relevant to our enquiry and helped us frame the financial analysis of both the EKN award and the USAID award to understand where the funding had been used throughout the organisation for the duration of the awards.

3.1.3 Applying Contribution Analysis and Process Tracing in this Evaluation

We have used Collier's contribution analysis framework and Oxfam's eight-step process tracing methodology to assess the funding contribution (attribution) that a particular agency (in this case EKN) has made to overall programme outcomes.

The overall process that we used in this evaluation (identifying a hypothesis, data collection and analysis and testing against the hypothesis) most closely aligned with John Mayne's (2008) theory-based approach for contribution analysis.⁶

³ *Ibid*

⁴ *Process Tracing: Draft Protocol* (Oxfam, Oxford: 2013)

⁵ *Evaluating Budget Support – Methodological Approach* (OECD: 2012)

⁶ Mayne, J. *Contribution analysis: An approach to exploring cause and effect*. ILAC Brief No. 16. (Institutional Learning and Change (ILAC) Initiative: 2008)

Table 2 Evaluation Process

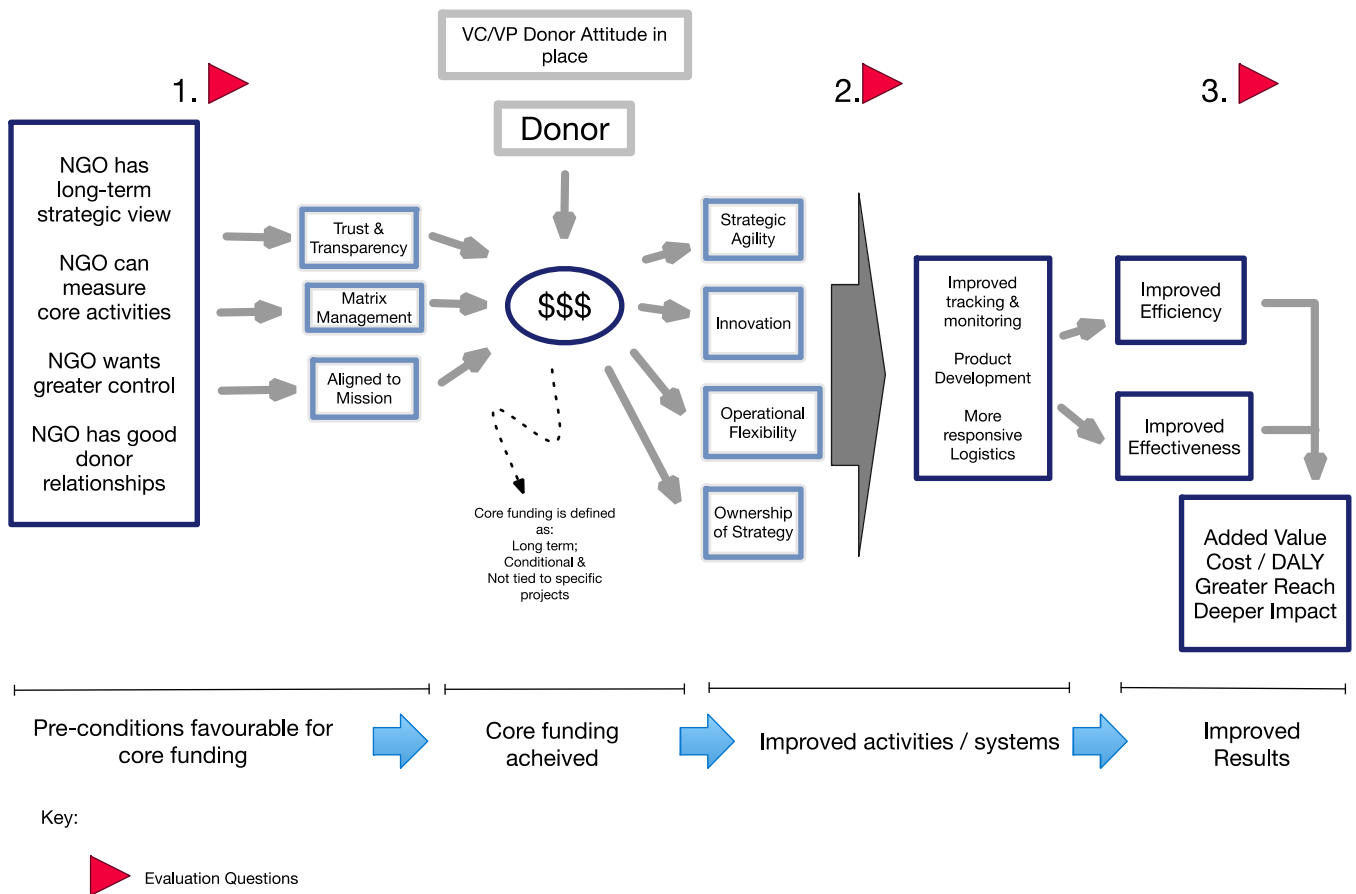
Contribution analysis methodology	Process tracing methodology	Application in this study
<p>Set out attribution problem to be addressed:</p> <ul style="list-style-type: none"> Acknowledge the attribution problem Determine the specific cause-effect question being addressed Determine level of confidence required Explore the type of contribution expected Determine the other influencing factors Assess the plausibility of the expected contribution 	<p>2. Work with relevant stakeholders to identify intermediate and/or final outcomes considered by stakeholders to be the most significant for the evaluation to focus on.</p>	<p>The specific attribution problem was whether the increased efficiency and effectiveness, and therefore the results reported in PSI's country programme in Mozambique, can be fully or partially attributed to the matrix management approach and the access to the core funding arrangement provided by EKN. The relationship between core funding and the organisational changes and the resulting improvements was the cause-effect question to be addressed. Because the data being used was generated from PSI Mozambique, we had to consider what level of proof was to be applied and was related to the use of the study afterwards. We suggested that the level of proof to be applied should be high, based on the limited range of the study and the uniqueness of the situation. The other key factors that were explored included comparisons with restricted projects, the degrees to which projects are funded from core funds and restricted funds jointly and the influence of other donors or stakeholders on management decisions to introduce change into PSI Mozambique's structure and funding profile, etc.. Plausibility assessments related to whether there was a clear understanding of the expected contribution to improvements made by core funding and matrix management processes. How likely was it that this combination of factors really did result in the improvements observed?</p>
<p>Develop a theory of change to it</p>	<p>1. Undertake a process of (re)constructing the intervention's theory of change, to clearly define the intervention being evaluated.</p>	<p>The theory of change had been developed as a hypothesis to be tested and is shown in Figure 1 below. It is important to note that PSI Mozambique have reviewed the hypothesis and believe that it does represent their view of the contribution and attribution of change to core funding and the change to matrix management.</p>
<p>Gather the existing evidence to the theory of change:</p> <ul style="list-style-type: none"> Assess the logic of the links in the theory of change Gather the evidence 	<p>3. Systematically assess and document what was done under the intervention to achieve the selected targeted outcomes.</p>	<p>The existing evidence to the theory of change was gathered by working through the research questions shown in the evaluation framework above; using the data collection and analysis processes described in the evaluation framework.</p>
<p>Assemble and assess the contribution story and challenges to it:</p> <ul style="list-style-type: none"> Which links in the results chain are strong (good evidence available, strong logic, low risk, and/or wide acceptance) and which are weak (little evidence available, weak logic, high risk, and/or little agreement among stakeholders)? How credible is the story overall? Does the pattern of results and links validate the results chain? Do stakeholders agree with the story—given the available evidence? Where are the main weaknesses in the story? For example: Is it clear what results have been achieved? Are key assumptions validated? Are the impacts of other influencing factors clearly understood? Any weaknesses 	<p>4. Identify and evidence the extent to which the selected outcomes have actually materialised, as well as any relevant unintended outcomes.</p> <p>5. Undertake 'process induction' to identify salient plausible causal explanations for the evidenced outcomes.</p> <p>6. Gather required data and use 'process verification' to assess the extent to which each of the explanations identified in Step 5 are supported or not supported by the available evidence.</p>	<p>Using the research questions identified in the evaluation framework we interrogated the links in the theory of change to determine which had actually happened and whether they were strong or weak links in the theory of change.</p> <p>Data collection and analysis processes such as process mapping, cost benefit analysis and key informant interviews provided the mechanisms for this activity.</p> <p>This provided an assessment of credibility that we tested and verified with PSI Mozambique during our second field visit. Where data could not be validated, we attempted to find further data to support the weakness identified.</p>

point to where additional data or information would be useful.		
Seek out additional evidence: <ul style="list-style-type: none"> Identify what new data is needed Adjust the theory of change Gather further evidence 		The testing and validation process provided us with an opportunity to review the theory of change and identify what further data we needed to gather.
Revise and strengthen the contribution story	7. Write a narrative analytical report to document the above research processes and findings. 8. Summarise aspects of the above narrative analysis by allocating project/campaign "contribution scores" for each of the targeted and/ or associated outcomes.	We finalised our assessment of the degree to which the hypothesis could be considered to be valid and the evidence to support this, together with the level of confidence that we have in the contribution story.

3.2. The Core Funding Hypothesis (Theory of Change) and the Evaluation Framework

Working with PSI Mozambique and EKN we established a hypothesis of what the benefits of core funding would look like, given certain preconditions. In the subsequent sections of the report we refer to this as 'our' hypothesis, reflecting the fact that it has been jointly developed between the evaluation team and PSI Mozambique. The purpose of this evaluation is to test this hypothesis through empirical data. The following sections detail the different steps in the hypothesis.

Figure 1 Hypothesis of the Benefits of Core Funding



3.2.1 Preconditions and Foundations of Core Funding Leading to Core Funding being Achieved

The first step in our hypothesis is that in order for core funding to even be considered, certain preconditions need to be present in both the NGO and the donor.

First, the NGO must want to have greater strategic control of its operations. Second, and related, the NGO has to be able to clearly communicate a longer-term strategic direction for the organisation. Third, there needs to be a good, positive relationship between the NGO and donor. Third, the NGOs has to have the capacity to measure and track its core activities.

Together the presence of these preconditions helps create the foundations for a core funding arrangement. Our hypothesis states that the foundations include: Aligning the funding arrangement to the NGO's mission, putting in place a matrix management structure and making sure that there is trust and transparency between donor and NGO would mean that the NGO can make the most of the core funding arrangement (add value).

For their part, donors prepare for a core funding arrangement by ensuring that they have adopted a 'venture capitalist' or 'venture philanthropist' (VC/VP) approach to funding, where the focus is on results rather than method; funding is not tied to process or itemised procurement and the relationship between the donor; and the NGO is more informal and intimate, with formal reporting kept to a minimum.

With these preconditions and foundations in place, core funding should lead to improved activities and systems.

3.2.2 Improved Activities and Systems

Our hypothesis is that the core funding will lead to improvements in systems and activities in four main areas:

- Greater innovation: core funding will support an increased number of innovative interventions and products being developed, tested and delivered by an NGO;
- Strategic agility: core funding will increase the ability of an NGO to adapt strategically to opportunities and environmental factors, thus ensuring greater organisational sustainability;
- Operational flexibility: core funding will increase an NGO's ability to respond quickly to operational demands and move stock, infrastructure and services around to meet beneficiary demand or respond quickly in emergency or disaster situations; and
- Ownership of their strategy: core funding will increase an NGO's ability and confidence to say no to opportunities that might cause mission drift, or that go against the NGO's strategy.

3.2.3 Impact of Core Funding

PSI Mozambique's hypothesis is that the above changes in organisational systems, processes and practices that are made possible through core funding, will in turn lead to increased efficiency and effectiveness.

There are many ways in which increased efficiency could manifest itself, but the three areas where PSI Mozambique and EKN felt that efficiencies should be seen are: fewer instances of cost duplication and lower unit costs and costs per DALY⁷. Similarly, improved effectiveness could be reflected in a plethora of things, but the key areas identified by PSI Mozambique: the NGO being better able to meet beneficiary needs because i) the NGO is able to respond more quickly, based on better data tracking and monitoring, and ii) because the NGO has been able to introduce innovative products and interventions that are more appropriate to the beneficiaries' needs.

⁷ Ultimately this evaluation does not consider unit costs or costs per DALY, however EKN was clear in interview that both these were already considered achievements as a result of core funding.

(1) Core Funded Programmes and Restricted Funded Programmes

One of the main challenges behind core funding analysis is the lack of a counterfactual to compare the results against. We agreed with PSI Mozambique that we would assess two awards: one for core funding and one for restricted project funding:

1. Core funding award from EKN on behalf of the Dutch Foreign Ministry; and
2. Restricted funding award from USAID for a project called (ISM)

We also conducted a financial review of the core funding award and the restricted funding award to understand how the different funding had been used in the organisation.

When selecting the programmes above we were conscious that the programmes and their activities were not directly comparable. While it is tempting to make comparisons between projects such as male circumcision and male condom distribution, this would not be appropriate. It is however appropriate to understand the different activities and projects funded through both awards, how they interacted with each other and ultimately how core funding affected both PSI and the implementation of the USAID ISM award.

3.2.4 Evaluation Questions

To test this hypothesis we determined a set of three questions that interrogated the hypothesis at three points (highlighted in Figure 1 with red triangles):

Box 1 Evaluation Questions

1. What pre-existing conditions at PSI and EKN in Mozambique facilitated the provision of core funding to PSI?
2. What organisational changes (strategic, management/structural, operational) can be attributed to the receipt of core funding?
3. What was the impact of these organisational changes on PSI's strategy and results (2008–13) for both core and project funded activities?

From these questions we developed an evaluation framework, with areas of research and indicators to test the evidence presented to support each link in the hypothesis.

Table 3 Evaluation Framework, Data Sources and Approaches

Evaluation questions	Evaluation dimensions	Research questions	Indicators	Sources	Methodologies
1. What pre-existing conditions at PSI and EKN in Mozambique facilitated the provision of core funding to PSI?	Preconditions for core funding	a. To what extent were the following preconditions present at PSI Mozambique?	i. Long-term strategic view ii. Ability to measure core activities iii. Desire for greater control iv. Good donor relationships	Selected PSI Mozambique staff	Key informant interviews; process tracing methodology
		b. To what extent were the following preconditions present at EKN in Mozambique?	i. Venture capital/venture philanthropy attitude	Marco Gerritsen, EKN	Key informant interviews; process tracing methodology

	Foundations of core funding	c. To what extent did they contribute to the foundations of core funding?	<ul style="list-style-type: none"> i. Trust and transparency ii. Matrix management iii. Alignment of donor and organisational strategic mission 	Selected PSI Mozambique staff Marco Gerritsen, EKN	Key informant interviews; process tracing methodology
2. What organisational changes (strategic, management/structural, operational) can be attributed to the receipt of core funding by PSI?	Strategic agility	a. How is the organisation able to foresee change, and able to prepare its response in advance?	i. Risk management has foresight and is proactive	PSI Senior Management Staff	Key informant interviews and document review
			ii. Strategic planning has sufficient capacity to respond to risk predictions		
	Operational flexibility	b. To what degree can operations respond to need?	i. Supply chain and data collection is timely and accurate	Operations staff	Key informant interviews and document review
			ii. Organisational infrastructure is robust and resilient	PSI senior management staff	
	Innovation	c. To what extent is there an openness to learn?	i. Learning from failure and success	Selected PSI staff	Key informant interviews and document review
			ii. Identification of implications for the future from failure and success		
			iii. Action taken on the basis of learning		
		d. To what extent has PSI used the best practices of innovation? ⁸	i. Legitimacy (appropriate and priority as assessed by user groups)	Senior management staff and selected PSI staff	Key informant interviews and document review; process tracing methodology
			ii. Potential relevance and application		
			iii. Quality of product/commodity/marketing		
iv. Contact/involvement with potential user groups/customers					
v. Identification of learnings, potential applications and implications					
vi. Dissemination of findings and implications					
vii. Partnership and collaboration					
viii. Extent to which the product/commodity/idea is really new					
Ownership of strategy	e. To what extent is programming driven by organisational strategy rather than	i. Number and type of donor requests for engagement turned down	Selected PSI staff	Key informant interviews, process tracing	
		ii. Number of tender opportunities forgone and reason			

⁸ Perrin, B. *How to – and How not to – Evaluate Innovation*, Evaluation (Vol. 8, no. 1) (2001); published online at <www.mande.co.uk> (accessed 17 July 2014)

		donor interests?					
3. What was the impact of these organisational changes?	Efficiency	a. To what extent has core funding improved the efficiency of programmes ?	i. Financial review of core and project funded activities	Selected PSI staff	Cost benefit analysis, process tracing methodology, contribution analysis, sensitivity analysis		
						Effectiveness	b. To what extent has core funding improved the effectiveness of programmes ?
	ii. Penetration into communities?	iii. Over what period of time have i and ii happened?	Cost effectiveness analysis, process tracing methodology, key informant interviews				
	c. To what extent has core funding improved organisational effectiveness ?		i. Increased internal communication and organisational flexibility	Selected PSI staff	Key informant interviews, process tracing methodology		
		ii. Organisational accountability to key stakeholders maintained or improved					
		iii. Increased efficiency in managing multiple projects ⁹					

Evidence to support each link in the hypothesis was tested using John Mayne's (2008) assessment criteria to determine whether the link in the hypothesis was strong or weak, or if the evidence challenged the hypothesis link at that point.

Table 4 Assessment Criteria for Evidence Supporting the Hypothesis

Good evidence available	Little evidence available
Strong logic	Weak logic
Low risk	High risk
Wide acceptance	Little agreement among stakeholders

The results of this assessment enabled us to determine whether the hypothesis was valid or not, and how strong, weak or challenging each link in the hypothesis was. Each evaluation question mapped onto a specific part of the hypothesis and our investigation allowed us to assign a summary ranking to each link based on the strength of the evidence either supporting or challenging it.

⁹ Kuprenas, J. *Implementation and Performance of a Matrix Organisation* (2001), *International Journal of Project Management* 21 (2003) 51-62

Table 5 Summary Ranking Options for each Hypothesis Link

Strong Hypothesis Link
Weak Hypothesis Link
Hypothesis is challenged
Insufficient Evidence

We also considered the results of our analysis of the organisational changes and the impact of those changes further to illustrate how core funding has supported change and development in PSI Mozambique. To do this we allocated a numerical value to the four result options for our investigation.

Table 6 Numerical Values or Scores Assigned to the Summary Allocations

Strong Hypothesis Link	4
Weak Hypothesis Link	3
Hypothesis is challenged	2
Insufficient Evidence	1

We then applied these numerical values to the results and calculated performance or organisational development for each research question, evaluation dimension and evaluation question. This has allowed us to translate the evidence supplied for the hypothesis into an analysis of organisational development as a result of the influence of core funding.

3.3. Data Sources

We reviewed 63 internal documents provided by PSI Mozambique and EKN, covering strategy, business planning, project management, grant management and reporting relating to core funding and restricted project-funded programmes, financial statements, financial transaction-level data, financial analysis, organisational policy and procedures, and a staff survey.

We also reviewed 17 external documents covering core funding thought pieces and evaluations, management theories, evaluation theories and country-level data.

We conducted 10 key informant interviews including senior and middle management at PSI Mozambique, regional management at PSI, EKN staff and staff of the UK Department for International Development (DFID) – (DFID had recently agreed funding using the core funding arrangement set up by EKN).

A detailed list of data sources can be found in Appendices 6.1 and 6.2

3.4. Limitations of this Methodology

This methodology for assessing core funding has not been tried before. There is no external counterfactual. While we were able to review projects funded from core funds and projects funded from restricted project funds and determine their cost-effectiveness and impact, there was no opportunity to compare similar projects funded from core and from restricted project funding. This is mostly due to the way core funding is used, as every project is at least indirectly influenced by how PSI Mozambique chooses to invest its core funding. This has produced interesting results for PSI internally, but may have limited external application.

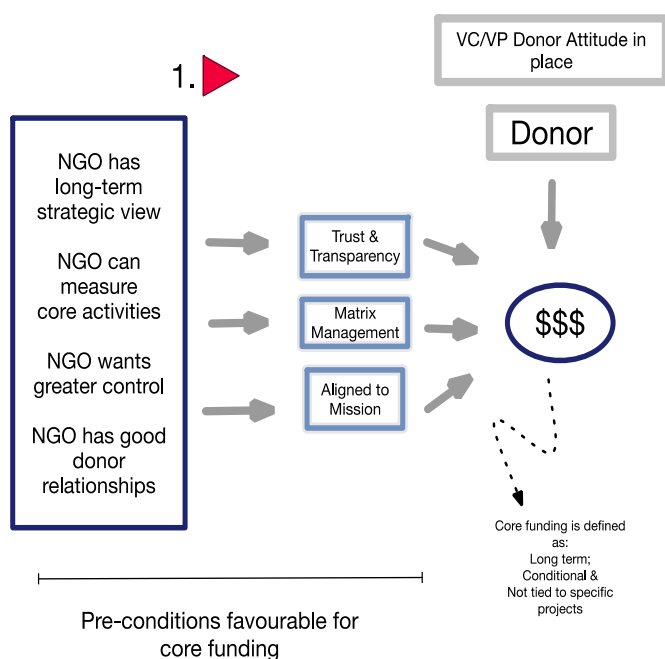
4. Findings

The findings are presented according to each of the evaluation questions. By answering these questions we are able to test the evidence supporting the hypothesis and make a judgement about whether each link in the hypothesis is strong or weak, thereby providing an overall assessment of whether the hypothesis is valid or not.

4.1. Preconditions that Facilitate the Provision of Core Funding

The first Evaluation Question concerns the conditions that facilitated the provision of core funding.

Figure 2 Part 1 of the Hypothesis: Preconditions and Foundations of Core Funding



The external literature suggests that core funding requires a certain set of conditions to be in place. As with any grant, donors need to have confidence that the NGO is able to make effective and accountable use of the funding provided; this is especially the case with core funding, where there may not be a pre-arranged set of activities, and reporting is recognised to be more challenging.

In turn, NGOs need to have the capacities to demonstrate that they can use funds responsibly, and are trustworthy partners. In this section we explore the conditions that led to the core funding arrangement emerging between EKN and PSI Mozambique.

4.1.1 Preconditions of Core Funding at PSI Mozambique and EKN

(1) Preconditions Present at PSI Mozambique

To what extent were the following preconditions present at PSI Mozambique?	Long-term strategic view	Strong Hypothesis Link
	Ability to measure core activities	Weak Hypothesis Link
	Desire for greater control	Strong Hypothesis Link
	Good donor relationships	Strong Hypothesis Link

Our hypothesis suggests that in order to secure core funding, PSI Mozambique had to demonstrate certain qualities and capacities:

- PSI Mozambique had a long-term strategic view of the goals it wished to achieve, and how additional core funding could be used to do this;
- PSI Mozambique had systems in place to measure its core activities, which could be used to report back to EKN on the use of core funds;
- PSI Mozambique wanted to take greater control of its projects and planning; and
- PSI Mozambique had a good relationship with both EKN and other donors.

The EKN core funding arrangement under review started in 2012, so we reviewed conditions at PSI prior to 2012. In 2011, there was a change in country leadership at PSI Mozambique, which had a significant impact on the

organisation. So we make a further distinction between conditions before the arrival of the current country director and conditions after his arrival.

We found that three out of the four preconditions were present at PSI Mozambique in 2011, ahead of the current core funding arrangement with EKN being renewed. The extent to which PSI was able to measure core activities was considered to be weakest. In 2011 PSI Mozambique did not have an accounting coding structure that would allow it to analyse core spending along thematic lines, which is what EKN wanted.¹⁰ However, over time PSI Mozambique's reporting to EKN has improved.

Key informant interviews revealed that prior to 2011 PSI Mozambique had a number of inefficiencies and challenges. An analysis of PSI Mozambique's principal activity at the time - condom sales – is illustrative of this. From 2008 there were troughs and spikes in sales, indicating challenges of sales and supply. This was followed by a dramatic crash in sales in Q2 2010 when a competitor entered the market. The challenge of a competitor was met by panic-driven high sales targets, undermined by cutting off suppliers' credit options; and a promotion of free samples (25%). This filled the pipeline faster than the market could absorb. Finally, a decision was taken in June 2010 to double all prices in an attempt at cost recovery. Sales plummeted by 90%.¹¹

Donors also recognised the problems at PSI Mozambique. Key informant interviews described how the EKN representative told the newly appointed country representative for PSI Mozambique that he was intending to stop the provision of core funding to PSI Mozambique because of the poor state of affairs.¹² Therefore, evidence suggests that, at least prior to the appointment of the country representative, there was a lack of strategic management, and poor donor relationships.

(a) Long-term Strategic View

The appointment of the new country representative marked a substantial shift at PSI Mozambique. As described in Section 4.1.3.3, a new matrix structure¹³ and agile management¹⁴ were implemented. In addition, a senior management team retreat in 2011 developed ideas about a new strategic approach.¹⁵ This included PSI Mozambique taking greater control over its activities. A particular challenge that the retreat identified was the need for PSI Mozambique to address its role as a logistics transporter of mosquito nets (LLINs) for USAID, which left little room for PSI Mozambique to implement or direct its own projects.¹⁶ There is therefore clear evidence that prior to the renewal of core funding PSI Mozambique was developing a long-term strategic view and desired greater control.

(b) Ability to Measure Core Activities

There is less evidence, however, that PSI Mozambique had in place the systems and processes that enabled it to measure its core activities beyond the allocation of core or common costs to separate cost centres each month. Core activities were not measured in terms of the contribution they made to outcomes and impacts. As with the rest of the PSI family, PSI Mozambique reports its results in terms of DALYs¹⁷. This provides little information, however, on the impact of PSI's activities on affected populations in terms of increased access and ability to work, increased ability to care for children, longer time spent in schools (especially in the case of girls), increased income/expenditure, impact on family and social cohesion, etc.

¹⁰ This is not uncommon among other NGOs.

¹¹ Condom Adventure in Mozambique (PSI Mozambique: 2011).

¹² Key Informant Interviews: Iulian Circo, Country Representative, PSI Mozambique: 18 August 2014; 19 August 2014; Marco Gerritsen, First Secretary Health & HIV/AIDS, Embassy of the Kingdom of the Netherlands, Dutch Ministry of Foreign Affairs 14 July 2014.

¹³ Why a new structure? (PSI Mozambique: 2011).

¹⁴ Key Informant Interviews: Iulian Circo, Country Representative, PSI Mozambique: 18th August 2014; 19th August 2014.

¹⁵ What Has Been Going On in Mozambique? (PSI Mozambique: 2011).

¹⁶ PSI Mozambique – 2011 Failure Report (PSI Mozambique: 2011).

¹⁷ Annual Report to the Embassy of the Kingdom of the Netherlands: Social Marketing of Public Health Commodities – Final Project Assessment (PSI Mozambique: 2010).

As described below, this therefore makes it challenging for donors of core funding to establish if their funds are being used effectively (admittedly an area where many NGOs struggle). The evidence to support this link in the hypothesis is therefore judged to be weak.

(c) Desire for Greater Control and Donor Relationships

The nature of donor relationships is a complex matter. As described above, the relationship with EKN was poor in 2011 and there was a threat that funding would be stopped. The reversal of this decision can be attributed to the strong relationship that was developed between the EKN representative and the PSI Mozambique country representative, and the promise of substantial organisational changes. In this respect, PSI Mozambique's experience is an anomaly: it was an existing recipient of core funding from EKN, and was able to save it by a 'meeting of minds' about the best way to rescue the organisation.

Had PSI Mozambique been attempting to secure core funding from a new donor prior to 2011, it is doubtful that they would have succeeded. It should also be noted that the positive relationship with EKN has subsequently enabled PSI Mozambique to leverage core funding from DFID and the Danish International Development Agency (DANIDA). PSI Mozambique has also developed a sufficiently positive relationship with USAID to be able to renegotiate their provision of funding in 2011. Good donor relationships, therefore, do seem to have supported the decision to continue core funding of PSI Mozambique, although this may be attributed to personal relationships, rather than a prior record of positive engagement.

4.1.2 Preconditions Present at the Embassy of the Kingdom of the Netherlands

To what extent were the following preconditions present at EKN in Mozambique?	Venture capital/venture philanthropy attitude	Strong Hypothesis Link
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The hypothesis proposes that a key precondition at EKN for the provision of core funding was a prevailing venture capital/venture philanthropy attitude. Such an attitude sees donor support to NGOs as similar to an investor providing capital to a company, in the expectation that there would be a return on that investment (in this case, positive social outcomes). Key to this attitude is trusting the precise use of the funds to the recipient organisation, while maintaining a healthy interest in the good management of the company and being involved in setting annual outcome targets.

This precondition is considered important to the effective and efficient use of core funding, because it changes the reporting relationship between donor and grantee, and provides the NGO with greater freedom to decide how to use funds to further its aims. In this way, it also removes the artificial barrier between grant management and strategic management (see Section 4.1.3.3).

The key informant interview with the EKN representative confirms that he favoured a venture philanthropy approach, believing that donors should trust that the NGOs being supported are experts in their field, and therefore able to make the best decisions about the use of funds. He believed this approach to funding should result in greater efficiency, effectiveness with the organisation, and in turn generate a good return on investment.

However, the key informant interview also revealed that the EKN representative's venture philanthropy attitude is not necessarily shared within the Dutch Ministry of Foreign Affairs.¹⁸ Therefore, while there is clear evidence that a venture philanthropy attitude was a precondition for the provision of core funding to PSI Mozambique, it was an individual attitude rather than a more institutionalised approach to grant making. There remains a high risk that a different EKN representative would have had a very different approach to NGO funding.

¹⁸ Key Informant Interviews: Marco Gerritsen, First Secretary Health & HIV/AIDS, Embassy of the Kingdom of the Netherlands, Dutch Ministry of Foreign Affairs 14th July 2014.

4.1.3 Foundations of Core Funding

To what extent did the preconditions at PSI and EKN contribute to the foundations of core funding?	Trust and transparency	Strong Hypothesis Link
	Matrix management	Hypothesis is challenged
	Alignment of donor and organisational strategic mission	Strong Hypothesis Link

Our hypothesis proposed that the above four preconditions at PSI Mozambique and EKN would in turn lead to the foundations of core funding emerging. These included:

- Trust and transparency between PSI Mozambique and EKN;
- The alignment of donor and organisational strategic mission; and
- The Matrix Management system.

When we developed the hypothesis with PSI Mozambique, these three pillars came out strongest in their link to the effective and efficient use of core funding. Trust and transparency and the alignment of donor and NGO strategic missions are crucial if the core funding arrangement is going to be successful. This is seen as different to restricted funding, where often, NGOs will develop funding proposals to meet requirements of donors, rather than their strategic focus.

A successful core funding relationship has to respect both the NGO's and the donor's strategic priorities, hence making alignment more important. The matrix management system is pervasive at PSI Mozambique and is integral to everything that it does. Hence, it seemed appropriate to consider it as a foundation of core funding.

Our evaluation found that trust and transparency and alignment of strategic missions were present in the core funding arrangement between PSI Mozambique and EKN. We also found that, while matrix management is essential to much of the success of PSI Mozambique, it is not a foundation of core funding, but rather a result of core funding. So, this link in the hypothesis is challenged. In future iterations of the hypothesis, we would place matrix management as a product rather than foundation of core funding.

(1) Trust and Transparency

The level of trust and transparency between EKN and PSI Mozambique is notable. Rather than reporting on the use of core funding specifically to EKN, PSI Mozambique provides EKN with a detailed annual report of all their activities. The EKN representative explained that he recognises the challenges of reporting against core funding, but trusts that PSI Mozambique's financial management is sufficient to manage it. His concern is that PSI Mozambique delivers against its overall results framework, not only the results achieved specifically from the EKN grant.¹⁹

The researchers also observed the strong relationship between PSI Mozambique and the EKN representative: there is an 'open door' policy, and he is familiar with individual members of staff, and recent organisational developments. The EKN representative explained that by providing core funding to just a limited number of NGOs in Mozambique, he is able to spend time visiting the organisation's offices and projects, and can take a close interest in their concerns.²⁰

(2) Alignment of Donor and Organisational Strategic Missions

The third pillar of core funding is the alignment of strategic missions between donor and recipient NGO. As an organisation with a focus on public health, and particularly sexual health, PSI has a clear overlap with the two

¹⁹ *Ibid.*

²⁰ *Ibid.*

'spearheads' of Dutch government policy in Mozambique: water and sexual and reproductive health.²¹ This alignment also extends to the preferred programme approach, with both the EKN representative and PSI Mozambique favouring social marketing.²² Interestingly, PSI Mozambique is one of the few NGOs in Mozambique that take this approach, which perhaps strengthened EKN's decision to continue providing core funding.

(3) Matrix Management

The existence of a matrix management structure was proposed by PSI Mozambique as one of the pillars of continued core funding. As visualised in Figures 3 and 4 below, the reorganisation of PSI Mozambique from a silo, project-driven management system to a matrix structure involved a complete revision of PSI Mozambique's approach.

Figure 3 Management by thematic Silos

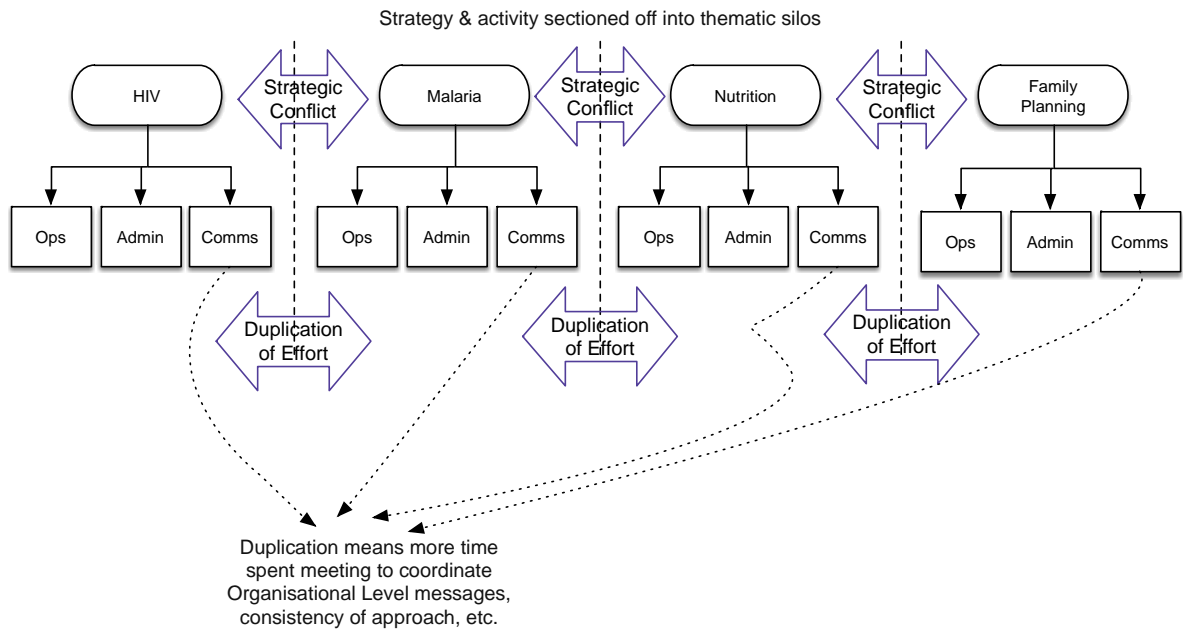
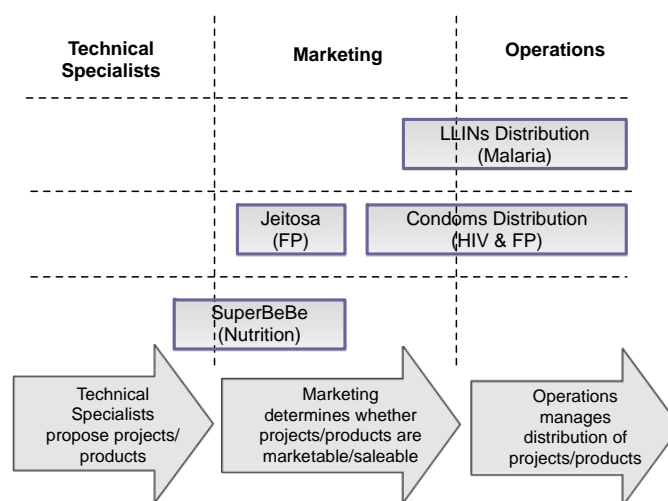


Figure 4 Matrix Management at PSI Mozambique



²¹ Multi Annual Plan 2012-2015 (Netherlands Embassy Maputo-Mozambique: 2011) p.3.

²² Key Informant Interviews: Iulian Circo, Country Representative, PSI Mozambique: 18th August 2014; 19th August 2014; Multi Annual Plan 2012-2015 (Netherlands Embassy Maputo-Mozambique: 2011) p.11

Where previously donor-led projects created their own separate units of staff and infrastructure, the matrix structure provides cross-organisational support to projects, from marketing, operations and administration departments. The intention is that this creates a staff skills base, which stretches across the organisation's work, increasing knowledge and efficiency, and reducing susceptibility to shocks, such as the ending of funding for a particular thematic area. Our hypothesis proposed that this new structure encouraged EKN to continue its core funding. However, key informant interviews clarified that the matrix structure should actually be seen as a *result* of core funding.²³

Core funding gave PSI Mozambique the financial independence to revise its approach to organisational management, rather than being driven by donor demands to isolate staff and infrastructure according to the funding stream. Matrix management approaches are used in other PSI country platforms with limited success.²⁴ What core funding enabled PSI Mozambique to do was implement a complete or pure version of matrix management, rather than compromising the management approach to suit donor requirements.²⁵ A revised hypothesis would therefore place the matrix structure as a direct *product* of core funding, which in turn facilitated the achievement of a number of other developments at PSI Mozambique (see Section 4.2 below).

We tested the assumption that matrix management is affected by access to core funding to ensure that it was appropriate to place matrix management as a result rather than a precondition.

We found that donor requirements can affect the organisational structure, even in those agencies (such as other PSI offices) that have implemented a version of matrix management. One of the most common requirements made by donors is that a technical specialist (HIV/AIDS, nutrition, malaria, etc.) is employed as chief of party or programme manager. In PSI Mozambique's case, this might mean recruiting a PhD candidate in malaria to manage a supply chain logistics project (e.g. distributing LLINs across Mozambique).

PSI Mozambique's argument is that, while highly qualified technical specialists will know about, for example, how malaria is contracted, the environmental risks, treating malaria and preventing malaria, they most likely will not know about managing a supply chain, overseeing warehouse requirements, distribution challenges with washed away bridges, fuel theft, etc. This insistence on technical specialists as project managers shifts their focus towards operational priorities, not technical priorities, and reduces marketing to a communications function of operations. This may be an extreme example, but it does highlight that project or restricted funding can affect the organisational structure that an organisation is required to put in place, often as conditions of the grant.

Working through these assumptions and drawing on prior experience of analysing other NGO structures over a five-year period, we can conclude that implementing a full matrix management structure is a result of having access to core funding.

It is also true, however, that not every agency that has access to core funding automatically implements a matrix management approach. In this case it was a choice by PSI Mozambique to implement matrix management, driven by personal experience of the senior management and the presence of the management approach in other PSI offices, and facilitated successfully in Mozambique by access to core funding.

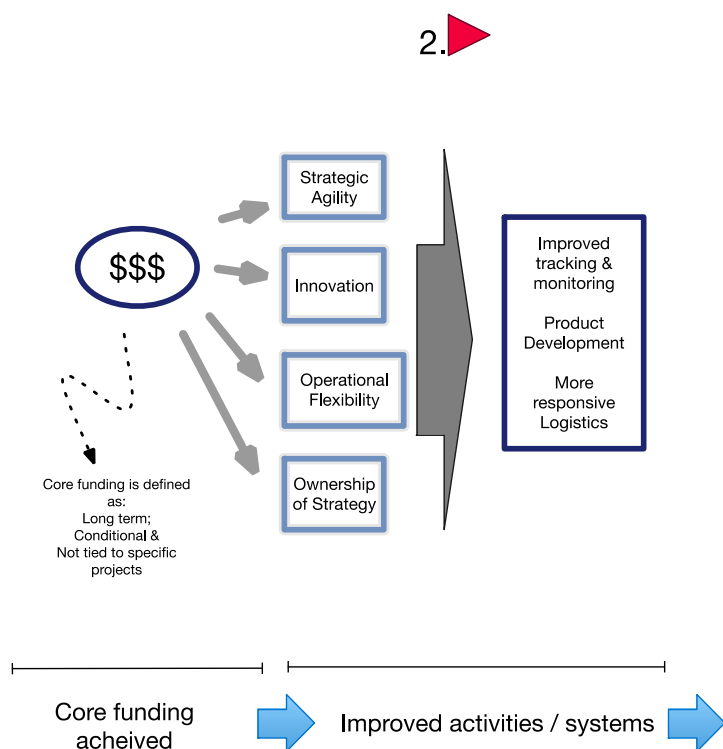
²³ Key Informant Interviews: Julian Circo, Country Representative, PSI Mozambique: 18th August 2014; 19th August 2014.

²⁴ Key Informant Interview: Daun Fest, East Africa Senior Deputy Regional Director, PSI Regional East Africa Office: 20th August 2014; Julian Circo, Country Representative, PSI Mozambique: 18th August 2014; 19th August 2014.

²⁵ *Ibid.*

4.2. Organisational and Programmatic Improvements

Figure 5 Hypothesis Part 2: Organisational and Programmatic Improvements



2.

Our second evaluation question relates to what improvements have been made to PSI Mozambique’s organisation and activities as a result of core funding.

The hypothesis proposes that core funding resulted in four types of organisational improvement:

- Strategic agility
- Organisational flexibility
- Innovation
- Ownership of strategy

These areas of improvement were identified through discussions with PSI Mozambique staff. They also align with several of the benefits of core funding that are identified in the external literature.

As indicated in Section 4.1, there have been a substantial number of changes at PSI Mozambique since 2011, most notable among these has been a fundamental restructuring of the organisation. The question, however, is to

what extent the changes are the result of continued core funding, or because of the change in leadership and strategic vision?

We found that for the most part (14 out of 18 indicators) the evidence supports the hypothesis that core funding contributed to organisational and programmatic improvements. This was most evident in PSI Mozambique’s approach to innovation and operational flexibility. We did not find sufficient evidence to support the hypothesis that core funding improved the ownership of strategy. The hypothesis proposed that receiving core funding would mean that PSI Mozambique would feel confident in rejecting opportunities for project funding that did not match its strategy. The indicators that were agreed presupposed that PSI Mozambique would have records of potential funding opportunities, or donor requests for engagement, and whether a decision had been taken to engage or not, on the basis of strategic fit. However, this type of data is not recorded by PSI Mozambique and funding opportunities are mostly developed at a global level in Washington, rather than at a country level, which suggests that the indicators for this element of organisational improvement may have been wrong. Two of the 18 indicators for this part of the hypothesis had weaker evidence, but which still suggested a weaker hypothesis link, while for two other indicators there was insufficient evidence to test whether the hypothesis was true.

4.2.1 Strategic Agility: Can PSI Mozambique foresee Change and Prepare its Response in Advance?

How is the organisation able to foresee change, and able to prepare its response in advance?	Risk management has foresight and is proactive	Weak Hypothesis Link
	Strategic planning has sufficient capacity to respond to risk predictions	Strong Hypothesis Link

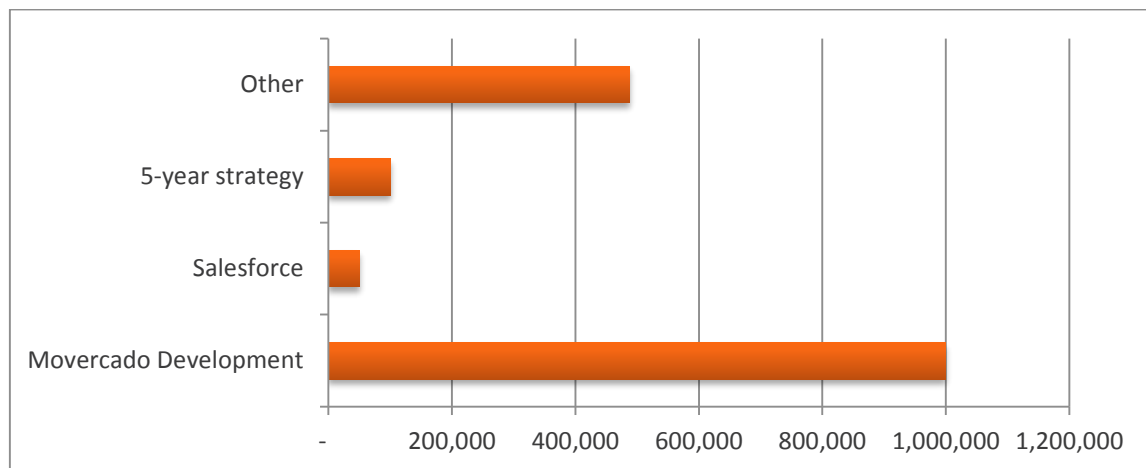
We understood strategic agility to refer to an organisation’s ability to respond to external threats and challenges.

The hypothesis proposes that core funding allows investment in organisational systems, which will facilitate better identification of potential risks, and that core funding provides the organisation with sufficient budget flexibility to be able to implement strategies to avoid or mitigate identified risks. We tested this part of our hypothesis by looking at two issues:

- PSI Mozambique's risk management systems; and
- The extent to which PSI Mozambique's strategic planning allows it to respond to identified risks.

PSI Mozambique made available a significant amount of core funding for investment in systems, processes and professional services that supported improvements in both risk management and strategic planning, as shown in graph 1 below.

Chart 2 Core Funded Consultancy / Professional Services



Overall, we found that, while risk management is principally informed by the procedures set out by PSI Global, core funding has to a limited extent allowed PSI Mozambique to improve its ability to predict risk. There was also significant evidence available to support the hypothesis that strategic planning was heavily informed by core-funded investments.

(1) Risk Management

As part of the PSI family, PSI Mozambique follows risk management procedures set out by PSI Global. This involves the heads of each department annually identify risks with their area, the internal auditor collecting and monitoring progress against these, and PSI Global Internal Audit and the external audit assuring these.²⁶

While the systems that allow PSI Mozambique to identify and respond to risks cannot be directly attributed to core funding we found some evidence to suggest that core funding has led to developments that have increased the accuracy of risk predictions. For example, the matrix structure allows greater oversight and clarity by senior management, so potential risks and appropriate responses can be identified sooner. Furthermore, a significant amount of core funding has allowed investment in organisational tools such as Salesforce (US\$50,000) and Movercado (US\$1 million), which provide detailed analysis of stock levels and sales. This means that risks from a drop in sales or stock-outs can be predicted and managed; for example, through reallocating stock between regional warehouses.²⁷

²⁶ Key Informant Interview: Hortensia Simbine, Internal Auditor, PSI Mozambique: 21 August 2014.

²⁷ Key Informant Interviews: Benicio Andrade, Deputy Country Representative/Director of Operations, PSI Mozambique: 18th August 2014.

That said, there is evidence, that these systems are still not sufficient. For example, an external assessment of PSI Mozambique as part of a five-year strategic planning process identified that weak monitoring and evaluation systems 'limits the organisations' ability to react and proactively plan for the future'.^{28 29}

Based on the available evidence, our conclusion is that core funding has had limited effect on PSI Mozambique's ability to manage risk. As such, while there is a link between core funding and risk management, it is weak.

(2) Strategic Planning

A somewhat different picture emerges, however, when the role of core funding in strategic planning is assessed. The budget flexibility of core funding has allowed PSI Mozambique to respond strategically to long-term risks. For example, to prepare for the potentially substantial decrease in its budget in 2015 as a result of the end of the majority of PSI Mozambique's current project funding, the organisation commissioned external consultants to develop a long-term strategy for the organisation. Making use of core funding under its Research and Evaluation cost centre, PSI Mozambique invested US\$100,000 in working with Accenture Mozambique to develop a new five year strategy and a business model that acknowledges the complexity of the environment it is operating in, without ignoring its own focus and obligations within the broader PSI family. The absence of donor obligations is noticeable and a direct result of the level of core funding that PSI Mozambique enjoys.

An example of how this strategic planning process has helped PSI Mozambique in the short term is its approach to using community workers as part of its social marketing model. PSI Mozambique moved from directly employing community workers (*activistas*), to paying them by commission on the basis of results (itself measured through Movercado, a product of core funding) in a controlled and planned manner. PSI Mozambique has therefore been able to mitigate the risks of a reduced budget, by using core funding to commission the team of consultants, something that would not have been possible with precisely allocated project funding.

Box 2 Agile Management

Agile Management

PSI Mozambique has used an agile management approach for product development, including the development of Movercado.

Agile management was initially devised as an approach for software development, but has subsequently been applied to other types of product development. It is seen as way of facilitating radical and rapid innovation, while ensuring disciplined execution.

Agile management is predicated upon a collaborative team approach, and deliberately eschews traditional management hierarchies to allow the full contribution of every team member. However, there can be allocated roles, such as 'product owner' and 'scrum leader', who take responsibility for quality control and team motivation.

Using the agile approach involves working in short, incremental bursts towards the delivery of a small component of the overall agreed outputs. At the end of each burst of activity, there is an opportunity for testing and reflection (by the team and the consumer) allowing problems to be noted and opportunities identified that may influence further work on the product. This helps ensure consumer needs are met in an innovative way, but also that time and resources are saved by avoiding fundamental errors, and adapting the product as the process moves forward.

http://en.wikipedia.org/wiki/Agile_management

<http://agilemanifesto.org/>

<http://www.forbes.com/sites/stevedenning/2012/04/09/the-best-kept-management-secret-on-the-planet-agile/>

<http://www.mountangoatsoftware.com/agile/agile-project-management>

²⁸ PSI Mozambique: 5 Year Strategy Refresh – Final Deliverable (Accenture: 2014) p.34

²⁹ The external assessment was comparing PSI Mozambique with private sector organisations with sophisticated planning software and benchmarking against Pfizer in the report specifically. While it might seem unfair to compare an NGO against a private company, PSI Mozambique is a sufficiently unique and advanced NGO, that in our opinion, it outclasses most other NGOs in Mozambique. Moreover, it's focus on social marketing does make direct comparisons with other NGOs difficult.

A less direct way in which core funding has improved strategic responsiveness is through the application of an agile management approach. As described in Box 2, agile management encourages staff to work collaboratively and quickly in response to new opportunities or threats. While agile management is not necessarily dependent on core funding, it is closely connected to the matrix structure, and requires a flexibility of budget and staff resources that would not be possible under a project driven approach where activities are pre-determined.³⁰ On the basis of the available evidence, we consider the link between core funding and PSI Mozambique's capacity for strategic planning to respond to risk is strong.

4.2.2 Operational Flexibility: can PSI Mozambique's Operations Respond to Need?

To what degree can operations respond to need?	Supply chain and data collection is timely and accurate	Strong Hypothesis Link
	Organisational infrastructure is robust and resilient	Strong Hypothesis Link

The second improvement that we would expect to see as a result of core funding is operational flexibility. We considered operational flexibility to refer to how an NGO identifies and responds to immediate changes in the needs of its customers/communities. Because of PSI Mozambique's focus on social marketing, the following indicators were selected:

- How data about the supply chain is gathered; and
- The extent to which organisational infrastructure is sufficiently robust and resilient to respond to new needs.

In a restricted funding scenario, data collection is often focused on only monitoring and evaluation data needed to report to donors on prescriptive indicators. With this removed, it is important to see that data collection more generally is still going on, but that it is being used to support the broader organisational strategy that provides alignment with the donor under the preconditions (see Section 4.1). One of the main criticisms of restricted funding is that it leaves organisations vulnerable to change, especially at the end of funding periods when whole teams and projects can be disbanded and communities left without services (in extreme cases). Therefore, the hypothesis suggests that under core funding organisational infrastructure should be more robust and resilient.

We found that in both cases there was sufficient evidence to suggest that operational flexibility has indeed improved as PSI Mozambique as a result of core funding.

(1) Supply Chain and Data Collection

Some of PSI Mozambique's principal activities concern the marketing and subsequent sale or free distribution of health commodities such as condoms, mosquito nets (LLINs), and nutrition powder for children. With PSI Mozambique's countrywide distribution, careful management of stock levels is paramount.

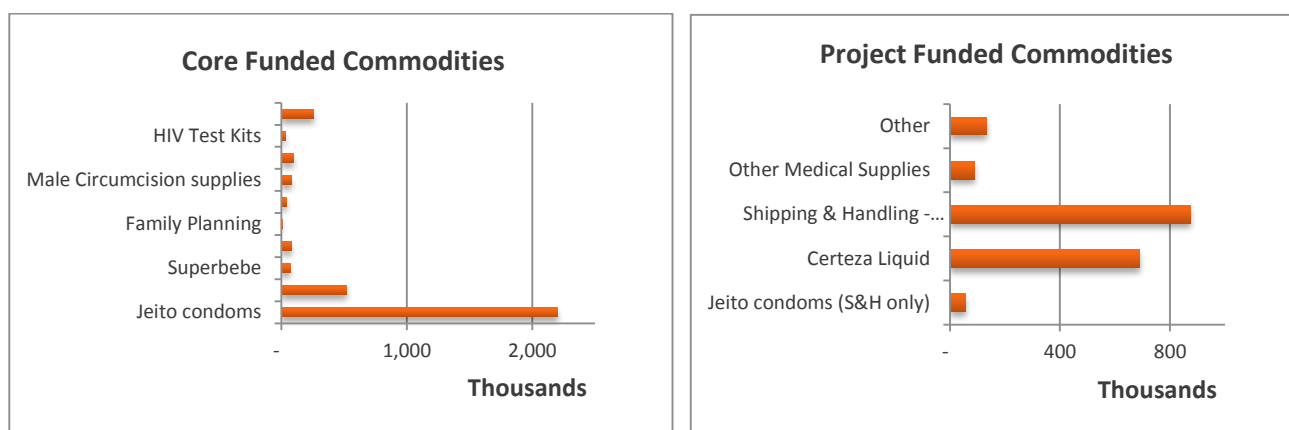
One of the key investments that PSI Mozambique used core funding for was purchasing Salesforce. By investing US\$50,000 into the purchase and development of Salesforce software, PSI Mozambique created an organisational system that provides real time data about sales and stock levels and enables it to manage the organisation's inventory more effectively. By alerting the operations team when stock levels of a product fall beneath a particular level, Salesforce allows PSI to move stock from one warehouse to another, and thus avoid 'stock outs'. The operations team feels this is a substantial improvement on the previous system of manual weekly stock counts, which could be inaccurate and did not allow a timely response to low stock levels. In addition, the previous stock management system relied heavily on staff self-reporting and self-regulating how much stock was being checked

³⁰ Key Informant Interviews: Julian Circo, Country Representative, PSI Mozambique: 18th August 2014; 19th August 2014.

in and out of warehouses. This led to higher levels of corruption, which the introduction of Salesforce has helped to eliminate.³¹

Saleforce is an example of a core funding investment that influences both restricted funded projects and core funded projects equally, as both funding approaches make use of commodities and stock purchases and supply chain management. Commodities purchase is one of the areas of PSI Mozambique's activities where core and restricted funding does not overlap (i.e. similar items funded from both programmes), but rather compliments each other.

Chart 3 Core Funded Commodities Purchased v Project Funded Commodities Purchased



In graph 3 above, it is clear that core funding has been used to purchase a much broader range of commodities relevant to PSI Mozambique's long term objectives. However it is also interesting to note that in the case of Jeito Condoms and the purchase and distribution of bed nets there is a split allocation between core funding and restricted funding. PSI Mozambique negotiated with both its core funding donor (EKN) and its restricted funding donor (USAID) to fund the purchase of commodities from core funding, whilst the shipping and handling was funded from restricted funding. This arrangement allowed PSI Mozambique to continue to purchase and develop products based on the local environment and beneficiary feedback (see below and section 4.2.3.2 for more), while maximising the impact and reach of the restricted funding in a way that also made sense to USAID.

However, an external evaluation of PSI Mozambique identifies some existing challenges with its supply chain and logistics management, in terms of tracking goods in transit, and poor quality data input at field level.³² Therefore, while there is a strong hypothesis link that core funding has strengthened data collection about the supply chain, there is a risk that a few remaining problems may still undermine this.

PSI Mozambique collects a significant amount of data about and from its end-users and beneficiaries (customers). Mostly in the form of user-testing and market research, this data has allowed PSI Mozambique to understand the needs and demands of its customers and adjust existing products and services or introduce new services to meet those demands (see Section 4.2.3.2 for more detail on this). This data is extensively reported to the donor in the annual reports on PSI Mozambique's activity.³³ This approach to data collection is driven by the management approach used at PSI Mozambique and its focus on social marketing. Key informant interviews confirmed that core funding has allowed PSI Mozambique to focus on social marketing, which is closer to the original strategy originally envisaged by the founders of PSI globally.³⁴

³¹ Key Informant Interview: Benicio Andrade, Deputy Country Representative/ Director of Operations, PSI Mozambique: 18th August 2014.

³² 5 Year Strategy Refresh p33; 35

³³ Annual Report to the Embassy of the Kingdom of the Netherlands January- December 2013 (PSI Mozambique: 2014); Annual Report to the Embassy of the Kingdom of the Netherlands January – December 2012 (Resubmitted) (PSI Mozambique: 2013)

³⁴ Key Informant Interview: Iulian Circo, Country Representative, PSI Mozambique: 18th August 2014; 19th August 2014; Daun Fest, East Africa Senior Deputy Regional Director, PSI Regional East Africa Office: 20th August 2014

(2) Organisational Infrastructure

Other developments at PSI since 2011 also appear to have strengthened the resilience of organisational infrastructure, several of which have already been touched on (see Section 4.1.3.3 matrix and Section 4.2.1.2 *activistas*). The move to the matrix structure is felt by senior management to have substantially improved the stability of the organisation, and the preservation of knowledge.³⁵ This is because the focus on cross-organisational working ensures learning is shared between staff, and not lost if a member of staff leaves.

The matrix structure has reduced the size of the organisation (both in terms of number of employees and scope of infrastructure, as has the move to commission based *activistas* (see Section 4.2.1.2), which make it more financially stable. However, again the analysis by external consultants suggests there are continuing challenges with staff retention³⁶, administrative processes³⁷ and budget control systems.³⁸ A staff survey in 2014 also highlighted some concerns about the level of competency among the team at PSI Mozambique.³⁹ Therefore, while there is a clear link between the provision of core funding, and efforts at PSI to strengthen its organisational infrastructure, there is a risk that this may be undermined by continuing challenges with procedures and staff skills.

4.2.3 Innovation

To what extent is there an openness to learn?	Learning from failure and success	Strong Hypothesis Link
	Identification of implications for the future from failure and success	
	Action taken on the basis of learning	
To what extent has PSI used the best practices of innovation (Perrin 2001)?	Legitimacy (appropriate and priority as assessed by user groups)	Strong Hypothesis Link
	Potential relevance and application	Strong Hypothesis Link
	Quality of product/commodity/marketing	Strong Hypothesis Link
	Contact/involvement with potential user groups/customers	Strong Hypothesis Link
	Identification of learnings, potential applications and implications	Strong Hypothesis Link
	Dissemination of findings and implications	Weak Hypothesis Link
	Partnership and collaboration	Insufficient Evidence
	Extent to which the product/commodity/idea is really new	Strong Hypothesis Link
	Openness to serendipity and unexpected findings	Strong Hypothesis Link

Innovation is frequently cited in the literature as a key benefit of core funding for NGOs, since it allows budget flexibility to develop new approaches (radical innovation) or apply existing approaches to new contexts (incremental innovation). We considered innovation from two perspectives:

- To what extent is there an openness to learn at PSI Mozambique?
- Does PSI Mozambique use the best practices of Innovation (Perrin 2001)?

We found that for most aspects of innovation that we tested for, there was evidence to support innovation as a strong link in our hypothesis, with the exception of dissemination of finding and implications (which was weak)

³⁵ Key Informant Interview: Iulian Circo, Country Representative, PSI Mozambique: 18th August 2014; 19th August 2014.

³⁶ 5 Year Strategy Refresh p.38.

³⁷ 5 Year Strategy Refresh p.39.

³⁸ 5 Year Strategy Refresh p.40.

³⁹ "Organisational Health Diagnosis" in PSI Moçambique Plano para 2014 (PSI Mozambique, facilitated by eurosis: 2013) p.12.

and partnership and collaboration (for which there was not sufficient evidence). We conclude that PSI Mozambique has been able to use its core funding to innovate not only in its programming, but in the way that it delivers that programming.

(1) To what Extent is there an Openness to Learn?

The ability of an organisation to learn from successes and failures is key to improvement. For development or humanitarian NGOs, however, learning is widely seen as an area of notable weakness. One of the reasons given for this is that project funding with its tight funding conditions and reporting requirements neither creates the incentives nor opportunity for real reflection and learning. The hypothesis we are testing suggests that one of the advantages of core funding is that by virtue of its longer time horizons and flexible nature, it provides NGOs with greater time and resources to invest in learning.

To test this step in our hypothesis, three indicators were used: whether the organisation historically has learnt from successes and failures, how it identifies implications from this learning, and the action it takes as a result. Because these indicators are so closely linked, we discuss them together.

Unlike many other NGOs, PSI Mozambique does not have a formal learning strategy, dedicated 'learning staff', or specific learning events. While there are some examples of these processes existing at the level of PSI Global – for example, through an organisational intranet which shares good practice – these do not seem to shape PSI Mozambique's work in any substantive way. However, a series of examples gathered during the course of the research indicate that more integral learning is in fact taking place.

PSI Mozambique is notable for its openness about past failings, as well as prominent successes. Most strikingly, since 2011 PSI Mozambique has issued a 'Failures Report', which describes up to 10 areas where the country representative has identified problems with PSI Mozambique's work.⁴⁰ According to the country representative, the 'Failures' are selected according to those that are the easiest to resolve, with the biggest impact to the organisation, and the greatest relevance to other NGOs in the sector.⁴¹ The Failure Report was principally funded from the core grant.

There are clear practical examples of learning being applied, where challenges with existing products have been identified and action taken to resolve them. For example, market research revealed that consumers had difficulties with the dosage of the Certeza water purification solution, resulting in a chlorine taste, and that they often did not finish the bottle of Certeza before the expiry date. In response, PSI has developed Certeza in a tablet form, which allows precise dosing, and can be bought in much smaller quantities to match demand.⁴² In another instance, a close analysis of the reasons behind the crash in sales of PSI Mozambique's condoms in 2010 identified challenges with marketing, quality and supply management; this resulted in a complete rebranding of the product and the launch of the Jeito 1-5 range.⁴³

Key informant interviews highlighted that the matrix structure was key in facilitating this type of learning at PSI Mozambique. They argued that because staff work across multiple projects, they have a better overview of what is working, and what is not and lessons are being shared more fluidly across the organisation.⁴⁴ By working together, there is a drive to share knowledge: this is confirmed by the Staff Survey which found that 75% of staff agree that it is standard practice to share knowledge and learning with their colleagues.⁴⁵ The cross-organisational working, and flexibility of the matrix structure was also cited as allowing staff to discard approaches to products, marketing or projects that are not working, and to focus their energies on those that are. It was argued by PSI

⁴⁰ 2011 Failure Report.

⁴¹ Key Informant Interview: Iulian Circo, Country Representative, PSI Mozambique: 18th August 2014; 19th August 2014.

⁴² Annual Report to the Embassy of the Kingdom of the Netherlands January- December 2013 (PSI Mozambique: 2014); Annual Report to the Embassy of the Kingdom of the Netherlands January – December 2012 (Resubmitted) (PSI Mozambique: 2013).

⁴³ Condom Adventure in Mozambique (PSI Mozambique: 2011).

⁴⁴ Key Informant Interview: Iulian Circo, Country Representative, PSI Mozambique: 18th August 2014; 19th August 2014.

⁴⁵ "Organisational Health Diagnosis" in PSI Mozambique Plano para 2014 (PSI Mozambique, facilitated by eurosis: 2013) p.11.

Mozambique that in a traditional project-driven approach, where there is an obligation to deliver against pre-set objectives, failures are often hidden, or re-framed as 'challenges' to be addressed, even when this is not appropriate.⁴⁶

There is therefore good evidence that, principally due to the matrix structure, PSI Mozambique is able to identify ongoing successes and failures, and take speedy action in response to them. Since the matrix structure has been facilitated by core funding, the hypothesis link is considered strong. It should be noted, however, that while core funding has been crucial in the integral approach to learning, there is also a culture among senior management at PSI Mozambique that is sufficiently confident to accept and even publicise failures. It is doubtful that without this willingness to accept failures, PSI Mozambique's approach to learning would be as strong, which is not dependent on the receipt of core funding.

The example of PSI Mozambique also raises the interesting possibility that policy-driven approaches to learning are more important in NGOs which are project led, where project funding might result in teams being disbanded at the end of a project cycle, taking their knowledge with them; and where donor targets also mean there are inherent drivers against identifying failures. In a core funded organisation, such as PSI Mozambique which is free of pre-set outputs, and can choose how it wants to respond to successes and failures, there is perhaps no need to formally mandate the identification and response to learning, since it necessarily becomes integral to the organisation's development.

(2) To what Extent has PSI Mozambique used the Best Practices of Innovation?

Another step in our hypothesis is that core funding allowed PSI Mozambique to put in place practices that improve innovation. The best practices of innovation were identified from Burt Perrin (2001)⁴⁷, and appropriate indicators were developed to determine to what extent core funding had helped PSI Mozambique achieve these best practices. The indicators can be grouped into two categories:

Those concerning how well the products meet the needs and wants of end users and beneficiaries (consumers):

- Legitimacy;
- Relevance and application;
- Quality; and
- Contact with users.

And those concerning how the product is actually developed:

- Identification of learnings, potential applications and implications;
- Dissemination of findings;
- Partnership and collaboration;
- Extent to which the product is really new; and
- Openness to serendipity.

Core funding has allowed PSI Mozambique to invest in significant research and evaluation of new and existing products, alongside the research and evaluation usually undertaken through project funding. The core funded research has allowed PSI to better respond to the needs of their beneficiaries with products that have undergone detailed testing and research and that are context-specific.

(a) Meeting the Needs of End Users and Beneficiaries

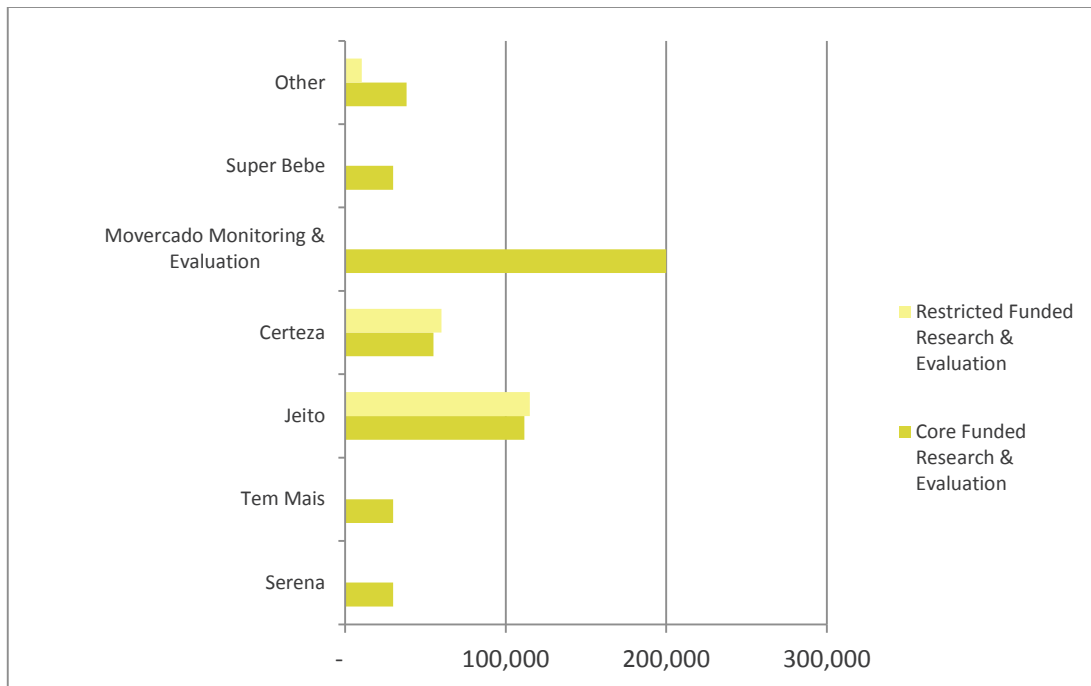
Central to PSI Mozambique's approach to social marketing is conducting an in-depth analysis of the needs and wants of its target consumers/end-users.

⁴⁶ Key Informant Interview: Iulian Circo, Country Representative, PSI Mozambique: 18th August 2014; 19th August 2014.

⁴⁷ Perrin, B. *How to – and How not to – Evaluate Innovation*, Evaluation (Vol. 8, no. 1) 2001; published online at <www.mande.co.uk> (accessed 17 July 2014); not all of Perrin's categories were used for this evaluation.

Graph 3 below highlights how much more core funding was made available for research into meeting the needs of end users and beneficiaries. It is interesting to note that in the case of Certeza and Jeito very similar amounts of core and project funding were invested. However in the case of Certeza as is discussed in more detail below, the focus of that investment is different between core and project, reflecting the flexibility that core funding provides for PSI Mozambique to take advantage of research opportunities.

Chart 4 Core and Project Investment into Research and Evaluation



As with a commercial company, PSI Mozambique undertakes detailed market research during the development of its products and has considerable contact with samples of the target group during this process. For example, the core funded development of a nutritional supplement to add to young children’s food (SuperBebe) included ethnographic research of twenty-four households in Mozambique where researchers observed food preparation, cooking, mealtimes and childcare routines. This research provided important insights into the daily lives of Mozambican mothers, and help PSI Mozambique develop a better understanding of how a nutritional supplement for their children could work best.⁴⁸

Figure 6 Market Analysis of the New Jeito Brand



Analysis of the existing market also enables PSI Mozambique to find the best positioning for its products, so that it is relevant to unmet consumer needs. For example, when relaunching its line of condoms, PSI Mozambique mapped the existing condom market against the needs of different types of consumers to identify where its redesigned condom could fill a gap.⁴⁹

When considering how to move away from donor-prescribed mosquito net distribution to social marketing of mosquito nets, PSI Mozambique used US\$30,000 of core funding to analyse the clandestine market in LLINs and produce an estimate unit cost below which the sale

⁴⁸ PSI Food Fortification and Water Purification: General Insights (commissioned by PSI Mozambique: 2012).

⁴⁹ PSI Mozambique- Turning around Jeito: Brand repositioning- insights, strategy, results (PSI Mozambique: 2011).

of nets on the black market is no longer profitable.⁵⁰ This will then allow PSI Mozambique to market LLINs at a subsidised rate, which not only provides cheaper nets to a high demand market, but also removes the incentives for the illegal sale of nets intended for free distribution, so that they have a greater likelihood of reaching the intended beneficiaries.

Once a product is launched, there are continued efforts to monitor its relevance and quality. The redesign of Certeza, from a concentrated liquid to individual tablets, as described above, is a good example of responding to customer feedback and using core funding (to the value of US\$55,000) to improve quality and relevance of the brand to the market.⁵¹

Certeza is also a good example of how PSI Mozambique has used core funding and restricted funding to complement each other in its work. Research and evaluation into Certeza was funded from both core funding (US\$55,000) and project funding (US\$60,000), while the Certeza liquid was purchased using US\$691,000 of restricted funding, once the Certeza tablets were developed, they were purchased using US\$80,400 of core funding (see table 7 below).

Table 7 Use of Core and Project Funding to develop Certeza

	Core Funded Certeza (USD)	Project Funded Certeza (USD)
Commodities Purchase	80,400 (tablets)	691,000 (liquid)
Research and Evaluation	55,000	60,000

In this way PSI Mozambique could respond to the feedback from its beneficiaries on how the liquid Certeza was performing (and how to improve it) whilst not moving outside the requirements of its restricted funding in the same project.

There is therefore strong evidence that, since 2011, a commercialised approach to market research and customer needs has strengthened the quality, relevance and legitimacy of PSI Mozambique's new and redesigned products. Although marketing *activities* may also be supported through project funding (such as USAID's ISM project), key informant interviews clarify that the more effective approach to marketing and product development overall is an integral part of the shift from project driven silos to a matrix structure.

Previously, limited marketing was conducted separately for each 'project silo' with marketing messages and campaigns prescribed by technical or thematic specialists. The new matrix structure places marketing at the heart of PSI Mozambique, where it drives organisational strategy across all projects and products.⁵²

Therefore, once again, by providing budget flexibility, and facilitating the successful implementation of the matrix structure, core funding can be seen to have added value to PSI Mozambique's ability to meet the needs and wants of the consumer. These Indicators are therefore all considered to have a strong hypothesis link.

⁵⁰ The Case for Social-Marketed Long Lasting Insecticide-Treated Nets (LLINs) (PSI Mozambique: no date provided).

⁵¹ *PSI Revised Annual Report 2012; PSI Annual Report 2013.*

⁵² Key Informant Interviews: Iulian Circo, Country Representative, PSI Mozambique: 18th August 2014; 19th August 2014; Benoit Renard, Director of Marketing, PSI Mozambique, 16th July 2014.

Box 3 Movercado

(b) Creating Innovation Products and Services

The second set of indicators concern the means by which innovative products or approaches are developed. It has already been ascertained through the evidence for Section 4.1.3.3 that the management approach at PSI Mozambique encourages staff to work collaboratively across the organisations' different projects, which allows the identification of successes and failures, and subsequent opportunities for new developments. There is therefore a strong hypothesis link between core funding and the identifications of learning, potential applications and implications.

However, a somewhat different picture emerges when analysing the evidence in terms of sharing learning *externally*. Although there are some examples of PSI Mozambique sharing its experiences with the PSI Global family – for example, during a Movercado 'safari' retreat⁵³, they are limited, and cannot be directly attributed to the provision of core funding. Therefore, there is judged to be a weak hypothesis link between core funding and the dissemination of findings and implications of innovation. In terms of partnership and collaboration, no evidence was found of PSI Mozambique collaborating externally to develop innovative products or approaches (although there are ample examples of partnership on other matters): this is highlighted as an area for development by the external consultants for the 5 Year Strategy.⁵⁴ While the hypothesis is not challenged, in so far as core funding does not *prevent* partnership and collaboration on innovation, there is judged to be insufficient evidence to support partnership and collaboration being essential to the hypothesis. It could be suggested that this apparently inward-looking approach to innovation is perhaps a function of PSI Mozambique's commercial attitude: as a player in the open market, sharing hard-won innovations with potential competitors would not necessarily be beneficial. It could therefore be argued that indicators concerning sharing learning and collaboration are not appropriate for commercially minded organisations.



Movercado is a cloud-based system developed by PSI Mozambique to facilitate e-voucher distributions to beneficiaries via mobile phones. Beneficiaries are provided with e-vouchers at clinics or by visiting health workers, which they can then redeem in their local shop for items such as soap, condoms, mosquito nets, or water purification solution. This therefore avoids the need for PSI Mozambique to fund costly product distribution: local shop keepers draw on existing supply networks to source the products their customers are demanding, and receive payment for the vouchers they accept by electronic transfer from PSI. By creating a demand for particular goods, the e-voucher system also encourages shop keepers to stock greater supplies for regular purchases, thus helping the broader community access health products, even if they don't have a voucher.

Once Movercado has a record of the beneficiaries' mobile phone number, further targeted health messages can be sent: reminders might be sent about ante-natal appointments or vaccinations, and follow-up vouchers for other products can be issued. For example, when heavy rain and flooding is predicted in a certain region, registered beneficiaries may receive warnings about the dangers of drinking contaminated water, and e-vouchers for PSI Mozambique's water purification solution, Certeza.

Movercado also facilitates detailed monitoring: the sale rates of suppliers can be tracked, and beneficiaries can be sent messages asking about the quality of the product they have received. The productivity of health workers can be monitored in terms of their distribution of e-vouchers, and the efficacy of their positive health education work: follow-up calls to a sample of beneficiaries check how well they have retained key information. This allows health workers to be paid on a commission basis, providing incentives for them to work effectively, and ensure their messages have been heard.

Movercado is currently being trialled by PSI Ghana, and has potential for much wider applications in the development and humanitarian sector.

Core funding used to develop Movercado: US\$1 million (est.)

More information can be found here: <http://enter.movercado.org/>

⁵³ Key Informant Interview: Mary Jayne Cassidy, Finance and Operations Advisor, PSI Mozambique: 20th August 2014; 21st August 2014.

⁵⁴ 5 Year Strategy Refresh p.29; 94.

Although innovation by PSI Mozambique appears to be principally driven by internal actors, rather than through external collaboration, it nonetheless is clearly effective in producing new products and ideas. PSI Mozambique used an estimated US\$1 million of core funding to develop Movercado. The Movercado software has produced a powerful and unique cloud-based solution to facilitate the distribution and tracking of electronic vouchers via mobile phones (Box 3), and as such can be seen as a good example of radical innovation, which is now being applied to other contexts. The development of an easy-to-use nutritional supplement for children's food (SuperBebe) using a relatively small investment of US\$30,000 of core funding and the planned introduction of family planning services to pharmacies⁵⁵ are examples where ideas from elsewhere are adapted and applied to a new context (incremental innovation).

Box 4 Jeitosa

Jeitosa

In May 2012, PSI Mozambique launched a socially marketed female condom, Jeitosa, named after a colloquial Portuguese term for an attractive woman. Despite a new approach to distribution by women-women sales through informal networks, sales remained low. A lack of demand was exacerbated by the relatively low commission that the promoters could expect from sales of a low-cost product.

However, public engagement with the *marketing* of the Jeitosa brand has far outstripped the actual product. By the end of 2013, Jeitosa's Facebook page, which provides relationship advice and promotes female sexual confidence, had received 35,000 likes; a regional pop star, Dama Do Bling, had included a dedicated song Jeitosa on her new album; and Jeitosa was represented at Mozambique Fashion Week.¹

Through promoting the Jeitosa brand, PSI Mozambique has therefore tapped into the desires of young aspirational Mozambican women to be more open about their love lives, and feel confident in their sexuality. While the female condom may not be of particular interest to them, the Jeitosa brand has therefore become a valuable platform from which PSI can promote further sexual health messages and products.

Ultimately, the new approach to marketing and product development seen at PSI Mozambique is itself an example of applying approaches from the commercial sector to that of non-profit health services. The case of Jeitosa (Box 4), the female condom whose branding of female sexual confidence and wellbeing has created a following that vastly exceeds sales of the actual product, is an excellent example of PSI Mozambique being able to take advantage of unexpected events.

Key informant interviews suggest that an important element in PSI Mozambique's ability to develop new ideas, and respond to unexpected findings, has been adopting an Agile management approach (Box 2).⁵⁶ By working collaboratively in short cycles to address immediate opportunities or challenges, PSI Mozambique staff have been able to develop new approaches (Movercado) or responses to donor interests (SuperBeBe). Key to this has been being able to allocate funding from a core funding pot rather than being constrained by previously agreed and detailed budgets, and doing this within much shorter time frames than the standard process of donor-funded pilots would have allowed. This flexible, cross-organisational way of working is therefore predicated upon the matrix

structure, which is a result of core funding. Therefore, there is a strong hypothesis link between the provision of core funding, and the ability for PSI to develop new ideas and respond to unexpected findings.

(3) Summary on Innovation

The hypothesis suggests that core funding can result in improved innovation. This is also generally supported by the external literature review. We tested innovation in PSI Mozambique using a series of indicators, some derived from Burt Perrin (2001). We found that in most cases there is a strong link between increased innovation and

⁵⁵ Family Planning with Movercado: PSI Concept (PSI Mozambique: 2013).

⁵⁶ Key Informant Interview: Iulian Circo, Country Representative, PSI Mozambique: 18th August 2014; 19th August 2014.

core funding being available in an organisation. PSI Mozambique was able to demonstrate innovation not only in programming/product design and development, but also in the operational delivery of programming.

4.2.4 Ownership of Strategy: Is Programming Driven by Organisational Strategy or Donor Interests?

To what extent is programming driven by organisational strategy rather than donor interests?	Number and type of donor requests for engagement turned down	Insufficient Evidence
	Number of tender opportunities forgone and reason	

The final dimension of organisational change that the hypothesis proposes took place at PSI Mozambique as a result of core funding is increased ownership of strategy. A key argument in favour of core funding, from both external literature and staff at PSI Mozambique, is that the untied, budget flexibility of core funding allows an organisation to focus its resources on programmes that are of particular strategic importance to them; where they have skills and experience, and where they have identified a clear need among their communities.

This is seen as directly contrasting with project funding, where competition for grants means that organisations will fit themselves to donors' interests, even if it involves working in an area where they do not have prior experience, or where they do not believe there is a need for the project. PSI Mozambique and the representative of EKN in Mozambique term such donor-driven projects 'zombies', since they drain organisational time and resources in project management and reporting requirements, but do not produce worthwhile outcomes.

The hypothesis therefore proposed that receiving core funding would mean that PSI Mozambique does not need to pursue funding opportunities that do not fit with its strategy. The indicators we developed to test this assumption were:

- The number of donor requests for engagement turned down; and
- The number of tender opportunities forgone (and reason).

The expectation was that the security of core funding would lead to PSI Mozambique feeling confident in rejecting opportunities for project funding that did not match its strategy.

The indicators described above presupposed that PSI Mozambique would have records of potential funding opportunities, or donor requests for engagement, and whether a decision had been taken to engage or not, on the basis of strategic fit. However, this type of data is not actually recorded by PSI Mozambique: opportunities for tender are identified and managed by PSI Global's Business Development Department, which passes relevant ones to PSI Mozambique, although key informant interviews suggest that none have arrived in recent years.⁵⁷ There have been donor approaches for further engagement from the USA Department of Defence, UNFPA, DFID and DANIDA; however, these have been positively aligned with PSI Mozambique's strategy – there are at least no formal records of any donor approaches being turned down.⁵⁸ The research therefore has to conclude that, in terms of the indicators selected, there is insufficient evidence to prove or disprove the hypothesis.

However, research did identify evidence that PSI Mozambique has been negotiating with donors from a position of greater confidence: it has succeeded in shifting the conditions of its funding from USAID to accommodate the matrix structure and support its marketing-driven approach in promoting positive social messages; it has also secured additional *core* funding from DANIDA and the UK's DFID.⁵⁹

⁵⁷ Key Informant Interview: Mary Jayne Cassidy, Finance and Operations Advisor, PSI Mozambique: 20th August 2014; 21st August 2014.

⁵⁸ *Ibid.*

⁵⁹ Key Informant Interview: Iulian Circo, Country Representative, PSI Mozambique: 18th August 2014; 19th August 2014; Mary Jayne Cassidy, Finance and Operations Advisor, PSI Mozambique: 20th August 2014; 21st August 2014; Saul Walker, Senior Regional Health Advisor, UK Department for International Development, 4th August 2014.

It can be presumed that this increased confidence with donors is supported by both the security of the existing Dutch core funding, but also the positive *outcomes* of core funding, such as Movercado, which donors are keen to engage with. Therefore, while there is insufficient evidence in relation to the specific indicators, there is evidence that core funding allows PSI Mozambique to take control of its relationship with donors, and follow its strategic priorities.

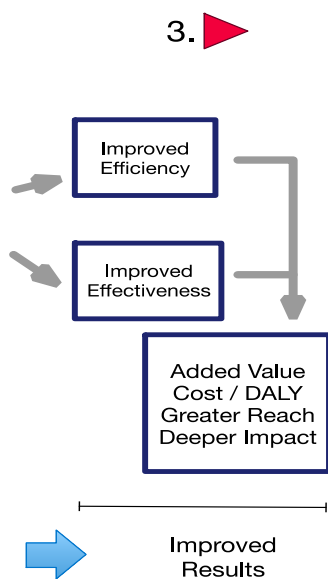
We would also conclude that our indicators, while logical for what we were trying to measure, were incorrect and a future iteration of the hypothesis would require us to measure different indicators to fully test the extent to which programming is driven by organisational strategy rather than donor interests. This would most likely result in a different finding.

4.2.5 Summary of Improvements to Activities and Systems

Strategic Agility	How is the organisation able to foresee change, and able to prepare its response in advance?	Risk management has foresight and is proactive	Weak Hypothesis Link
		Strategic planning has sufficient capacity to respond to risk predictions	Strong Hypothesis Link
Operational Flexibility	To what degree can operations respond to need?	Supply chain and data collection is timely and accurate	Strong Hypothesis Link
		Organisational infrastructure is robust and resilient	Strong Hypothesis Link
Innovation	To what extent is there an openness to learn?	Learning from failure and success	Strong Hypothesis Link
		Identification of implications for the future from failure and success	
		Action taken on the basis of learning	
	To what extent has PSI used the best practices of innovation (Perrin 2001)?	Legitimacy (appropriate and priority as assessed by user groups)	Strong Hypothesis Link
		Potential relevance and application	Strong Hypothesis Link
		Quality of product/commodity/marketing	Strong Hypothesis Link
		Contact/involvement with potential user groups/customers	Strong Hypothesis Link
		Identification of learnings, potential applications and implications	Strong Hypothesis Link
		Dissemination of findings and implications	Weak Hypothesis Link
		Partnership and collaboration	Insufficient Evidence
Extent to which the product/commodity/idea is really new	Strong Hypothesis Link		
Openness to serendipity and unexpected findings	Strong Hypothesis Link		
Ownership of Strategy	To what extent is programming driven by organisational strategy rather than donor interests?	Number and type of donor requests for engagement turned down	Insufficient Evidence
		Number of tender opportunities forgone and reason	

4.3. Impact of Core Funding:

Figure 7 Hypothesis Part 3:
Impact of Core Funding



The third evaluation question we sought to answer concerned the impact of the organisational changes that had taken place as a result of core funding.

The hypothesis set out that impact of core funding is principally felt in two ways:

- Improved efficiency; and
- Improved effectiveness.

Donors that provide core funding and NGOs that receive it want to know that the core funding is having an impact on their activities and results. Donors, including EKN, specifically ask NGOs to report on core funding in these terms, which is not always straightforward.⁶⁰ Given the organisational changes that have taken place at PSI Mozambique, however, it should follow that the organisation is more efficient and more effective. So we tested for efficiency and effectiveness.

As outlined in the methodology section (Section 3) at this stage we compared a core funding award and a restricted funding award to consider their impact on both organisational and programmatic efficiency and effectiveness.

We found evidence for improved programme efficiency as a result of how PSI Mozambique applied core funding alongside restricted funding.

We also found there was evidence to support greater penetration into communities as a result of core funding; however, as PSI Mozambique was already present in every province in Mozambique in some or other way, there was little evidence to suggest that the organisation had expanded its geographic reach as a result of core funding; although PSI Mozambique has been able to maintain its geographic reach, despite a reduction in project funding, which is the result of matrix management and innovations such as Movercado and therefore of core funding.

4.3.1 Efficiency: has Core Funding Improved Programmatic Efficiency?

To what extent has core funding improved the efficiency of programmes?	Financial review of core and project funded activities	Strong Hypothesis Link
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It is likely that much of the efficiencies evidenced in this evaluation owe something to the unique design of both the USAID ISM award and the flexibility of the EKN core funding award. Between 2011 and 2014 PSI Mozambique successfully managed two similar sized awards, one core funding and one restricted funding:

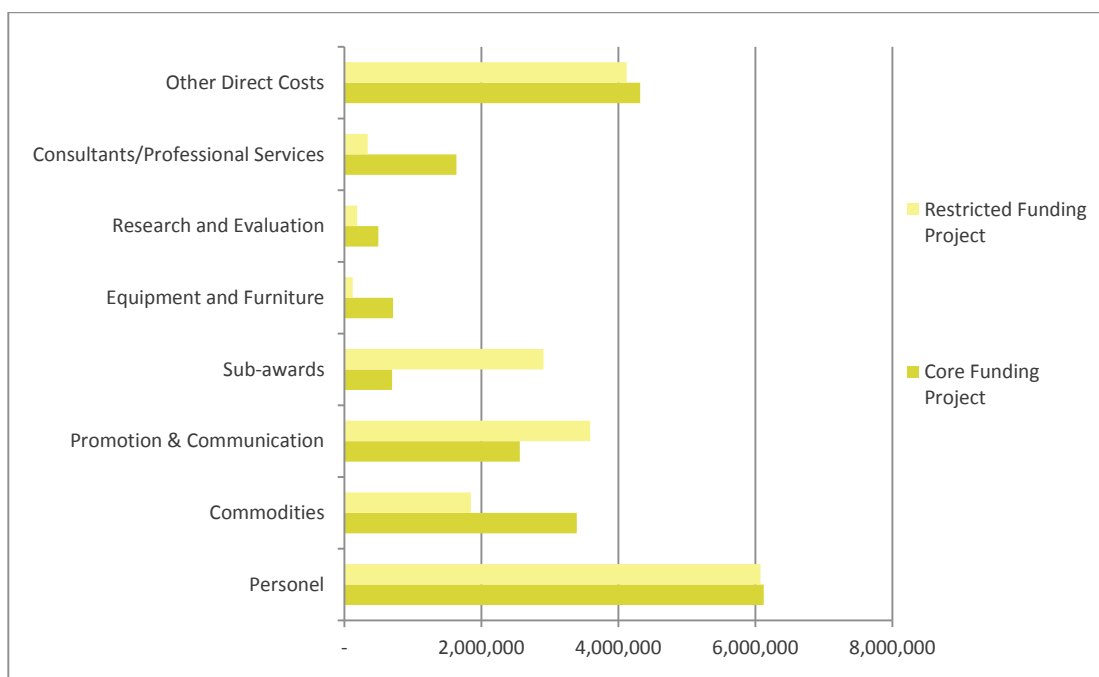
⁶⁰ Tracking the impact of core funding in efficiency and effectiveness was especially challenging for some of the NGOs that had been awarded funding under DFID's PPA programme (Brady and Lloyd, 2012) and is considered generally to be a significant challenge of managing core funding arrangements.

Table 8 Expenditure under the EKN Award and the USAID Award between 2011 and 2014

	Core Funding Project (USD)	Restricted Funding Project (USD)
Personnel	6,122,176	6,078,306
Commodities	3,393,510	1,844,788
Promotion & Communication	2,562,289	3,588,348
Sub-awards	699,307	2,906,985
Equipment and Furniture	712,277	124,096
Research and Evaluation	495,043	185,446
Consultants/Professional Services	1,637,789	342,186
Other Direct Costs	4,320,830	4,120,659
Total	19,943,219	19,190,815

Over the lifetime of each award we can see that in some instances spend in certain cost centres was very similar between the two awards (personnel and other direct costs⁶¹, for example); while in other areas there is a significant variation in the application of the two awards (commodities and promotion and communication, for example) (see graph 4 below).

Chart 5 Comparison of Spending Priorities between the Core Funded Award and the Restricted Funded Award



PSI highlighted in interviews that this variation was an indication of the flexibility of core funding within the organisation. While the restricted funded project had budgets and allocations agreed at the start of the project period, the core funded project had no pre-agreed targets or budget allocations. Performance targets were

⁶¹ Other Direct Costs includes those operational costs that enable PSI Mozambique to deliver outputs and outcomes against its strategy and the donor-agreed objectives

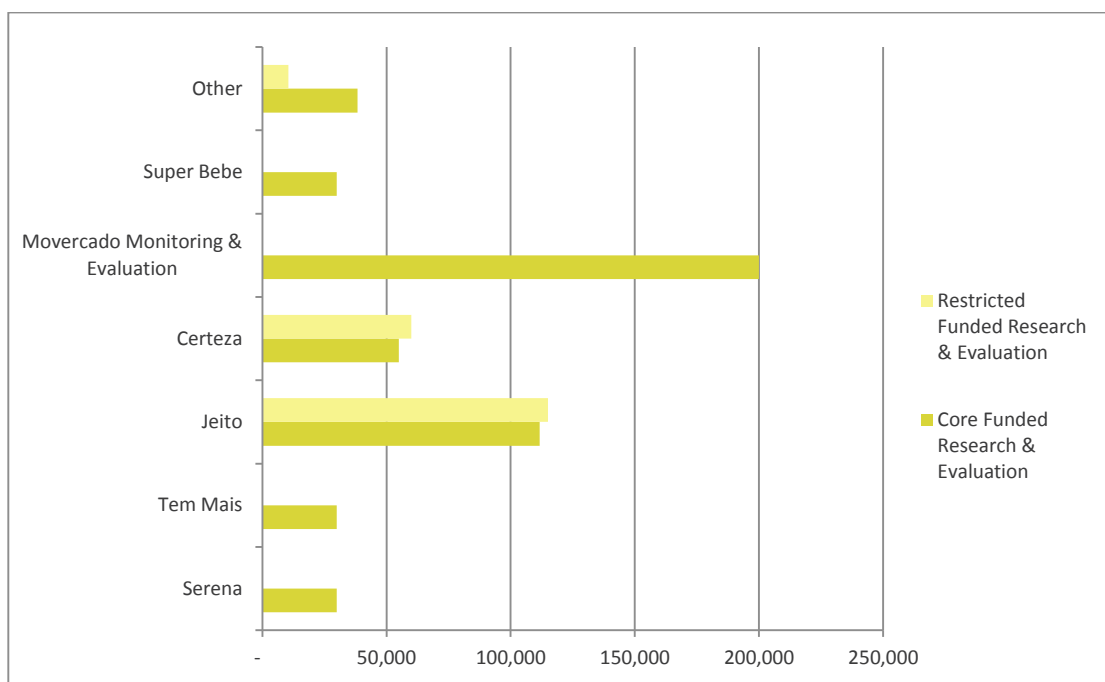
agreed annually with the donor, based on the previous year’s performance and any planned strategic development (research, etc.) that PSI Mozambique was planning to undertake.

As we have seen in the previous section, this flexibility has allowed PSI Mozambique to respond to programmatic changes and opportunities that restricted funding would not allow. Being able to change direction mid-project (Jeitosa), research and introduce alternative products based on beneficiary feedback (Certeza) or respond to external opportunities (Super BeBe) are all example of how PSI Mozambique has been able to improve programmatic efficiency. Traditionally it is not until the end of an agreed project that changes are often agreed or made and incorporated into future project designs, losing both opportunity and impact.

At the same time we have to acknowledge that the restricted funding from USAID that underpinned the ISM programme was designed specifically with PSI Mozambique’s approach in mind and there was clarity from the start that some aspects of the ISM programme would be supported by EKN’s core funding; for example, the purchase of condoms, which was funded through EKN while the marketing of the condoms was funded through ISM. This agreement enabled PSI Mozambique and its donors to manage funding in a way that responded to grant requirements, but also ensured that PSI Mozambique maintained flexibility and control of its strategy.

An example of how PSI Mozambique was able to take advantage of emerging opportunities and improve programme efficiency is illustrated in its spending on Movercado-related monitoring and evaluation under the Research and Evaluation cost centre (see graph 5 below).

Chart 6 Core and Project Investment into Research and Evaluation



The investment in Movercado monitoring and evaluation referred to in graph 5 above relates to the development and implementation of an innovative approach to tracking and measuring the efficiency and effectiveness of its inter-personal communication (IPC) project, facilitated through Movercado. PSI Mozambique developed an approach to assessing the impact of IPC sessions in real time, using the data to manage performance of its *activistas* as well as improve, refine and develop the communication messages being delivered and retained at a beneficiary level. More than 20,000 total interviews with beneficiaries were conducted in quarter 4 2013 alone. The data collected from these interactions directly with beneficiaries allows PSI Mozambique to refine all of its programmatic activity, not just that delivered through core funding. The costs associated with collecting the same data, across the same geographic and population spread in the same amount of time is likely to have been

prohibitive⁶². This suggests that collecting this level of detailed data in real time and from a much larger sample size than would be possible under normal programme conditions reflects the high degree of efficiency that PSI Mozambique has been able to achieve through core funding.

Core funding has also enabled PSI Mozambique to restructure its internal management and operational structures (see Section 4.1.3.3). PSI suggests that this has led to savings in overheads or common costs⁶³. For example, under the previous management structure, the existence of organisational silos created duplication of roles and activities that led to increased costs and reduced productivity.

Additionally, financial systems and processes can inhibit efficiencies when NGOs cannot link the source of funding to individual transactions.⁶⁴ Core funding is often used to support indirect overhead costs and making restricted funding go further. The allocation of overheads is often based on a random calculation applied *after* transactions are journalised, making it difficult to understand where and how actual core funding is used and the impact that it has. In interviews, PSI Mozambique staff noted that core funding had allowed them to simplify and in turn improve the way that they allocate common costs (central overheads) to activities and cost centres. PSI Mozambique makes the allocation of common costs *before* transactions are journalised. This makes tracking efficiencies easier as it is possible to track core funding allocations down to transaction level and understand how and where core funding is actually used.⁶⁵

Most significantly perhaps, core funding has enabled PSI Mozambique to reduce the fixed operating costs that can accompany project activities when funded from project funds. Warehousing and transport costs specifically have been reduced.⁶⁶ Some donors previously required that separate warehousing and transportation be procured for their project. While this helps the donor track expenditure within the NGO and gives them assurance that assets and logistics are being used appropriately, it increases the fixed costs for the agency.

Where PSI Mozambique is running two or more project-funded activities in the same area, it may, as was the case in 2010, have two warehouses near each other, both less than half-full with commodities.⁶⁷ This approach of duplicating fixed costs to respond to donor demand is removed when core funding is used.⁶⁸ Interestingly, when negotiating its grant agreement with USAID, of which a significant proportion relates to logistics and supply chain management, PSI Mozambique was able to get USAID to agree to its approach to logistics management.

In summary, we can confirm that PSI Mozambique's core funding arrangement has had an effect on organisational and programmatic efficiency as a result of the operational changes made in the organisation. This evidence suggests that the hypothesis is valid at this point.

⁶² If a face-to-face survey conducted across Mozambique it is likely that a core team of evaluators would have trained up a rotating group of data collectors in each area; and selected a sample size of between 10% and 15%. The PSI Mozambique approach includes a sample size of 30%, possible mostly because of the use of Movercado rather than traditional approaches.

⁶³ Specific figures relating to the organisational change from silos to matrix management were not provided. In some instances PSI Mozambique was able to take advantage of natural wastage when restricted projects came to an end.

⁶⁴ This is more a case of the restrictions of accounting systems than a lack of will on behalf of NGOs

⁶⁵ Key Informant Interview Silvia Monjane, Director of Administration and Finance, PSI Mozambique, 19th August 2014.

⁶⁶ Key Informant Interview Silvia Monjane, Director of Administration and Finance, PSI Mozambique, 19th August 2014.

⁶⁷ Key Informant Interview Benicio Andrade, Deputy Country Representative/ Director of Operations, PSI Mozambique: 18th August 2014.

⁶⁸ Key Informant Interviews Silvia Monjane, Director of Administration and Finance, PSI Mozambique, 19th August 2014, Benicio Andrade, Deputy Country Representative/ Director of Operations, PSI Mozambique: 18th August 2014.

4.3.2 Effectiveness: has Programmatic Effectiveness and Organisational Effectiveness Improved?

To what extent has core funding improved the effectiveness of programmes?	Broader geographic reach?	Hypothesis is challenged
	Penetration into communities?	Strong Hypothesis Link
	Over what period of time has broader reach and deeper penetration happened?	Insufficient Evidence
To what extent has core funding improved organisational effectiveness?	Increased internal communication and organisational flexibility	Strong Hypothesis Link
	Organisational accountability to key stakeholders maintained or improved	Strong Hypothesis Link
	Increased efficiency in managing multiple projects	Strong Hypothesis Link

The final link in our hypothesis is improved effectiveness as a result of the changes made at PSI Mozambique, which resulted from core funding.

Operating effectively and delivering programming that is effective for their beneficiaries is a constant goal for all NGOs. A key assumption of core funding is that unrestricted funds that the NGO has full control over, and which it can use with discretion to pursue its own strategy, should result in a more effective organisation delivering more effective programming.

We therefore considered effectiveness from two perspectives:

- Programme Effectiveness; and
- Organisational Effectiveness

We found that programmatic effectiveness was most evident in how PSI Mozambique was able to increase interactions with its end-users and beneficiaries and deepen its penetration into communities that it worked in. PSI Mozambique had a broad reach across the country before the core funding arrangement was renewed, which meant that we could not ascribe any change in geographic reach to the core funding under review.

However, outside of this, PSI Mozambique has been able to maintain its coverage across Mozambique following the reduction of project funding because of the changes that it made as a result of core funding. So core funding has had an effect on geographic presence, just not the effect suggested by the hypothesis.

We also found sufficient evidence to support increased organisational effectiveness in PSI Mozambique as a result of core funding. Much of this has been discussed previously and we highlight here organisational improvements relating to programme activity and accountability. We can say that generally core funding does support some increased programme effectiveness and increased organisational effectiveness.

(1) Programme Effectiveness

Relating programme effectiveness to core funding can be extremely challenging for some NGOs, simply because of the way core or unrestricted funding is allocated across the organisation and the lack of requirement to measure it in any detail. In the hypothesis designed with PSI, improving programme effectiveness as a result of core funding was defined as increasing PSI's reach to more geographic locations and increasing penetration into communities. We wanted to test whether we could track core funding through these two indicators, as there was likely to be some spend associated with achieving both of these indicators.

(a) Did Core Funding lead to a Broader Geographical Reach?

In interviews PSI confirmed that it has coverage of some sort (sales or project activity) in every province of Mozambique.⁶⁹ This was also true before the current core funding arrangement was put in place and before the management changes were implemented in 2011. However, delivering that coverage does not necessarily mean that PSI maintains an office in every province. For example, PSI does not maintain offices in Niassa and Manica as it does not have project activity in those provinces, but it does still have sales of products in those provinces, which are managed from offices in nearby provinces.⁷⁰ PSI has managed to make use of improved supply chain and logistics planning to support activity in provinces where it does not have a physical presence.⁷¹

When some current project activity from restricted funds comes to an end, PSI will further rationalise its infrastructure in the field accordingly. While some rural areas are harder and more expensive to reach, PSI is exploring ways to reach these communities through non-traditional means.⁷² Using social marketing and partnering with local shop owners and community activists helps PSI to extend its reach into communities that are hard to reach.

That PSI Mozambique has not reduced its geographic reach while changing its funding profile and operational structure is impressive. This has been achieved partly through the change to matrix management and the improved ability to manage risk (see Section 4.2.1.1) and respond to it (see Section 4.2.1.2). Each of these improvements has been supported by core funding. It does not, however, match with the hypothesis agreed with PSI.

Hence, the hypothesis is challenged by the evidence available. Geographic reach can be extended by project funding as well as by core funding. However, retaining geographic reach after project funding has finished appears to be possible using a combination of core funding and non-traditional partnerships (made possible mostly through PSI's focus on social marketing).

(b) Did Core Funding lead to a Deeper Penetration into Target Communities?

A social marketing approach, using an online platform such as Movercado that interfaces with end-beneficiaries' mobile phones and uses push mechanisms such as tokens that can be exchanged for products at local (last mile) shops, has enabled PSI to deepen its reach into the communities that it serves. As discussed previously, Movercado (see Box 3) has been developed and fully funded through core funding and provides a key example of how an agency can find a solution to increase beneficiary numbers and community reach using a mechanism that is closely aligned to its central focus (in this case social marketing).

In its reporting to EKN, PSI Mozambique is able to use data from Movercado to demonstrate the increased penetration into its target communities. Not only in terms of personal communication with beneficiaries (there were 43,324 successful interactions with beneficiaries on SMS for the IPC Malaria 2013 campaign), but also in terms of vouchers redeemed (16,180 in 2013) for products such as condoms and Certeza (clean water solution).⁷³ This data also identifies the geographic location of the beneficiaries, and the product redeemed. Figure 7 below is an excerpt from the 2013 annual report that illustrates the ability of PSI Mozambique to track its interactions and report on them.

⁶⁹ Key Informant Interview Mary Jayne Cassidy, Finance and Operations Advisor, PSI Mozambique: 20th August 2014; 21st August 2014; Benicio Andrade, Deputy Country Representative/ Director of Operations, PSI Mozambique: 18th August 2014.

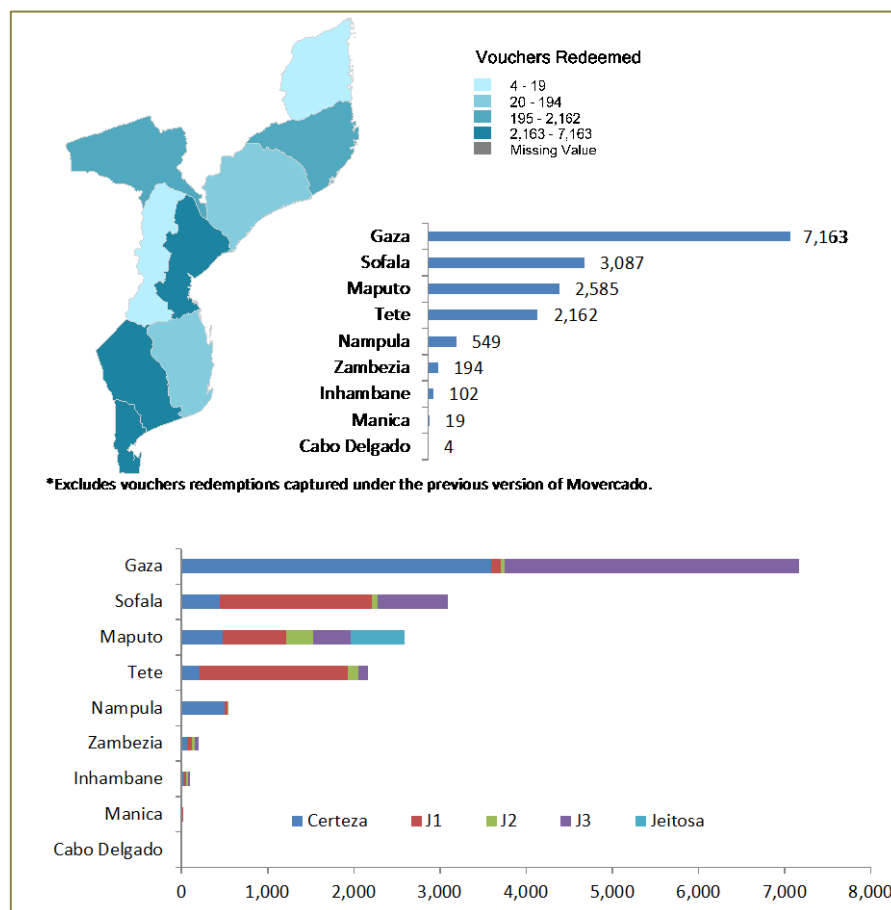
⁷⁰ Key Informant Interview Mary Jayne Cassidy, Finance and Operations Advisor, PSI Mozambique: 20th August 2014; 21st August 2014.

⁷¹ Benicio Andrade, Deputy Country Representative/ Director of Operations, PSI Mozambique: 18th August 2014.

⁷² Key Informant Interview Mary Jayne Cassidy, Finance and Operations Advisor, PSI Mozambique: 20th August 2014; 21st August 2014.

⁷³ Annual Report to the Embassy of the Kingdom of the Netherlands January- December 2013 (PSI Mozambique: 2014).

Figure 8 Excerpt from PSI Mozambique's 2013 Annual Report to EKN illustrating use of Movercado generated data to report on penetration into communities



The important thing to remember is that this data is being collected without the traditional approach to data collection or management usually employed by NGOs, which would see a greater reliance on data collectors in the field and an increase in human error in data entry. Additionally, PSI Mozambique’s data is available in real time and not reliant on data being entered manually in order to analyse the data for trends (and respond to those trends).

Increased penetration into communities can also be demonstrated through PSI Mozambique’s approach to developing a malaria net product, Serena (see also Section 4.2.3.2.1), which is based on two objectives:

- To relieve pressure on the public distribution system by undermining the black market in LLINs; and
- Responding to demand for nets outside the current beneficiary groups currently being supplied with nets.

Using the relatively modest amount of US\$30,000 of core funding for research, the business case for this product drew on a combination of approaches developed internally (Movercado and the Troka Aki voucher network) and analysis of successful implementation of a similar project in Angola, to put forward a strong argument for why this product should be implemented in Mozambique.⁷⁴ The Serena nets project would increase access to bed nets for hard to reach beneficiaries and respond to the issues thrown up by the black market in bed nets.

In 2013, PSI Mozambique also had as a target the introduction of the condom sub-brand J0 to be sold in single units to ‘increase penetration in informal and rural markets’ and it continued to be a product with its own indicators in 2014.⁷⁵

⁷⁴ *The Case for Social Marketed Long-Lasting Insecticide Treated Nets (LLINs)* (PSI Mozambique 2012).

⁷⁵ *PSI Mozambique Plano Para 2014, 10 de Dezembro de 2013* (PSI Mozambique 2013).

Both these initiatives make use of innovative platforms developed by PSI Mozambique (Movercado and Troka Aki). However the initiatives themselves (bed nets and condoms) are direct responses by PSI Mozambique to the established needs of the communities that it is working with. PSI Mozambique could have tried to roll these initiatives out using other methods, but they may have been less effective and may not have addressed the issues raised.

Therefore, the link between core funding and deeper penetration into communities is firmly established at PSI Mozambique and we can say that at this point the hypothesis is valid.

(c) The Period of Time over which Broader Reach and Deeper Penetration has happened

We did intend to measure the length of time over which both geographic reach had broadened and the reach into communities had deepened as a result of core funding. However, there was insufficient evidence to measure this. This was partly due to the factors set out in the discussion of geographic reach earlier (PSI Mozambique had total coverage of the country before the current core funding arrangement) and a lack of quantitative data over time to analyse successfully. With the introduction of Salesforce and the development of Movercado, PSI is now generating high-quality data. It intends to conduct a survey to measure its contribution to increasing health access. This work is scheduled for late 2014.

(2) Organisational Effectiveness

We could have considered a range of indicators to determine whether PSI Mozambique's organisational effectiveness had improved as a result of EKN core funding. In discussion with PSI Mozambique, it was decided that we should limit ourselves to three indicators:

- Increased internal communication and organisational flexibility;
- Organisational accountability to key stakeholders maintained or improved;
- Increased efficiency in managing multiple projects.

These three indicators compliment the analysis we conducted for organisational and programmatic improvements (Section 4.2), which have also contributed towards PSI Mozambique's improved organisational effectiveness.

In Section 4.2 we were able to show that for the most part there was evidence that core funding had helped PSI Mozambique make improvements in its operations and programmes, most specifically around strategic agility and innovation. We have also shown that a significant part of the changes made in the organisation has been due to the introduction of matrix management (Section 4.1.3.3) and agile planning (Box 2). These two approaches have played an important role in supporting increased organisational effectiveness at PSI Mozambique.

(a) Increased Internal Communication and Organisational Flexibility

In organisations with fixed hierarchies built around distinct department the chief of party or department head can hold all the data and information, potentially leading to reduced communication and therefore duplication. However in a matrix management structure this is not possible as no one person holds all the information. This is important because it means that teams have to communicate with each other in order to deliver the whole programme or activity (see also Section 4.2.3.2.2). This approach drives greater internal communication.⁷⁶ A recent staff survey for example, found that 80% of the respondents felt that internal communication at PSI Mozambique was clear.⁷⁷

⁷⁶ Key Informant Interview Iulian Circo, Country Representative, PSI Mozambique: 18th August 2014; 19th August 2014.

⁷⁷ "Organisational Health Diagnosis" in PSI Mozambique Plano para 2014 (PSI Mozambique, facilitated by eurosis: 2013).

PSI Mozambique's use of agile planning allows the organisation to quickly pull together teams with appropriate skills to work on an initiative and deliver it to market.⁷⁸ In 2013, PSI Mozambique employed this approach to respond to the Copenhagen Consensus 2012⁷⁹ emphasis on nutrition to design and deliver to market the nutritional supplement SuperBeBe within six months of the findings of the Consensus being announced (see also Section 4.2.3.2.2).⁸⁰

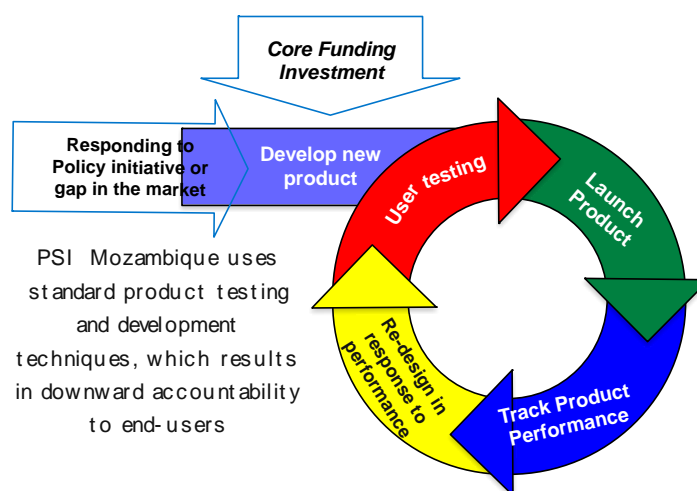
PSI Mozambique has also been able to use Movercado to support emergency responses to the flooding that occurs annually in Mozambique's coastal areas. Using flash campaigns to market mass vouchers, PSI Mozambique can mobilise quickly to support disasters with its clean water product, Certeza, as it was able to demonstrate in 2013.⁸¹

Having access to core funding has impacted PSI Mozambique's flexibility and internal communication. Agile planning, particularly, would be almost impossible to implement at an organisation that relied almost exclusively on project funding, as individuals' time would already be allocated to project-funded activities, with little opportunity for responding to opportunities as they arise.

(b) Organisational Accountability to Key Stakeholders Maintained or Improved

Evidence to support this element of the hypothesis is mostly found in the large amount of user-testing and user consultation that PSI Mozambique engages in when designing its products. In the same way that a commercial company would test a new product to determine how potential customers would respond to different aspects of the product, so too does PSI Mozambique invests significant resources in finding out how and why and to what degree a new health product or initiative would fit into the lives of its target beneficiaries. User-testing and product refinement is an ongoing process (see Figure 8) and allows PSI Mozambique to respond quickly to feedback from users, to ensure that condoms, clean water supplements, nutrition micronutrients, etc., are correctly placed in the market to ensure maximum adoption by the beneficiaries.

Figure 9 PSI Mozambique's Downward Accountability



A concern of donors in receiving reports from agencies on how their funding is being used, is being able to understand how much funding is being allocated towards different thematic areas. EKN, like any other funder, has specific thematic priorities that its funding programme adheres to. Initially, this was a challenge for PSI Mozambique to do, given its approach to core funding. However, the solution lay in the coding structure of the accounts, which when amended meant that it could report on expenditure per thematic area as requested by the donors as shown in chart 7 below.

⁷⁸ Key Informant Interview: Iulian Circo, Country Representative, PSI Mozambique: 18th August 2014; 19th August 2014.

⁷⁹ Expert Panel Findings (Copenhagen Consensus 2012);

http://www.copenhagenconsensus.com/sites/default/files/outcome_document_updated_1105.pdf accessed 10 September 2014.

⁸⁰ Key Informant Interview Iulian Circo, Country Representative, PSI Mozambique: 18th August 2014; 19th August 2014.

⁸¹ Annual Report to the Embassy of the Kingdom of the Netherlands January- December 2013 (PSI Mozambique: 2014).

Chart 7 PSI Core Funding Expenditure by Thematic Area 2013

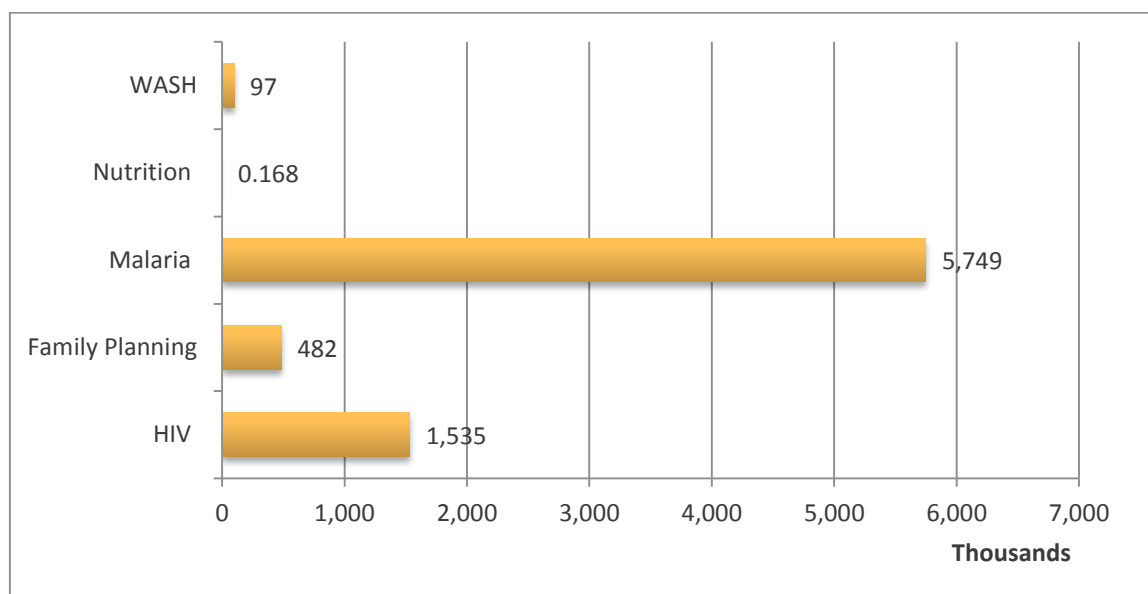


Chart 7 above shows how in 2013 PSI Mozambique spent most of its core funding on activities related to Malaria, while the smallest proportion of its core funding went on nutrition. The focus on malaria and then HIV underlines the degree of alignment between PSI Mozambique's strategic focus and EKN's strategic focus, as outlined in EKN's strategy.⁸²

EKN also requested that PSI Mozambique report annually on every aspect of its operation and EKN would additionally do analysis on the report to determine contribution towards central costs from all PSI's donors.⁸³ However, this did also mean that reporting on the impact of core funding was initially less clear. By 2013, PSI had responded to donor requests for more detail on impact in relation to core funding, rather than just reporting organisational impact.

PSI Mozambique could go further in its own analysis before submitting reports; and in interviews, it has confirmed that donors and potential stakeholders have asked for data in different formats that PSI Mozambique has not yet been able to present.⁸⁴

We have been able to take PSI Mozambique's analysis one step further, based on the information that it has been able to produce, and consider the number of DALYs attributable to core funding and therefore to EKN and DANIDA.⁸⁵ This serves to highlight the level of accountability to donors that PSI Mozambique's data affords it.

PSI Mozambique was able to identify the DALYs prevented per health area, the core funding per health area and its annual cost per DALY, which gave us the opportunity to determine the percentage allocation of DALYs to core funding.

⁸² *Multi Annual Plan 2012-2015* (Netherlands Embassy Maputo-Mozambique: 2011).

⁸³ Key Informant Interview Mary Jayne Cassidy, Finance and Operations Advisor, PSI Mozambique: 20th August 2014; 21st August 2014, Key Informant Interview Marco Gerritsen, First Secretary Health & HIV/AIDS, Embassy of the Kingdom of the Netherlands, Dutch Ministry of Foreign Affairs 14th July 2014.

⁸⁴ Key Informant Interview Mary Jayne Cassidy, Finance and Operations Advisor, PSI Mozambique: 20th August 2014; 21st August 2014.

⁸⁵ By 2013 DANIDA was challenging funds to PSI Mozambique using the core funding arrangement agreed with EKN. DFID has subsequently joined this arrangement (2014).

Table 9 Percentage of 2012 & 2013 DALYs generated from Core Funded Expenditure

	Actual DALYs	DALYs attributable to Core Funding	% DALYs attributable to Core Funding	Total Annual Expenditure	Core Funded Expenditure	Core Funded Expenditure as a % of Total Costs
2012	423,937	126,052	29.7%	\$16,314,317	\$2,313,962	14.2%
2013	1,454,351	522,115	35.9%	\$27,312,350	\$7,863,541	28.8%
Total⁸⁶	1,878,288	648,168	34.5%	\$43,626,667	\$10,177,503	23.3%

As Table 9 above shows, core funding made up 23.3% of the total organisational cost for 2012 and 2013, and was responsible for 34.5% of the total actual DALYs that PSI Mozambique generated over the same period, which is a significant contribution to annual impact and an increase in line with the increase in core funded expenditure from the year before.

We must caution of course that this calculation only worked because PSI Mozambique uses DALYs as a universal measure of impact for all its programming. For the many NGOs that do not use DALYs, this calculation may be harder to determine at a health-area level due to the different types measures being used per output or activity.

PSI Mozambique's five-year plan does note that currently M&E is not as strong as it could be, which was echoed in interviews.⁸⁷ Internally there are also some challenges with accountability. In the staff survey, 55% of respondents did not think that there was a satisfactory complaints or suggestions service for customers. While the country director and internal auditor have tried to encourage staff to come to them with any issue that they may have, some staff reportedly do not believe that the whistleblowing hotline that is available in PSI globally does not work.⁸⁸

(c) Increased Efficiency in Managing Multiple Projects

A further step in our hypothesis is that improvement in organisational effectiveness that result from core funding will also manifest themselves in PSI Mozambique being able to manage multiple projects more efficiently. The theory was that managing multiple projects funded from restricted funds can result in the duplication of roles across the organisations and that core funding should have allowed PSI Mozambique to ensure greater project management efficiency.

In 2011, PSI Mozambique identified a series of issues that were considered to be holding back the country programme:

- Large foot-print
- Very fragmented
- Outdated structure
- Too many staff
- Inward-looking, slow to change and old-fashioned
- Lack of awareness of our core business⁸⁹

The management response to these issues has included introducing matrix management (Section 4.1.3.3) and agile planning (Box 2), with the support of core funding. We have previously shown in discussion of these two principles how the organisational footprint has been reduced, duplication has been reduced and how speed of

⁸⁶ Data for 2014 not available

⁸⁷ *PSI Mozambique: 5 Year Strategy Refresh- Final Deliverable* (Accenture: 2014); Key Informant Interview, Mary Jayne Cassidy, Finance and Operations Advisor, PSI Mozambique: 20th August 2014; 21st August 2014.

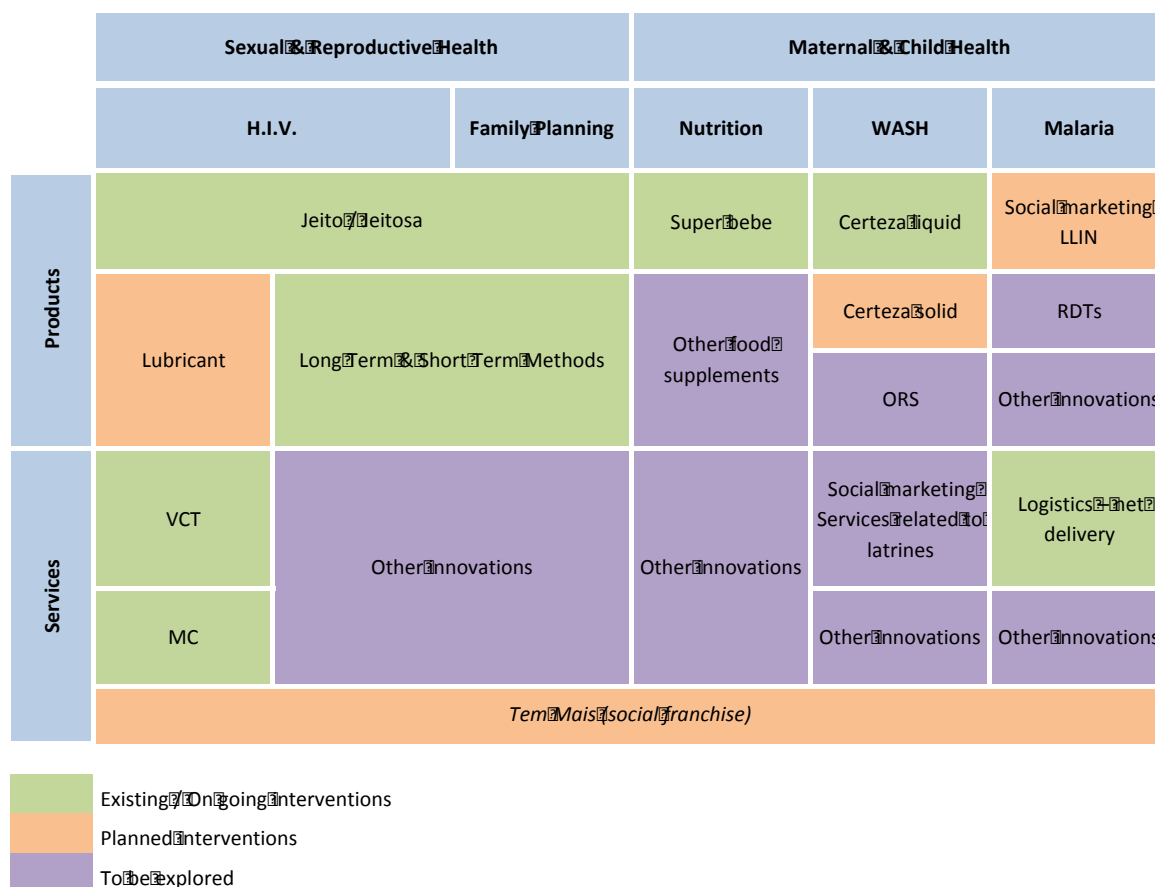
⁸⁸ Key Informant Interview Hortensia Simbine, Internal Auditor, PSI Mozambique: 21st August 2014.

⁸⁹ *What Has Been Going On in Mozambique?* (PSI Mozambique: 2011).

project and programme delivery has been increased (Sections 4.1.3.3. and 4.2.1.2 and Box 2). With projects often sitting between two functional teams (mostly between the marketing team and the operations team⁹⁰), the improved internal communication discussed in Section 4.3.2.2.1 has been an important contributor to PSI Mozambique’s success at managing multiple projects.

We also found that PSI Mozambique uses a matrix approach to annual business planning, which has helped to promote the idea that individuals and teams can work across different projects and activities as needed, and which provides them with an improved overview of all the projects and activities going on at any one time in the organisation (see Figure 11 below).

Figure 70 PSI Mozambique Strategic Planning Priorities for 2014⁹¹



Teams are supported by systems such as Salesforce, by tracking sales and stock levels and enabling PSI to move stock around to respond to user demand, and pre-place emergency stock to be able to respond to flooding emergencies in less than 72 hours; while Movercado also produces real time data to allow PSI Mozambique to understand its beneficiaries and their needs better and respond to them more effectively.⁹²

The staff survey also supported our findings and the evidence collected in interviews: 90% of respondents felt that the organisational changes made had been important for improving organisational productivity.⁹³

⁹⁰ Key Informant Interview Iulian Circo, Country Representative, PSI Mozambique: 18th August 2014; 19th August 2014.

⁹¹ 2014 Performance Framework (PSI Mozambique: 2014).

⁹² Key Informant Interview Benicio Andrade, Deputy Country Representative/ Director of Operations, PSI Mozambique: 18th August 2014.

⁹³ “Organisational Health Diagnosis” in PSI Moçambique Plano para 2014 (PSI Mozambique, facilitated by eurosis: 2013).

Thus, we are able to say that core funding has influenced organisational effectiveness at PSI Mozambique and this has been demonstrated through improved internal communication, organisational flexibility, accountability to stakeholders and improved multiple project management, alongside the evidence reported on in Section 4.2.

(3) Summary of Impact of Core Funding

Efficiency	To what extent has core funding improved the efficiency of programmes?	Cost benefit analysis of core and project funded activities	Strong Hypothesis Link
Effectiveness	To what extent has core funding improved the effectiveness of programmes?	Broader geographic reach?	Hypothesis is challenged
		Penetration into communities?	Strong Hypothesis Link
		Over what period of time has broader reach and deeper penetration happened?	Insufficient Evidence
	To what extent has core funding improved organisational effectiveness?	Increased internal communication and organisational flexibility	Strong Hypothesis Link
		Organisational accountability to key stakeholders maintained or improved	Strong Hypothesis Link
		Increased efficiency in managing multiple projects	Strong Hypothesis Link

4.4. Summary of Findings

The preceding report has presented evidence that supports key steps in the hypothesis of how core funding can affect an organisation and how an organisation can make the most of its core funding arrangement. PSI Mozambique has provided evidence to support how core funding has contributed to organisational and programmatic improvements and led to increased efficiency and effectiveness. Matrix management and agile planning have both been important management approaches used to drive forward improvements and innovation.

Table 10 Summary Rating of Hypothesis Links as Strong, Weak or Challenged

Preconditions of Core Funding	To what extent were the following preconditions present at PSI Mozambique?	Long-term strategic view	Strong Hypothesis Link
		Ability to measure core activities	Weak Hypothesis Link
		Desire for greater control	Strong Hypothesis Link
		Good donor relationships	Strong Hypothesis Link
Preconditions of Core Funding	To what extent were the following preconditions present at EKN in Mozambique?	Venture capital/venture philanthropy attitude	Strong Hypothesis Link
	Foundations of Core Funding	To what extent did the preconditions at PSI and EKN contribute to the foundations of core funding?	Trust and transparency
Matrix management		Hypothesis is challenged	
Alignment of donor and organisational strategic mission		Strong Hypothesis Link	
Strategic Agility	How is the organisation able to foresee change, and able to prepare its response in advance?	Risk management has foresight and is proactive	Weak Hypothesis Link
		Strategic planning has sufficient capacity to respond to risk predictions	Strong Hypothesis Link
Operational Flexibility	To what degree can operations respond to need?	Supply chain and data collection is timely and accurate	Strong Hypothesis Link
		Organisational infrastructure is robust and resilient	Strong Hypothesis Link

Innovation	To what extent is there an openness to learn?	Learning from failure and success	Strong Hypothesis Link
		Identification of implications for the future from failure and success	
		Action taken on the basis of learning	
	To what extent has PSI used the best practices of innovation (Perrin 2001)?	Legitimacy (appropriate and priority as assessed by user groups)	Strong Hypothesis Link
		Potential relevance and application	Strong Hypothesis Link
		Quality of product/commodity/marketing	Strong Hypothesis Link
		Contact/involvement with potential user groups/customers	Strong Hypothesis Link
		Identification of learnings, potential applications and implications	Strong Hypothesis Link
		Dissemination of findings and implications	Weak Hypothesis Link
		Partnership and collaboration	Insufficient Evidence
Extent to which the product/commodity/idea is really new	Strong Hypothesis Link		
Openness to serendipity and unexpected findings	Strong Hypothesis Link		
Ownership of Strategy	To what extent is programming driven by organisational strategy rather than donor interests?	Number and type of donor requests for engagement turned down	Insufficient Evidence
		Number of tender opportunities forgone and reason	
Efficiency	To what extent has core funding improved the efficiency of programmes?	Financial review of core and project funded activities	Strong Hypothesis Link
Effectiveness	To what extent has core funding improved the effectiveness of programmes?	Broader geographic reach?	Hypothesis is challenged
		Penetration into communities?	Strong Hypothesis Link
		Over what period of time has broader reach and deeper penetration happened?	Insufficient Evidence
	To what extent has core funding improved organisational effectiveness?	Increased internal communication and organisational flexibility	Strong Hypothesis Link
		Organisational accountability to key stakeholders maintained or improved	Strong Hypothesis Link
		Increased efficiency in managing multiple projects	Strong Hypothesis Link

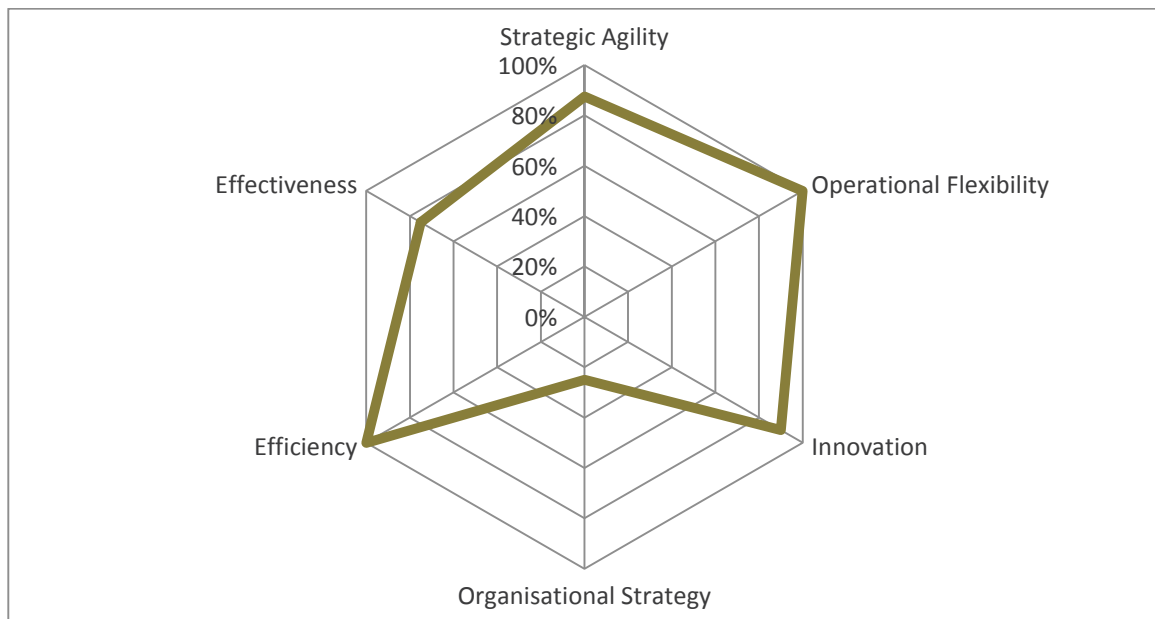
We have also considered the results of our analysis of the organisational changes and the impact of those changes further to illustrate how core funding has supported change and development in PSI Mozambique. To do this we allocated a numerical value to the four result options for our investigation (see table 11 below).

Table 11 Scores Assigned to the Summary Allocation Options

Strong Hypothesis Link	4
Weak Hypothesis Link	3
Hypothesis is challenged	2
Insufficient Evidence	1

We then applied these numerical values to the results and calculated performance or organisational development for each research question, evaluation dimension and evaluation question. This has allowed us to translate the evidence supplied for the hypothesis into an analysis of organisational development as a result of the influence of core funding (see chart 8 below).

Chart 8 Core Funded Organisational Development at PSI Mozambique



PSI Mozambique has demonstrated the most development in the areas of operational flexibility and efficiency, with innovation and strategic agility as close runners-up. We have to point out that the low development result for organisational strategy is not because of poor performance, rather as stated in table 6 above, insufficient evidence to support this indicator (and possibly the wrong indicator questions, see section 4.2.4).

5. Conclusions

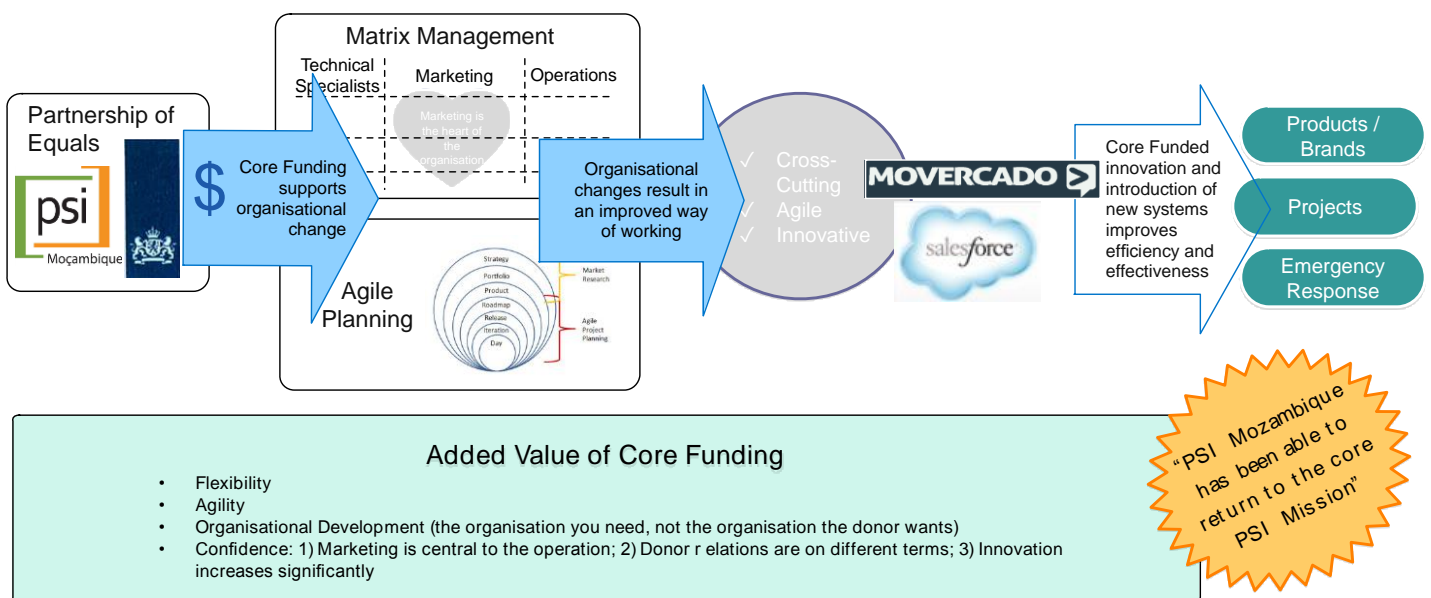
Overall we have been able to demonstrate that most of the hypothesis stands up to scrutiny and there is sufficient evidence to suggest that PSI Mozambique has been able to use core funding from EKN to improve the efficiency of the organisation and the effectiveness of its programming.

The partnership between PSI Mozambique and EKN in Maputo was not a traditional relationship, and one that relied much on personalities. Both sides, however, recognised that this was a true partnership and treated the other partner as an equal. This was a key factor both in the original decision to grant PSI core funding, and in how it was used internally.

PSI Mozambique used the core funding to make significant changes to its operation. This has manifest its self in the adoption of a more agile and cross-cutting approach to programme management; a significant increase in innovation, most obviously, in the development and implementation of Movercado. Other system changes, such as the introduction of Salesforce, also supported the improved efficiency and effectiveness that PSI was able to achieve.

The most important change, however, has been the introduction of a complete matrix management approach. This has significantly changed the way that PSI Mozambique operates. Placing marketing at the heart of the organisation changed the way projects and products were identified, planned and implemented, with technical specialists (normally taking the role of project managers in other NGOs) being product or project initiators, but crucially not going on to manage projects or take decisions relating to marketing or communication of products and brands. This is a significant difference from other NGOs and challenges the prevailing convention in international development that project leaders, chiefs of party and programme managers have to be technical specialists in the field or subject matter of the project or product.

Figure 8 Finding the Added Value of Core Funding



We determined that the added value of the core funding from EKN could be expressed as:

- **Flexibility:** PSI has been able to form and reform teams of individuals to work on specific projects or parts of projects as required more easily than if they only had project funding;
- **Agility:** the organisation can respond more quickly to opportunities identified in the marketplace;

- Organisational development: PSI Mozambique was able to implement the organisational structure it needed in deliver to its strategy, rather than the organisational structure built around delivering restricted project funded activity;
- Organisational confidence has increased: moving marketing to the centre of the organisation and with a key strategic role has changed the strategic planning and priorities of the organisation, donor relations are managed from a position of equality and innovation has increased significantly.

We did not set out to look for increased organisational confidence, but we believe that phrase is the best way to describe the result of the changes that have been made at PSI Mozambique.

Throughout our analysis, we have linked the core funding grant from EKN to the matrix management approach implemented at PSI. We have acknowledged that it is possible to introduce a matrix management approach without core funding, although this would be curtailed in some form by donor requirements under project or restricted funding. We have also acknowledged that it is possible to receive core funding without having a matrix management approach in place and we would make this amendment to our hypothesis to place matrix management as a result of core funding rather than a pre-condition of core funding.

In summary, it is possible for us to say that PSI Mozambique was able to attract core funding because it managed its relationship with its donor as might an investor in a company seeking capital investment, while maintaining ownership over its strategic priorities. PSI Mozambique was able to add value to that core funding by implementing and making the most of a matrix management approach and agile planning approach that echoed its focus on social marketing for health outcomes. As a result, the outputs included greater innovation, greater range of products, greater efficiency; while the short-term outcomes included greater effectiveness, deeper penetration into communities, and the medium-term outcomes included maintaining impact over a fixed period for less cost.

5.1. A Final Word on the Methodology

This study is important because it attempts to set out a way to evaluate core funding in a way that allows NGOs to link core funding and programme results. We believe we have been able to do that using the methodology set out in Section 3. The methodology used in this evaluation was designed with PSI Mozambique in mind. Therefore, it may not have extensive application across other organisations without substantial amendments (although this is also untested, so we do not know the extent to which amendments would be needed). PSI Mozambique and EKN both have unique conditions and personnel, which affected the use of core funding. Therefore, learning for other donors and NGOs may be limited.

Our ability to consider value generated over time by core funding and project funding was hampered by the lack of a robust method to calculate this value generation using DALYs and their financial proxies.⁹⁴ While there are methods that do consider benefit or potential future value generated over time (cost per DALY, Social Return on Investment and Value of Statistical Life for example), none were able to provide sufficient confidence in their results. We would suggest that further research is undertaken into methods of determining value that takes into consideration long-term institutional investments, generates a true ROI over a longer period and using a broader measure (than costs per DALY for example). So that both NGOs and donors can apply a calculation that considers whether core funding or project funding is likely to provide the best possible (or most appropriate) returns for any potential investment or grant.

⁹⁴ Some academics suggest that DALYs should never be used for calculating future value, which would present organisations such as PSI with a dilemma over how and when to use DALYs when making investment decisions.

6. Appendices

6.1. Documents Reviewed

PSI reports and internal documents

1. "Organisational Health Diagnosis" in *PSI Moçambique Plano para 2014* (PSI Mozambique, facilitated by eurosis: 2013)
2. *2013 Performance Framework (Actualized)* (PSI Mozambique: 2013)
3. *2014 Performance Framework* (PSI Mozambique: 2014)
4. *2014 PSI Mozambique Performance (June 2014)* (PSI Mozambique: 2014)
5. *AC 290 January 2008 – December 2013* (PSI Mozambique: 2014)
6. *Administration and Finance Manual* (PSI Mozambique: 2008)
7. *Condom Adventure in Mozambique* (PSI Mozambique: 2011)
8. *Condom Sales 2011 – TD* (PSI Mozambique: 2013)
9. *Core vs Earmarked Funding* (PSI Mozambique: 2013)
10. *Distribution and Health Impact Data 2007-2014* (PSI Mozambique: 2014)
11. *Family Planning with Movercado: PSI Concept* (PSI Mozambique: 2013)
12. *Local Accounting Policy Memo: Common Costs Policy* (PSI Mozambique: 2013)
13. *Mozambique (2013): Condom Use Among Males 15-49 Behavioural Tracking Survey: TRaC Summary and Supplemental Report* (PSI Mozambique: 2013)
14. *PSI Food Fortification and Water Purification: General Insights* (commissioned by PSI Mozambique: 2012)
15. *PSI Moçambique Plano para 2014* (PSI Mozambique, facilitated by eurosis: 2013)
16. *PSI Mozambique- 2011 Failure Report* (PSI Mozambique: 2011)
17. *PSI Mozambique- Turning around Jeito: Brand repositioning- insights, strategy, results* (PSI Mozambique: 2011)
18. *PSI Mozambique: 5 Year Strategy Refresh – Final Deliverable* (Accenture: 2014)
19. *PSI Mozambique: Global Internal Audit Assessment Report For the Period February 2011 to January 2012* (PSI Global Internal Audit: 2012)
20. *PSI Mozambique: Global Internal Audit Assessment Report For the Period November 2009 to January 2011* (PSI Global Internal Audit: 2011)
21. *PSI Mozambique: Independent Auditor's Report January 01, 2012 to December 31, 2012* (BDO: 2013)
22. *PSI Mozambique: Independent Auditor's Report 2011*(BDO: 2011)
23. *PSI-Moçambique: Plano Estratégico 2008-2012* (PSI Mozambique 2007)
24. *Summary Risk Assessment and Management Plans 2014* (PSI Mozambique: 2014)
25. *The Case for Social-Marketed Long Lasting Insecticide-Treated Nets (LLINs)* (PSI Mozambique: no date provided)
26. *What Has Been Going On in Mozambique?* (PSI Mozambique:2011)
27. *Why a new structure?* (PSI Mozambique: 2011)

Embassy of the Kingdom of the Netherlands: Social Marketing Programme

1. *Annual Report to the Embassy of the Kingdom of the Netherlands: Social Marketing of Public Health Commodities- Final Project Assessment* (PSI Mozambique: 2010)
2. *Annual Report to the Embassy of the Kingdom of the Netherlands January- December 2012 (Resubmitted)* (PSI Mozambique: 2013)
3. *Annual Report to the Embassy of the Kingdom of the Netherlands January- December 2012 Financial Report (Resubmitted)* (PSI Mozambique: 2013)

4. *Annual Report to the Embassy of the Kingdom of the Netherlands January- December 2013* (PSI Mozambique: 2014)
5. *Annual Report to the Embassy of the Kingdom of the Netherlands January- December 2013 Financial Report* (PSI Mozambique: 2014)
6. *Multi Annual Plan 2012-2015* (Netherlands Embassy Maputo-Mozambique: 2011)
7. *Social Marketing of Public Health Commodities in Mozambique: 2014 Work Plan* (PSI Mozambique: 2013)
8. *Social Marketing Program for Mozambique: 2013 Planned Activities* (PSI Mozambique: 2012)

USAID: Integrated Social Marketing Programme

1. "Federal Financial Reports" in *Por Ti Social Marketing Programme for Mozambique: Quarterly Reports to USAID 2012-2014* (PSI Mozambique: 2012-2014)
2. First Year Strategic Approach: Integrated Health Social Marketing Program for Mozambique, funded by USAID (PSI Mozambique: 2012)
3. *Por Ti Social Marketing Programme for Mozambique: Quarterly Reports to USAID 2012-2014* (PSI Mozambique: 2012-2014)

US Department of Defence: Developing the Capacity of the Mozambican Ministry of Defence to prevent HIV

1. Grant Agreement N00244-10-1-0010 December 2009 (US Department of the Navy: 2009)
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3. Mozambique PSI 1RC10112 N002441010010 Q3 2011 (Final) (PSI Mozambique 2011)
4. Mozambique PSI N00244-10-1-0010 Q1 2011 Financial Progress Report (PSI Mozambique 2011)
5. Mozambique PSI N00244-10-1-0010 Q4 2010 Financial Progress Report (PSI Mozambique: 2011)
6. Mozambique_N00244-10-1-0010 - PH2 Q2 2011 FINAL (PSI Mozambique: 2011)
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14. N00244-10-1-0010 Q3 2010 Financial Progress Report (PSI Mozambique: 2010)
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17. PSI DOD Report Jan to June 2011 FINAL (PSI Mozambique: 2011)
18. PSI DOD Report July to December 2011 30.01 Final (PSI Mozambique: 2011)
19. PSI Progress Report July - December 2011 (PSI Mozambique: 2012)
20. PSI_2010_DOD_Progress_Report Jan-Jun 2010 (PSI Mozambique: 2010)
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22. PSI-Narrative Report - Jan_June_2013-final (1) (2) (1) (PSI Mozambique: 2013)
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2. Gayfer, J.; Goyder, H.; Keen, M.; McAuliffe, E.; Watson, S. *Irish Aid MAPS II Evaluation: Synthesis Report* (IOD PARC: 2011)
3. Hall, J. and Howell, J. *Working Paper: Good Practice donor engagement with civil society* (Australian Government AusAID Office of Development Effectiveness: 2010)

4. *DFID's Support for Civil Society Organisations through Programme Partnership Arrangements* (Independent Commission for Aid Impact: 2013)
5. *Evaluation of Danish Support to Civil Society* (DANIDA/ INTRAC, tana, indevelop: 2013)
6. *Programme Partnership Arrangement Mid-term Evaluation Report* (Coffey: 2013)
7. *Recognising Excellence: the case for giving well-run organisations unrestricted funding* (STARS Foundation/ New Philanthropy Capital: 2010)
8. *Support Models for CSOs at Country Level: Synthesis Report* (Scanteam/Norad: 2008)
9. *Support to Civil Society: Emerging Evaluation Lessons* (INTRAC: 2013)
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32. Wheeler, J. and Agha, S. *Use of Certeza Point-of-Use Water Treatment Product in Mozambique*, Journal of Water, Sanitation and Hygiene for Development, (2013) 3(3) 341-348
33. *Global AIDS Response Progress Report (GARPR): Country Report: Mozambique* (UNAIDS: 2014)

6.2. Key Informant Interviews

1. Benicio Andrade, Deputy Country Representative/ Director of Operations, PSI Mozambique: 18th August 2014
2. Mary Jayne Cassidy, Finance and Operations Advisor, PSI Mozambique: 20th August 2014; 21st August 2014
3. Alex Christopoulos, Knowledge and Insights Manager, STARS Foundation: 8th August 2014
4. Iulian Circo, Country Representative, PSI Mozambique: 18th August 2014; 19th August 2014
5. Daun Fest, East Africa Senior Deputy Regional Director, PSI Regional East Africa Office: 20th August 2014
6. Marco Gerritsen, First Secretary Health and HIV/AIDS, Embassy of the Kingdom of the Netherlands, Dutch Ministry of Foreign Affairs 14th July 2014
7. Sylvia Monjane, Director of Administration and Finance, PSI Mozambique, 19th August 2014
8. Benoit Renard, Director of Marketing, PSI Mozambique, 16th July 2014
9. Hortensia Simbine, Internal Auditor, PSI Mozambique: 21st August 2014
10. Saul Walker, Senior Regional Health Advisor, UK Department for International Development, 4th August 2014

6.3. Evaluation Framework

See separate document

6.4. Literature Review

There is a notable lack of rigorous assessments of the comparative strengths and limitations of core as opposed to project funding for NGOs. This is perhaps surprising, given donors' interests in demonstrating that their grants to NGOs provide value for money, and the importance that NGOs attach to securing core funding. Our search for literature and evaluations on the subject produced a small number of publications, all of which have limitations in terms of the broader learning about the impact of core funding that can be extracted from them, due to their limited scope or lack of a rigorous research methodology.

The literature can broadly be divided into two categories:

- 'Thought Pieces' on core versus project funding; and
- Evaluations of funding streams to civil society, which were solely or partially composed of core funding.

The 'Thought Pieces' are identified as publications that consider the debate around core versus project funding, and may reference evaluations or interviews with donor and NGO representatives, but do not use a rigorous methodology to reach their conclusions. We identified three such publications, which were commissioned by donors who provide core funding to NGOs: AusAID⁹⁵, the Institute for Philanthropy⁹⁶ and the STARS Foundation.⁹⁷ Although they acknowledged some challenges with core funding, they were noticeably positioned in favour of supporting NGOs through core funding, and can therefore be seen more as promoting this approach, rather than attempting to critically evaluate its strengths and weaknesses.

⁹⁵ *Working Beyond Government: Evaluation of AusAID's engagement with civil society in developing countries* (ODE Evaluations and Reviews 2012).

⁹⁶ *Supportive to the Core: why unrestricted funding matters* (Institute for Philanthropy: 2009).

⁹⁷ *Recognising Excellence: the case for giving well-run organisations unrestricted funding* (STARS Foundation/ New Philanthropy Capital: 2010).

Conversely, the other type of publication, evaluations, were concerned with the outcomes of funding provided by donors to NGOs, and made methodologically sound attempts to evaluate this. Such evaluations were identified from DANIDA⁹⁸; the six Nordic + countries⁹⁹; Irish Aid (IOD PARC: 2011); and several separate pieces on DFID.¹⁰⁰ In addition, a further publication attempts to draw together findings from the OECD DAC Peer reviews regarding supporting civil society¹⁰¹. Of these, only the evaluations of Irish Aid's MAPS II funding, and DFID's PPA funding exclusively looked at the effects of core funding.

The evaluations of other donors considered their different mechanisms to support to civil society, which included core funding. However, most of these evaluations did not have the aim of making a rigorous comparison of core funding to other approaches: occasionally incidental differences in impact or perception were noted. The exceptions are the review of the *perceptions* of the benefits of DFID's PPA core funding approach by recipient NGOs, from ITAD; and the mid-term evaluation of PPA funding by Coffey which attempts to identify the added value of core versus project funding, but concludes that data is insufficient to draw firm conclusions.

The reported findings regarding the strengths and challenges of core funding therefore need to be treated with circumspection. They give some suggestion of *perceived* benefits or limitations, but do not provide established results. However, they provide a considerable list of outcomes to test, and as such are summarised in the table below. It is particularly interesting to identify apparent contradictions: for example, core funding is seen to both encourage and limit innovation, and to provide sustainability, but encourage donor dependency. No attempt is made within the table to identify the weight with which the different outcomes should be considered, or even the frequency with which they are reported, given that the methodologies used to identify them are varied, and in some cases weak. It should be noted, however, that core funding is generally presented as more beneficial than project funding, even in evaluations where such comparisons receive very little space. This can therefore be taken to support the finding of Brady and Lloyd that core funding is at least *perceived* as beneficial, even if this is not yet supported by firm evidence.¹⁰²

Table 12 Suggested Benefits and Weaknesses of Core Funding

Suggested benefits of core funding	Suggested weaknesses of core funding
<ul style="list-style-type: none"> • Investment in organisational development/systems • Encourages innovation • Supports internal and external learning • Provides organisational flexibility • Allows recipient to leverage funds from other donors • Creates organisational sustainability and resilience to shocks • Strengthens recipients' partnerships with smaller NGOs • Improves donor/ recipient relationships • Provides the recipient with strategic ownership • Leads to overall improved efficiency and effectiveness 	<ul style="list-style-type: none"> • Limited scope for innovation and experimentation • Monitoring systems and reporting requirements can be demanding (dependent on donor) • Favours large scale 'professional' INGOs, at the expense of smaller, local NGOs • Risky for donor • Leads to donor dependency • Difficult to attribute impact • Challenging to trace core funding through the organisation • Less effective at promoting donor priorities than project funding

⁹⁸ *Evaluation of Danish Support to Civil Society* (DANIDA/ INTRAC, tana, indevelop: 2013).

⁹⁹ *Support Models for CSOs at Country Level: Synthesis Report* (Scanteam/Norad: 2008).

¹⁰⁰ Brady, R. and Lloyd, R *Assessing the added value of strategic funding to civil society* (ITAD: 2012); *DFID's Support for Civil Society Organisations through Programme Partnership Arrangements* (Independent Commission for Aid Impact: 2013); *Programme Partnership Arrangement Mid-term Evaluation Report* (Coffey: 2013).

¹⁰¹ *Support to Civil Society: Emerging Evaluation Lessons* (INTRAC: 2013).

¹⁰² Brady and Lloyd (2012)

6.5. Peer Reviewer Comments

Mr. Floris Blakenberg, Evaluator, Ministry of Foreign Affairs, Netherlands INDEED

With interest I went through the latest version of the assessment report of PSI Core Funding Arrangement. I believe that the consultants of ITAD have done a good and thorough job. The formulation of a Core Funding Hypothesis or Theory of Change was very clear, and well visualized in Figure 1. The analysis that followed was based on that figure. Table 3 presents a complete evaluation framework that guided the research. In chapter 4 the questions are systematically answered; the findings are presented in understandable graphics, with eye-catching conclusions for each of the researched aspects concerning the link with the hypothesis. All conclusions are also in detail substantiated (methods applied: contribution analysis and process tracing). In this way, ITAD provided you, the EKN and PSI with valuable information on both the methodology applied and the added value of the core funding arrangement. ITAD was honest in reporting on weak links, challenged links and insufficient evidence for links. However, the overall outcome is that core funding contributed to greater efficiency and effectiveness, innovation, greater range of products, greater penetration into communities, and to maintaining impact over time for less costs. Important was the role of the matrix management approach as a result of core funding (rather than a pre-condition). Another important finding was that the nature of the relationship between EKN and PSI (i.e. relying on personalities) was vital for the partnership.

The assessment does not make a comparison between core funding and project/restricted funding to conclude about which one of the two would have most added value. ITAD has explained why this would be complicated and the arguments are convincing. It was interesting to note that core funding by EKN had a positive effect on the way restricted funding from USAID for the ISM programme was used (p. 44). The report several times points to the fact that project/restrictive funding is less flexible than core funding. If this is the case (and I believe this is mostly true), maybe the careful conclusion may be drawn that core funding is to be preferred, exactly because the flexibility that characterises this mechanism is so important for increased effectiveness and efficiency. It would anyway be interesting to try to conduct a comparative study as suggested in the report (p. 59).

There was one section that has struck me in particular (p. 10): Few donors provide core funding and there is very little evidence that the international development sector supports the view of PSI and EKN that core funding is a better approach than restricted funding. Hopefully this assessment will contribute to increasing confidence among donors in core funding as a mechanism to increase the flexibility of NGOs (and other recipients).

Ms. Phil Compernelle, Evaluation Specialist, INDEED

- **Respect** for the evaluators from ITAD who made a great effort to conduct a participatory evaluation, involving key stakeholders, taking a flexible approach and adapting methods to fit the evaluation subject. It's a difficult topic to evaluate, especially given challenges in data availability and the underlying intervention logic.
- I have some comments on the study as an evaluation, with regard to the methodology and its results. However, that does not imply that it is not a useful **study** about core funding (and with some extra explorations perhaps potentially about the incentives donors provide through their funding mechanisms and donor relations).
- Personally, I find the evaluation is most convincing as a study of possible **preconditions** required for the provision and potential effectiveness of core funding (which can also serve as an extensive exploration of the intervention logic for core funding of PSI in Mozambique - according to PSI/EKN, rather than as an evaluation of the effectiveness of core funding itself).
- The evaluation does not sufficiently solve the problem that the **causal link** between core funding and improved results is diluted by the preconditions and improved activities (which are ascribed to core funding but not always convincingly). For example, it remains unresolved whether the matrix management is a precondition or result (due to differences between sequence and trace evidence in process tracking). This cannot be solved using only internal sources, but requires some form of comparison (better defining null-hypothesis) and triangulation. It also requires better formulation of the null hypothesis (e.g. what would have happened without the core funding, but with the new PSI manager and EKN rep?).
- While it is a valuable exercise to work closely with the evaluation subjects (e.g. to determine the intervention logic and adapt indicators to data availability), this also causes the evaluation to be **too**

- internal.** Apart from external documentation on core funding in general, all data sources are from providers or recipients of core funding, which unavoidably creates a bias (and reduces the credibility of the evaluation).
- As an evaluation, the work would have benefited from at least having conducted interviews with **external informants** such as other NGOs that receive core funding, and with other donors not providing / NGOs not receiving core funding in a similar context (health in Mozambique). There might be no exact counterfactual, but methods such as contribution analysis and process tracking require more triangulation in order to validate the hypotheses.