

DEVELOPMENT CO-OPERATION DIRECTORATE  
DEVELOPMENT ASSISTANCE COMMITTEE

## SUPPORTING COHERENT AND SUSTAINABLE TRANSITION FROM CONFLICT TO PEACE

## Draft Guidance

*This document is submitted to the DAC for APPROVAL under the written procedure in advance of Busan. If no objections are received by Friday 18 November, the document will be considered approved and issued as FINAL. Comments should be sent to Asbjorn WEE.*

*The DAC and the UN Secretary-General have mandated INCAF to provide guidance on how to make international financial support to countries emerging from conflict more rapid, flexible and risk-tolerant. This work has been taken forward by the INCAF Task Team on Financing and Aid Architecture, led by Sweden and including representatives from bilateral and multilateral agencies. This Guidance on Transition Financing results from the work of the Task Team. It has benefitted from several rounds of feedback and comments from experts and high-level consultations, and from regular steer by INCAF Directors.*

*The Guidance was approved by INCAF Directors on 18 October 2011. The main findings and recommendations have also been used to inform the work of the International Dialogue on Peacebuilding and Statebuilding. Please note that only the executive summary is available in French. The full document will be translated once a final edit has been undertaken. Once approved by the DAC, the Guidance will undergo a three-year application period and will be revisited by the Committee in 2015.*

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## EXECUTIVE SUMMARY

1.5 billion people live in countries affected by repeated cycles of violence and insecurity. These are countries that represent a central challenge for development and a priority for many states' national security interests. Sustained and co-ordinated support is required to tackle the risks and vulnerabilities inherent in such situations. The continued relevance and influence of OECD governments will in part depend on their ability to deliver results in the most challenging of environments.

Development partners provide substantial and increasing amounts of support to fragile and conflict-affected states, but this support is nonetheless failing to generate transformative results. Critical challenges that prevent more effective use of aid in transition contexts include: (i) a **fragmented aid architecture** where response is spread across multiple institutional mandates and budget lines; (ii) policies and procedures for international engagement and risk management that are **not tailored to the context**; (iii) the **inability of international actors to support strict prioritisation** due to the absence of national leadership in planning processes and internationally agreed objectives of transition/development strategies; and (iv) the **duplication and lack of coherence in aid instruments**.

International engagement in transitional situations lacks coherence in governing principles and international responses. The different sets of internationally agreed guiding principles – the Paris Declaration on Aid Effectiveness, the Principles for Good International Engagement in Fragile States, and the Principles for Good Humanitarian Donorship – do not fully reflect the reality on the ground during transition, where a shared space of different policy communities is required to allow for parallel engagement. A particular challenge, which is recognised by the Fragile States Principles, is the fact that the Paris Declaration assumes a level of capacity and institutional complexity that may simply be unrealistic in most transition contexts. As a result, development funding is slow to materialise before national capacities and plans have been developed, while humanitarian assistance is stretched to the brink and relied upon to fund a broader set of transition priorities that goes far beyond its mandate and expertise.

International partners must recognise the unacceptable human and financial costs of renewed crisis, but also that support needs to balance the neutrality and impartiality of humanitarian engagement with broader international efforts to address political challenges and risks associated with this and other forms of international engagement. This includes the challenges of prioritising and delivering aid in contexts where state legitimacy is put into question, where governments are unable or unwilling to protect and defend human rights, and where large-scale violations and insecurity prevent effective monitoring of international support.

With the full range of engaged actors across humanitarian, diplomatic, security and development operations in mind, **this Guidance explains why a different approach is required during transition**. It shows how to provide rapid, flexible and predictable development funding while balancing the risks and opportunities that come with such engagement. Development partners need to accept that a pragmatic approach is fundamental to generate results in transition contexts, and that greater simplicity is required in planning and accountability frameworks, procedures and instruments. Therefore a gradual application of the Paris Declaration principles and more realistic assumptions about what can be achieved by different actors within different timeframes are needed. Engagement must be country-specific and driven by actors on the ground, and international partners need to tailor their policies and procedures to transitional

challenges and allow for an early and flexible release of development funds. At the core of an amended approach is the need for more serious collaboration, joint analysis and willingness to be held collectively accountable to agreed objectives.

Better results delivery during transition depends on strict prioritisation and on linking priorities with a specific financing strategy that combines different aid instruments in support of these priorities. This requires a collective approach across policy communities, as well as better risk management. More specifically, transition demands: (i) serious efforts to complement humanitarian needs-based approaches with strict prioritisation of peacebuilding and statebuilding activities based upon realistic assumptions about likely resource flows, budget constraints and implementation capacity; and (ii) understanding how different aid instruments can support rapid and sustainable delivery in parallel, while maintaining a focus on the transition to a greater use of country systems and budgets.

Coherent and collective approaches can be promoted through the use of **transition compacts**. Compacts are light and flexible agreements between national and international partners. They should be based upon a collective agreement on key priorities and an explicit strategy for how, and from which instruments, implementation will be financed. Compacts will reduce the risk of strategic failure, improve the focus on results, and provide realistic steps towards stronger national involvement and leadership. They allow for joint prioritisation between national and international actors and frequent reviews of progress, thus addressing donor concerns about the partner country's capacity and legitimacy and associated risks.

An underpinning recognition in this Guidance is the importance of tailoring approaches to different contexts. Many fragile and conflict-affected states lack the capacity to implement aid through country systems. Donor concerns about corruption and lack of government commitment to reforms are real obstacles to bringing aid on-budget or using country procurement systems. Nonetheless, immediate and sustained investments to strengthen country systems in a way that addresses these concerns can lead to more efficient and coordinated development programs, greater government ownership and improved budget and expenditure systems, assuming that the government is committed to and capable of undertaking the necessary reforms.

As for bilateral and multilateral agencies, they need to rethink their procedures and rules for international engagement in transitional situations. Current approaches are largely guided by accountability and reporting requirements that have been created for more stable environments. There is an urgent need to embrace the risks of engaging in fragile and conflict-affected states, recognising that the risks of non-engagement in these contexts are often more significant. Development partners struggle to move from approaches that focus on risk avoidance towards a strategy that accepts certain risks while balancing them against the opportunities presented by transition contexts. Specific reforms are required to simplify the tools and procedures available, including for planning, procurement, and financial management. This will be uncomfortable for international partners, but will ultimately help to deliver better results.

This Guidance sets out specific recommendations to improve transition support in four key areas. These recommendations might require reforms to existing policies and procedures; they should nonetheless be understood within the existing legal requirements that guide bilateral partners' funding decisions and allocations:

**First, strengthen overall engagement in transition (Chapter 1).** This should be done by clarifying the relationship between different guiding principles and improving approaches to risk taking and risk management. A joint assessment of contextual risks should be the basis for engagement, and development partners should look at collective management of specific risks. Procedures of international engagement should allow for targeted risk-taking, including by using simplified emergency procedures for procurement

and financial management. Bilateral partners should also support the reform of multilateral organisations' abilities to more effectively pool risks.

**Second, complement assessment of needs with more specific agreement on priorities during transition (Chapter 2).** Rapid and transformative results call for the use of simplified approaches and more effective prioritisation. Government leadership should be supported at the strategic level, but shorter planning cycles should also be used to allow for a frequent reassessment of priorities to ensure continued relevance. Different sector plans should be integrated into one plan, with clear links to how different institutions can support the delivery of collectively agreed priorities.

**Third, mix and match instruments that are adapted to context in support of agreed priorities (Chapter 3).** A mix of aid instruments can be identified to improve financing for agreed priorities based on criteria of harmonisation, institutional transformation, speed and flexibility, and scope for risk management. The mix should account for both rapid and sustained delivery, and should in particular focus on country-specific instruments and pooled funds that allow for a gradual increase in the use of country systems.

**Fourth, improve collective engagement through use of transition compacts (Chapter 4).** Compacts should be used to link agreement on priorities with a strategy for how these priorities should be funded. Appropriate management and monitoring structures of compacts should be agreed, recognising the need for them to remain light and flexible. Compacts could initially be agreed among a limited set of actors and then scaled up by other development partners, although participation needs to be carefully considered to strengthen legitimacy from the outset. Devolved responsibility and decision-making, strong multilateral capacity to co-ordinate and lead the international response, commitment to aid transparency, support to local aid tracking and co-ordination structures, and a focus on capacity development are required.

## INTRODUCTION

The OECD Development Assistance Committee (DAC) and the UN Secretary-General mandated the International Network on Conflict and Fragility (INCAF) to provide guidance on how to make international financial support to countries emerging from conflict more rapid, flexible and risk-tolerant. This includes assessing how external support can be managed in ways that tolerate the substantially higher level and diversity of risk that characterise these activities and the situations in which they are being implemented. To accomplish this, INCAF has explored the opportunities and challenges that exist in current international responses during transition, focusing on how to enable a more effective use of aid. This work aims to identify present opportunities and necessary reforms to improve the use of aid in these contexts.

Urgent and significant changes are needed to systems, behaviours and approaches in order to respond more effectively to the challenges posed by conflict and fragility. Transitional responses require more coherence between different domestic and international resources, including development, humanitarian and security-related expenditures. This represents a changing aid paradigm based on the recognition of peacebuilding and statebuilding objectives and widely shared goals of increased national ownership, and more co-ordinated and flexible international support.

The guidance is intended for a range of audiences, including policy-makers, diplomats, and officials working towards coherence across humanitarian, mediation, security, human rights and justice, and development operations. It is designed to be useful to agencies in OECD and non-OECD countries, multilateral organisations (headquarters and field-level), civil society organisations, and heads of office and country programme managers in fragile and conflict-affected contexts.

The guidance builds on and complements other analysis and recommendations, including those made in the *UN Secretary-General's report on Peacebuilding in the Immediate Aftermath of Conflict*, the *2011 World Development Report: Conflict, Security, and Development*, the *OECD/DAC Guidance on International Support to Statebuilding in Situations of Fragility and Conflict* and by the International Dialogue on Peacebuilding and Statebuilding. The OECD guidance on statebuilding and on transition financing share aims that are mutually reinforcing: together they should enable more effective donor engagement in fragile and conflict-affected contexts.

### **Structure of this Guidance**

The Guidance is divided into four chapters: Chapter 1 reviews the transition challenges faced in fragile and conflict-affected states and shows why current donor approaches are not properly designed to address them. Chapter 2 discusses challenges with prioritisation and proposes the specific changes required to planning processes. Chapter 3 presents the specific changes required to facilitate better choice of funding instruments to meet specific transition priorities. Chapter 4 proposes that frameworks for mutual accountability (“transition compacts”) can be used to organise and focus international support by bringing priorities and funding instruments together in support of specific objectives. Each chapter contains its own set of recommendations.

## CHAPTER 1. DELIVERING RESULTS DURING TRANSITION: WHY CHANGE IS NEEDED

Chapter 1 reviews the challenges faced in fragile and conflict-affected states and shows that current approaches are not properly designed to meet these challenges. Changes are required at the global level to bring different actors and institutions together to facilitate more targeted political and financial support to transition. Current approaches to risk management are not well adapted to enable effective engagement. A new paradigm is required to improve the effectiveness and impact of financial support during transition, based on commitment to collective engagement at the country-level across sectors, rapid release of development assistance, a systematic approach to using country systems for aid delivery, and more coherent whole-of-government co-ordination.

### 1.1. What results are we looking for?

People living in countries emerging from crisis need sustained and co-ordinated support to tackle the particular risks, insecurities and vulnerabilities that are inherent in such contexts. The improvement of peoples' lives must be at the heart of international support, recognising the unacceptable human and financial costs of renewed crisis. Yet the international community needs to recognise and address the political challenges and risks associated with their engagement, including the challenges of prioritising and delivering development aid in contexts where state legitimacy is put into question, where governments are incapable or unwilling to protect and defend human rights, and where large scale violations and insecurity prevent effective monitoring of support.

This Guidance uses the term "transition" to describe countries and regions as they emerge from armed conflict or violent instability and move towards greater stability and the potential for sustainable development. These are fragile and conflict-affected situations where the pace of change – political, economic, and social – is matched by uncertainty of outcome, and where international aid may need to be seen as one strategic part of a wider foreign policy agenda. It is not meant to imply that such positive transitions are inevitable, but rather that they constitute the shared goal of the governing authorities and the international community. The term ‘transition’ also relates to the form of international engagement, typically combining humanitarian, development and security-related interventions within a broader peacebuilding and statebuilding agenda. The transition implied here is from external provision of services towards greater state ownership and responsibility for the safety and welfare of its own people.<sup>1</sup>

Effective aid delivery during transition requires collective engagement by different policy communities and reconciliation of different principles for engagement. The complexity of the challenges in these situations means that no single organisation or agency can provide adequate support, and that a **shared space is needed to allow different actors to operate in parallel, based on mutual respect for individual mandates and objectives and a collective commitment to improve coordination and coherence.** Such a shared space is critical to deliver peace dividends, which require speed and flexibility, and support to strengthen legitimate and inclusive institutions that can lead and deliver sustainable development.

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<sup>1</sup> For a more detailed definition of “transition” please refer to OECD 2010b, pg 31-33.



**Transition financing should come primarily from the rapid release of development financing.**

This implies a shift away from using and stretching humanitarian aid as a tool to deliver broader recovery activities towards a strategic approach to address transition priorities. It also implies a flexible use of different budget lines and instruments and willingness to accept a level of strategic simplicity that does not comply with existing norms for aid effectiveness. Nonetheless, transitional needs call for different objectives to be met simultaneously using different methods and aid instruments, which means that all actors will be required to think about how their mandates and objectives can be used more actively to support transition.

## **1.2. Strengthening the global response to transition**

**Fragile and conflict-affected contexts require increased attention to their special development needs.** Countries affected by repeated cycles of political and criminal violence represent a central challenge for development and a priority for many states' national security interests. They face the toughest development challenges and the highest risks of political instability, violent insecurity and failure of basic state functions. Donors provide substantial and increasing amounts of aid to fragile states. Official Development Assistance (ODA) to fragile states has doubled over the past decade and reached US\$ 40 billion in 2009, accounting for more than 1/3 of total ODA (OECD, 2010a). However, more than half of this funding targeted six countries leaving only limited resources available for the majority of fragile states. Furthermore, much of the aid provided in these contexts is provided through humanitarian mechanisms, while specific support for peacebuilding and statebuilding objectives remains limited and fragmented.

Transitions are high-risk environments – yet international engagement can deliver significant results by recognising the opportunities present. These are environments where positive outcomes are hard to define and achieve and the risk of regression and relapse to conflict is high. External financing is one of few things within donor control in these contexts, and as a result, decisions on what and how to provide financing can easily become politicised. Yet these are contexts where the strategic risks posed by failure to engage outweigh risks to individual donor institutions and programs. Given the low starting point, effective aid in transitional contexts can do more, for more people, than aid in most other situations.

**The international aid architecture needs to adapt and evolve to meet these challenges.**

Transitions are non-linear and complex. The tensions between maintaining a fragile peace, meeting humanitarian needs and building resilient states and societies are real and hard to navigate. In this space, a series of overlapping policy agendas and principles have emerged, often driven by different goals and political agendas. The proliferation of agendas – each with resources aligned to different budget-lines (humanitarian, development, security), and operating under different rules, regulations and political strategies – has created “stovepipes” and led to further fragmentation of the international system in exactly the contexts where it needs to be most coherent (UN Senior Advisory Group, 2011, p. 8).

**Significant progress has been made in the international response to conflict and fragility.** Over the past decade improvements to the global aid architecture have enabled better support to countries in transition. Advances in the collective ability to address complex and protracted humanitarian and peacekeeping needs have saved many lives. Reforms in the humanitarian system has resulted in improved financial mechanisms through pooled funding, and strengthened partnerships, coordination and leadership through establishment of a system of “Clusters”. More recently, the creation of the UN peacebuilding architecture has renewed policy focus on the need to link political, security and development agendas during transition. Donors have also recognised the need for more “whole-of-government” coordination in these contexts; and in 2007, they widened ODA definitions to enable more targeted support to peace and security (OECD, 2009b.)

**However, the overall support to transitions remains inadequate.** This Guidance is founded on the recognition that most aid does not target the appropriate objectives and that international actors struggle to prioritise their support and link activities to specific aid instruments that can provide focused yet flexible financial support. The fact that no low-income fragile or conflict-affected country has yet achieved a single Millennium Development Goal (MDG) (World Bank, 2011, p. 1) is a stark reminder both of the needs that drive donors and their partners to focus on fragility, and of the challenges that remain.

International actors are struggling to find ways to provide efficient support during transition. Despite significant work in recent years, driven largely by the engagement in Afghanistan and Iraq, donor governments find it challenging to move beyond information sharing and coordination towards more integrated approaches (SDC, 2009). This continued challenge has shown itself most prominently in attempts at coordination between aid (humanitarian and development), defence and diplomatic actors, and the increasing pressure on aid instruments and resources to meet strategic objectives related to peace, security and stabilisation. Equally challenging has been the fragmentation within ODA between humanitarian and development actors, which often work as two unconnected parts of a donor strategy and engagement in a particular country. While the separation of these agendas may be a necessary reflection of different objectives and operating principles, the distinction is by no means absolute: basic services and social protection are often provided under externally-driven humanitarian programmes because no viable alternative exists. But in the end these are developmental challenges and part of the central function and responsibility of the state.

Furthermore, **development assistance is often slow to materialise during transition.** Donors are generally asked to pledge development funds once a national plan has been developed and sufficient ownership in place to guide international engagement. This artificial sequencing of events is driven in part by the Paris Declaration (PD), which is explicit on the need to deliver aid with and through country systems, and is an important reason for the significant lags in response time that have been witnessed in places like Iraq, Liberia and Sudan.

Many fragile and conflict-affected states lack the capacity to implement aid through country systems. Donor concerns about corruption and lack of government commitment to reforms are real obstacles to bringing aid on-budget or using country procurement systems. Nonetheless, immediate and sustained investment in strengthening country systems in a way that addresses these concerns can lead to more efficient and coordinated development programs, greater government ownership and improved budget and expenditure systems, assuming that the government is committed to and capable of undertaking the necessary reforms. Too often, however, development assistance has been delayed by the lack of capacity and overly bureaucratic and risk-intolerant systems, shielded by the PD provisions. International actors must recognise that development funding is required even in contexts where full government ownership does not exist, and find ways to deliver rapid support to strengthen capacities and systems for ownership at national and local levels.

A side effect of this delay and risk-intolerance has been the stretching of humanitarian aid instruments, which are asked to provide funding for ever-broader needs and objectives to compensate for the current delays and inflexibility of development instruments. Humanitarian funding continues to support the majority of basic service needs. Other priorities, including building the capacity of the state to facilitate basic service delivery, remain either unaddressed or inadequately funded. This approach is in part driven by risk aversion and fear that funds channelled through government bodies may be mismanaged or diverted. Transition contexts are characterised by weak human and institutional capacity and often by complex issues related to political will, state legitimacy and corruption. Humanitarian aid is perceived as more risk tolerant and flexible than development aid. But humanitarian aid almost always by-passes central state institutions, and does little to build state capacity beyond the local level. Nor is it a cost efficient approach in the long run as it relies heavily on external capacities and supplies.

The segmentation of governing principles and international response becomes a major impediment to effective engagement in transition situations (Box 1). This does not reflect reality on the ground and makes co-ordination and co-operation between different operational and policy communities difficult. As a result, aid agencies are often left struggling to create links between humanitarian and development instruments when the transition requires a mix of activities that encompasses all instruments. An additional challenge comes from the PD commitment to focus aid in fewer countries and fewer sectors, which means that donors are often reluctant to provide funding beyond humanitarian assistance because this has to be reported as bilateral spending.

### **Box 1. Challenges and opportunities with different principles for engagement**

Several sets of principles have been developed over the last decade to set norms and parameters for international assistance. Donors and implementing agencies have signed up to the principles for Good Humanitarian Donorship (GHD, 2003), the Paris Declaration (PD) (OECD, 2005), the Principles for Good International Engagement in Fragile States and Situations (FSP) (OECD, 2007) and the Accra Action Agenda (OECD, 2008).

These principles have led to improvements in how humanitarian and development assistance is managed and increased its impact and benefits. For example, the PD has resulted in more frequent use of in-country funding instruments, and has also encouraged donors to undertake joint assessments and establish joint offices and development plans in places like Liberia and Sierra Leone. Some donors are using joint sector approaches backed by budget support and division of labour as standard modes of operation, and groups of like-minded donors have developed joint institutional strategies for relationships with multilateral agencies.

Similarly, the GHD principles encourage donors to strive towards more flexible and predictable funding and a more holistic approach to humanitarian assistance. Together with the process of UN humanitarian reform, initiated in 2005, this has resulted in the establishment of pooled financing mechanisms at both global and country levels, *i.e.* the Central Emergency Relief Fund (CERF) and Common Humanitarian Funds (CHF) and the cluster approach of the Inter Agency Standing Committee (IASC), which aims to improve co-ordination and avoid gaps in the provision of humanitarian aid. GHD provides an operational framework to advance the humanitarian principles of impartiality, neutrality, independence and humanity, and is premised largely on the prevailing assumption that the affected state is either not willing, or not able, to adequately assist and protect its citizens in times of crisis. As a consequence, humanitarian actors tend to work around formal state structures, although GHD recognizes the need to "provide humanitarian assistance in ways that are supportive of recovery and long-term development, striving to ensure support, where appropriate, the maintenance and return of sustainable livelihoods and transitions from humanitarian relief to recovery and development activities".

The FSP were created to complement the PD in contexts where donors are unable to adopt a state-to-state-approach, because the state lacks legitimacy, capacity and/or will. While both the PD and FSP frameworks strive towards alignment, harmonisation and accountability, one key difference is that the FSP at present lack mutual commitments on results. The Monitoring Survey of the FSP, which was mandated in the AAA, is one step towards providing such a mutual commitment.

A particular challenge with having multiple sets of principles is that, in some countries, the sets of principles might apply simultaneously and be subject to periodic re-configuration as the context fluctuates. For example, in Sudan, donors were operating according to the GHD principles in Darfur and the FSP in Southern Sudan. This challenge is materialising itself in the way that different policy communities are able to engage. For example, capacity building, whether it be to increase the capacity of local NGOs or of state run systems remains a real challenge for humanitarian actors funded under short-term contracts that require immediately quantifiable results. Humanitarian assistance also has no division of labour requirements, which complicates transition funding for donors, who, to comply with the provisions of the PD, may, once peace breaks out, have to disengage from sectors where they have significant experience and long-term effective partnerships.

There are multiple levels of accountability, and associated dilemmas, in the aid architecture, which further complicate results delivery. National governments must deliver on expectations from constituencies

while meeting a multitude of reporting requirements and overlapping aid principles. Similarly, international actors (bilateral and/or multilateral) are primarily concerned with accountability to their domestic constituencies and only secondarily to counterparts or citizens in the transition context. This "dual accountability dilemma" (World Bank, 2011) leads to a misdirected focus on risks, as highlighted above. Donor concerns about domestic constituencies may also create disincentives to channelling development funds through national institutions or accounts. In the long-run, this drives a non-strategic use of limited government capacities in partner countries and undermines the ability of donors to achieve the strategic objective of their engagements. This in turn undermines donor relationships with their constituents – the elements of a backlash against aid are present and visible.

There is increasing evidence that **significant change is required to simplify and improve the way that international support is provided during transition**. Indeed, partner countries and some international actors have already called for a paradigm shift in the way aid and support is provided in fragile and transitional contexts (g7+, 2010; World Bank, 2011; Permanent Mission of India to the UN, 2011; UNSG, 2011; UN Senior Advisory Group, 2011)) At the core of this call is the recognition that the MDGs do not provide an adequate framework to guide international support to transition. The United Nations, the World Bank, and the OECD have elsewhere recognized the centrality of peacebuilding and statebuilding; yet the World Development Report highlights the lack an organizing framework that can direct resources to these ends while retaining a focus on critical enabling factors for development (World Bank, 2011). A broader view on support is required, which places focus on the need to support statebuilding through a strengthening of the political settlement, core state capacities, and the legitimacy of the state, as well as on strengthening civil society and state-society relations – while continuing to guarantee access to basic services for the people (International Dialogue on Peacebuilding and Statebuilding, 2011a).

**To achieve this, international financial support needs to be more rapid, flexible, predictable and risk-tolerant**. Transition contexts are fluid and fast-changing environments that are not conducive to medium-term development planning cycles and complicated planning processes. Too often priorities are shaped more by the supply side than real prioritised needs. Important opportunities are missed because aid is tied up in instruments that are not adapted or insufficiently responsive to fast-evolving situations, are linked to narrow institutional mandates, and guided by policies and principles that are not fit for purpose in transition contexts. **International support should be guided by shared strategic objectives, tempered by a realistic and more modest view of what can actually be achieved in a particular context within a given time-frame and based on reasonable assumptions about available resources and capacities**. This will require a new approach to aid, where transition financing is provided primarily through rapid and flexible release of development aid, complemented by resources that support humanitarian recovery and security-related expenditures.

### 1.3 From risk avoidance to better risk management

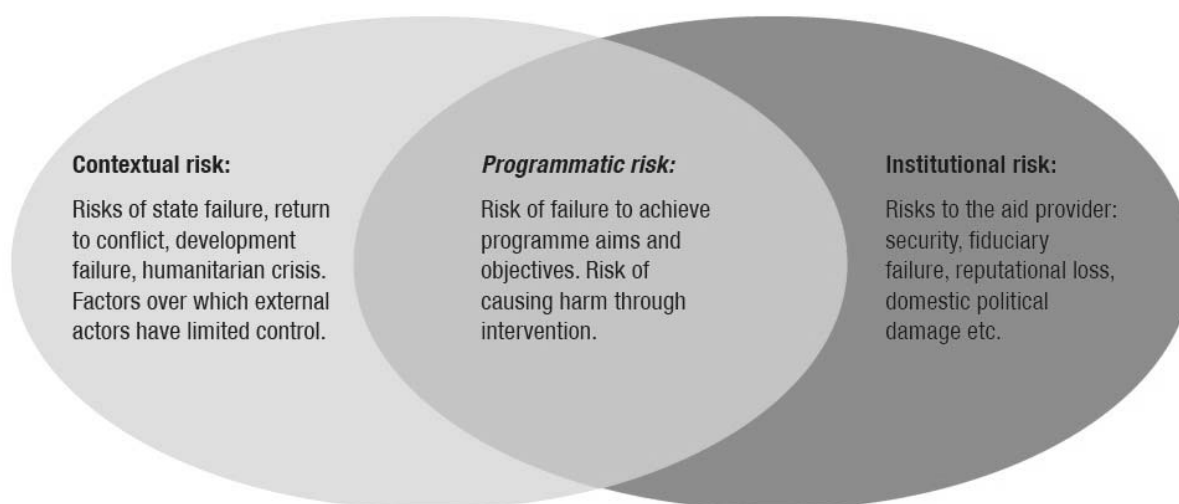
**Transitions provide opportunities for very high return on investment, but carry significant risks**. Aid plays an important role in these situations, not least because it offers one of the few available means for positively influencing peacebuilding and statebuilding processes and introduces hope into devastated areas through delivering on critical humanitarian and developmental objectives. International assistance can (and often has) made the difference between continued conflict and progress towards stability and sustainable development. But the results of interventions are unpredictable: they can be positive in unexpected ways as well as negative, and there is no clear, pre-defined pathway to peace.

This Guidance proposes that **international actors need to revisit their approaches to risk management** to ensure more effective and flexible use of development cooperation mechanisms. Flexibility and risk-tolerance, when combined, allow development cooperation to adapt to the local

context, respond to brief opportunities to provide peace dividends, and to nurture national and local capacities that lead to national ownership and a more resilient and legitimate state. There has long been a sense that an increased tolerance of experimentation and flexibility means less control over investments, and less predictability over outcomes. Research over the last decade demonstrates that a greater ability to be dynamic actually increases return and reduces risks (OECD, 2011a).

**What are the risks and opportunities that donors face?** Figure 1 provides a **new** conceptual framework for aid-related risks, based on a three-fold distinction between *contextual*, *programmatically* and *institutional* risk (OECD, 2011a).

**Figure 1. Conceptual framework for understanding risks**



Source: OECD (2011a)

The importance of contextual risk has long been understated by bilateral and multilateral donors. Analysis of context and conflict risks tends to be fragmented and not shared (OECD, 2011a), and many aid agencies continue to use general project and programme management frameworks that have not been adapted to the risks faced in fragile states (OECD, 2011a). Partially as a result of this, current risk management practice is primarily focused on institutional risk reduction – in particular to address reputational risks to the donor. **But risk management is not just about risk reduction or avoidance: it involves balancing risk and opportunity, or one set of risks against another.** Aid effectiveness in these contexts may demand a significant degree of risk appetite - a willingness to consider risk in relation to opportunities. Risk management should be an enabling process, not only a precautionary one, and it should focus on how to enable strategic success *i.e.* how to tackle contextual risks in the diagram above.

Opportunities to influence the course of events (at the operational and tactical levels) in these contexts may be short-lived, given the pace of events in transition contexts. This requires rapid action and flexible financing, which rely on swift aid decisions and using new approaches and/or untested partners. Standard development mechanisms and procedures do rarely allow for such approaches. **Yet, just as life-saving objectives have led donors to accept a higher degree of risks in humanitarian instruments, so should the extreme human and financial costs of recurrent conflict and natural disaster be an argument to accept a certain degree of risk during transition.**

**Managing and mitigating inevitable risks.** Given the high-risk nature of transition contexts and of aid engagement in such contexts, the prevailing emphasis on institutional risk avoidance needs to be replaced by a more balance approached to risk management and by **risk-sensitive aid strategies**. A more dynamic approach to risk management does not imply passive acceptance of risk. Issues of staff security, state legitimacy and corruption, for example, will rightly remain a major concern of donors and a core concern of risk management strategies. But these risks can and must be better assessed and managed as part of a calculated and conflict-sensitive approach oriented towards achieving strategic objectives in each particular context. Without a careful balance, and an approach that embraces risk as a way to enable strategic success and greater impact, the current modus operandi of risk avoidance will endure. Indeed, the more risk-averse the approach, the narrower the range of achievable goals. The present culture of “risk avoidance” is reflected in inflexible policies and procedures that were developed for more stable environments. It has also become part of the culture of institutions where reward depends more on ‘avoiding failure’ rather than achieving success.

All aid programmes carry the risk of programme failure. These risks are heightened in fragile and transitional contexts, where readiness to fail may be a prerequisite to success. At the same time, decisions need to continue to be context-based and well thought out, not to overburden or “over-test” new approaches and initiatives that could do more harm than good. Expectations concerning results and reporting must reflect dynamic and complex political, social and economic realities. Specific outputs and outcomes may simply be impossible to guarantee.

Pressures to demonstrate rapid results and to meet reporting and accountability requirements that are not contextually sensitive make donors and their implementing partners risk-averse. Current **accountability and reporting requirements are unrealistic in many transition contexts and need to be better adapted to their contexts and capacities. The question is where the appropriate balance lies in a given context between control and flexibility, what bottom lines are set, and how risks can be effectively mitigated without undermining the capacity to achieve sustainable results.**

#### 1.4 Changing approaches to transition

As highlighted by the above, significant changes are needed to improve coherence in the global aid architecture to deliver results during transition. This involves balancing risks and opportunities, and amending procedures to improve context-specific risk management. Specific recommendations are:

***First, clarify relationship between different guiding principles.***

- *At the international level, assess and address overlaps and challenges in existing principles and modes of engagement.* Additional analysis is needed to understand how different principles interact and complement each other during transition. Joint performance assessments at country level should also be developed to more effectively map donor activities and reforms, possibly under the auspices of existing regional peer review mechanisms and/or the DAC PEER reviews, recognizing that the Paris Declaration is often an aspiration in transition contexts and that different approaches are required to manage transition challenges. The international community should also consider *adopting the fragile states principles as the overarching guiding framework for responding in transitions*, which will require converting FSP into joint principles with buy-in from both fragile states and donors.

***Second, improve the assessment of risks.***

- *Recognise that effective risk management requires realistic and modest assessments of what can be achieved.* International plans and schedules underestimate the difficulty of implementation and

often set unrealistic goals. This "built-in program failure" has consequences, in terms of failure to adapt to context and capacities, to deliver results and, more importantly, through building expectations that will not be met. Realistic assumptions about absorptive capacity and a higher degree of humility and pragmatism will be critical.

- *Agree to jointly assess and identify contextual risks.* A joint understanding of the major contextual risks is a critical starting point for designing more effective responses. This should facilitate stricter prioritisation through highlighting those areas and activities that hold the highest potential of contributing to strategic objectives. Risk assessments should be linked more closely to real-time country-specific policy assessments such as staff assessments conducted by IMF in Article IV contexts.
- *Improve communication regarding risks and risk mitigation strategies.* Risk assessment methodologies need to be simplified to provide clear language and arguments for politicians, senior management within aid bureaucracies, and donor tax payers, as to why certain risks must be tolerated and how they are assessed and managed.

***Third, apply collective approaches to risk management.***

- Establish a joint donor risk management framework based on the framework proposed in this Guidance (possibly under the auspices of the OECD-DAC to provide a collective framework). As a rule, risks to individual donors are higher than risks to donors collectively. Commitment to better collective risk management and risk "burden sharing" are critical elements of more flexible engagement.
- *Be transparent about risks and ready to share risk assessments as an explicit mitigation measure.* Assessments should be shared among donors and with host governments as basis for constructive dialogue about risk mitigation measures. Communication on risks should nonetheless be balanced against the need for confidentiality, recognising that sometimes talking about risks make their outcome more likely.

***Fourth, amend bilateral and multilateral operational procedures to facilitate context-specific risk management.***

- *Donors should consider certain amendments to normal aid regulations and practices when engaging in transition contexts to reflect specific contextual risks.* Application of "emergency procedures"<sup>2</sup> for financial management and procurement should be combined with an explicit focus on building local capacities to perform fiduciary and accounting functions and a commitment to collectively manage risks associated with such approaches. Simplify financial and procurement arrangements should also be considered. This could involve using national procurement rules, with appropriate international oversight, for procurement up to a certain limit, and to shift donor oversight from ex ante to ex post reviews. As part of this, the role of donor fiduciary staff could move from external regulators of internal rules to facilitators of good procurement outcomes from national rules.
- *Support immediate reforms of procurement policies of those institutions managing pooled funds (e.g. United Nations and World Bank) to facilitate more rapid delivery and use of local procurement.* Immediate conflict prevention is a lasting justification to apply emergency

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<sup>2</sup> "Emergency procedures", as coined by the World Bank, outlines a set of simplified rules and regulations that can be applied to facilitate rapid and flexible responses during emergency recovery efforts.

procurement procedures for a pre-defined time or until the overarching transition objectives are met.

***Finally, avoid ‘risk dumping’ and set realistic expectations for implementing agencies.***

- *When delegating control, donors need to make sure they give implementing partners enough room and the necessary means to take risks and respond flexibly.* Greater honesty and transparency about exposure to all risks is needed between donors and those they fund; and greater realism between managers and financial controllers about the parameters within which aid interventions in these contexts can realistically be accounted for. Those on the front line of programme delivery are currently faced with competing demands that require changes in the way donors have traditionally worked, as highlighted by the case of South Sudan in Box 2. Donors should pursue dialogue about these issues in the respective governance boards of relevant multilateral agencies, and should consider efforts to strengthen multilateral collaboration and leadership at the country level (including through the Resident/Humanitarian Coordinator – see Chapter 4 for further details).

**Box 2. Pooled funds, fiduciary risks and the limits of effectiveness**

The MDTF Southern Sudan (MDTF-SS) has been highly criticised for its slow disbursement of funds and its lack of results. This example underlines the limitations created by unrealistic donor expectations, strict fiduciary rules and regulations and overly complicated governance structures.

The World Bank was appointed by the donor community to act as the MDTF SS trustee, as it was felt that the bank's fiduciary rules and regulations would provide the best guarantee against corruption and misuse of money (a very real threat in post-Comprehensive Peace Agreement Southern Sudan). However, serious delays in allocating funds are partly due to the preconditions and safeguards requested by the donors. These same donors, nevertheless, have been competing to brand the MDTF SS a failure and to blame the World Bank and have initiated new, often competing funds, to ensure delivery.

The World Bank did indeed make some major mistakes in setting up the fund and its operational facilities; but blame cannot simply be assigned to the bank. It has not been able to allow for more fiduciary risk-taking because its board does not allow the bank's fiduciary rules and regulations to be relaxed. The same donors that criticise the World Bank for this inflexibility sit on the bank's board. The problem is that these board representatives are usually staff from ministries of finance or treasury departments, whose perspective is different from that of the donor representatives that deal with fragile states. To make things more complicated, donor representatives in the field are usually less risk-averse than their counterparts in headquarters. With all these different perspectives, there is a great risk of miscommunication, misconception and different expectations.

Source : OECD (2011a), (2011b)



## CHAPTER 2. SETTING INTERNATIONAL OBJECTIVES AND STRENGTHENING COHERENCE IN PLANNING AND PRIORITISATION

Chapter 2 sets out a new approach to more effectively prioritise in support of transition, grounded in internationally recognised objectives. National transition strategies should be used to focus support while allowing governments to take gradual leadership of the prioritisation and planning exercise. International actors need to focus the scope of activities in contexts where full government ownership of priorities and plans might not be possible. Sector planning tools and frameworks should be streamlined and integrated into overall planning documents as basis for discussions about priorities and funding levels.

### 2.1 Establishing internationally recognised priority areas to guide transition support

Effective support during transition requires a focus on a limited set of jointly agreed priorities (OECD, 2010b; World Bank, 2011 etc.). Prioritisation should be context-specific and grounded in national needs and objectives, but should be informed by the emerging global consensus on what enables countries to transition (see Box 3) (International Dialogue, 2010a; UNUNSG 2011). An international agreement on transition objectives would result in more targeted attention and financial support being made available to transition from across the international system.

#### Box 3. International developments in setting objectives and priorities

Several international processes have helped develop a more thorough understanding of the types of objectives and priorities that are important during transition: The Millennium Declaration highlighted the critical importance of peace and security as preconditions for poverty reduction; the UN Secretary General's report on Peacebuilding in the Immediate Aftermath of Conflict identified five core areas of activities related to services, economic opportunities, security, livelihoods and governance; the World Development Report 2011 highlighted the importance of security, justice and jobs; and the OECD Statebuilding Guidance identified the critical importance of strengthening the states capacity to perform core functions related to security and justice, revenue management, oversight of service delivery and to enable economic recovery and employments.

The International Dialogue on Peacebuilding and Statebuilding has brought together this thinking to form an early consensus around five key objectives:

- Legitimate Politics: Foster inclusive political settlements and conflict resolution
- Security: Establish and strengthen people's security
- Justice: Address injustices and increase people's access to justice
- Economic foundations: Generate employment and improve livelihoods
- Revenues and services: Manage revenues and build capacity for accountable and fair social service delivery

Source : World Bank (2011), UN (2009), OECD (2011a) (2011b)

Agreement on transition objectives would allow more funding and attention to target key priority areas where financial support is likely required. More specifically, three such broad priority areas can be identified as critical (see Figure 2):

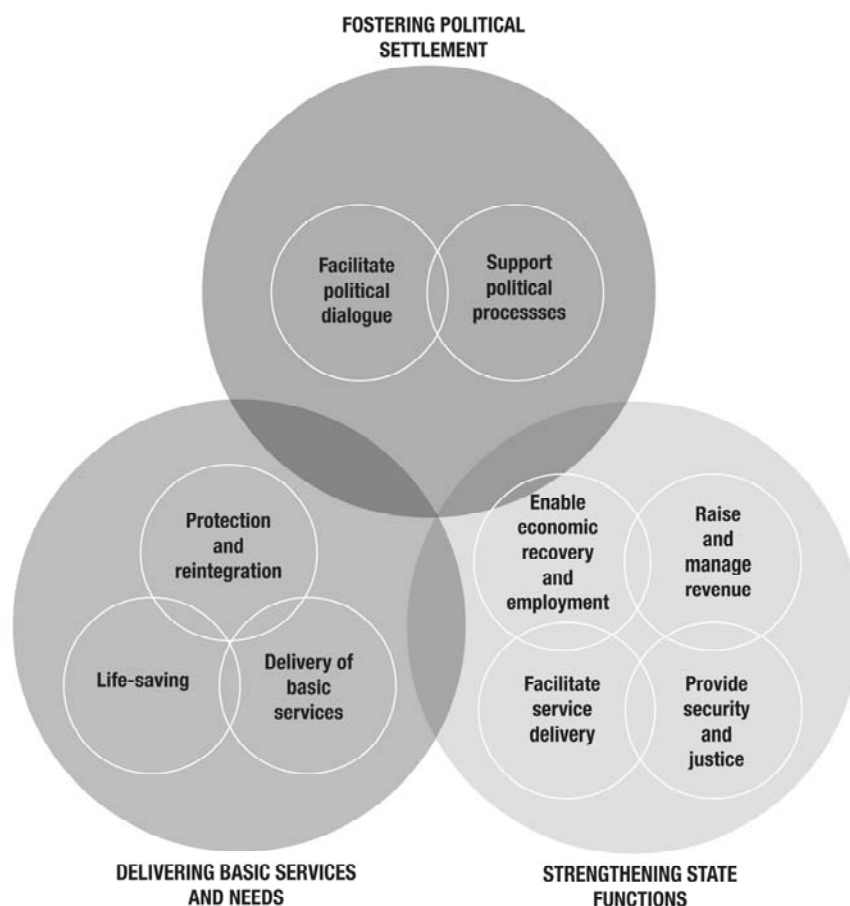
- *Delivering basic services and addressing urgent needs*: This covers activities that will initially be delivered by humanitarian actors and through use of humanitarian funding channels, but where there will be gradual transition towards more sustainable local approaches. Key activities include relief assistance to address acute needs; continued programmes to provide basic social services, both directly and by building the capacity of communities and local authorities; to protect vulnerable populations; to facilitate the community's return to normal lives and livelihoods; and to prevent and build capacities for preparedness and contingency planning to manage future crises.
- *Fostering inclusive political settlement and political processes*: This covers activities that will be delivered by political, mediation and development actors, and financed through a combination of ODA and non-ODA funds. It involves support to foster political dialogue among key domestic actors; concerted efforts to support the ongoing political processes and broaden the political settlement (*i.e.* reconciliation efforts, civil society and parliamentary programs etc), and more targeted support to strengthening state-society relations.<sup>3</sup>
- *Strengthening state functions*: This covers activities that will be delivered primarily by development and security actors and financed through ODA resources as well as some non-ODA for peace and security. It involves efforts to strengthen the states capacity to perform core functions related to security and justice, revenue management, oversight and facilitation of service delivery and economic recovery and employment.<sup>4</sup>

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<sup>3</sup> See OECD ( (OECD, 2011b) for more detailed description of these functions.

<sup>4</sup> See OECD ( (OECD, 2011b) for more detailed description of these functions.

Figure 2. Broad categories of transition priorities



As highlighted by the 2011 World Development Report, these priority areas should not be approached in isolation – there are significant linkages that will require support in parallel from different parts of the aid architecture. For example, support to basic service delivery through humanitarian and development assistance might require peacekeeping or stabilisation efforts to provide the necessary enabling environment to deliver such support. Addressing these linkages will require more coherence in planning frameworks and stricter prioritisation, which is the topic for the remainder of this chapter.

## 2.2 Prioritisation during transition – Learning from experience

**A fundamental principle in the development discourse is that national actors should lead and guide planning and prioritisation exercises.** This principle also applies in fragile and conflict-affected states. The assumption is that national governments and other local stakeholders are best placed to identify needs and deliver development to their population, and that the budget is the best vehicle to allocate resources and to provide the necessary prioritisation and sequencing of activities based on budget constraints and predicted spending levels.

Transition contexts face particular challenges that limit government-led planning, including:

- A government might lack the will, capacities and legitimacy to plan on behalf of its population, in particular in contexts with fragile political settlements and continued insecurity. Similarly, there might be a basic lack of consensus on priorities among stakeholders. In these contexts, international actors should at a minimum support broader and equitable distribution of financial support and access to services, including to neglected regions and population groups.
- International actors might have overlapping foreign policy objectives that guide engagement in specific contexts. The strategic role of aid is often placed within the wider frames of engagement, which in turn influences how aid is prioritised.
- The volume of external aid compared to domestic resources means that its allocation is likely to be a matter of political significance during transitions. International actors need to balance aid distribution through broad-based consultations to ensure that aid does no harm. This is particularly important given the need to protect the neutrality and impartiality of humanitarian aid, which initially might represent a large proportion of the total international assistance.
- National budget processes and related systems will often need to be established and strengthened before they can serve as tools for prioritisation. Similarly, parliamentary oversight and accountability institutions require strengthening to provide effective control of budget priorities.
- The fast evolving situation during transition means that priorities may shift quickly. Planning frameworks used in other developing contexts are not necessarily applicable, as they favour longer planning cycles that may stifle flexibility and prevent more frequent evaluation and reassessment of priorities based on the evolving context.

**In response to these challenges, the international community has increased its capacity to engage in transition planning.** Over the last decade several strategic planning frameworks, as well as more detailed thematic and sector planning tools and instruments, have been developed as basis for delivery of different types of aid. Each approach holds different assumptions about required levels of government engagement and ownership as well as the level of consultations required with civil society. Box 4 provides a brief overview of some international planning tools used during transition (sequenced based on level of assumed government ownership): The Poverty Reduction Strategy (PRS), the Post-conflict Needs Assessment (PCNA), and the Consolidated Appeals Process (CAP). It also provides examples of how international organisations undertake their own planning at the country level.

#### Box 4. Different international planning tools being used during transition

A *Poverty Reduction Strategy (PRS)* is a tool to support a government's own efforts to develop a National Strategic Development Plan. It normally sets out an overall strategy and more detailed sector plans. The PRS thus holds the highest degree of government ownership, and have been streamlined as an integral part of the international engagement in more stable countries, as well as a key milestone to achieve debt relief. PRSs (and Interim-PRSs) have also been attempted in transitional contexts, including in the Central African Republic, Guinea and Sierra Leone, but these experiences have shown that, as PRSPs are geared towards longer-term development investments aimed at delivering the MDGs, additional external efforts have been required to highlight and address the specific challenges associated with peacebuilding and statebuilding. Successful PRSPs require a certain degree of institutional capacity, which may prevent the approach from becoming an effective tool during transition.

A *Post-Conflict Needs Assessment (PCNA)* has been used by national and international actors as an entry point for "conceptualizing, negotiating and financing a common shared strategy for recovery and development" during transition (UNDG, 2010). It normally provides an overall strategy and more detailed thematic plans divided into "clusters" of issues. The tool is based on the assumption that government should own the planning process but recognises the challenges of weak capacity and ownership. It proposes to address this tension through a collective exercise where the international community comes together with the government to undertake a joint assessment of needs, which is then prioritised and costed in an accompanying *Transitional Results Framework (TRF)*. Experiences over the last decade have displayed the shortcomings of needs-based approaches during transition, in particular in terms of translating peacebuilding and statebuilding needs into a prioritised plan.<sup>5</sup> PCNAs have nonetheless proven successful in certain cases in facilitating prolonged engagement with government actors and thus strengthening their capacity to perform certain core functions.

*The Consolidated Appeals Process (CAP)* enables humanitarian planning, and as such is based on the assumption that planning is based on needs, not political objectives, and takes place independently from government and national planning processes. CAPs present funding needs by social service sectors. The CAP was never designed as a transition tool and faces several shortcomings during transition, including the lack of government leadership and engagement, limited coordination with development plans, the often unclear process through which priorities are identified, and the lack of an exit or handover strategy and criteria. Nonetheless, the CAP (and the related Common Humanitarian Action Plan or CHAP) holds some valuable lessons for how planning processes might look like during transition. These include: (i) the fact that planning is undertaken on an annual basis and revised mid-year, thus providing the opportunity to frequently reassess priorities; (ii) that plans are prepared per sector through a system of clusters and cluster leads, while the process is managed and guided by OCHA, thus providing some continuity and control at both the cluster and management level; and (iii) donors have committed to the tool as the primary instrument for strategic planning, prioritisation and co-ordination in complex emergencies, thus ensuring a solid link between financing decisions and of the jointly agreed priorities.

Different organizations and agencies also have their own strategic planning frameworks. In countries with peace missions, the United Nations uses the Integrated Missions Planning Process to assess the situation strategically, identify options for UN engagement, and develop Integrated Strategic Frameworks to agree on joint UN priorities for peace consolidation. The United Nations Development Assistance Framework (UNDAF) is another mechanism for the coordination of UN development assistance in a country. UNDAFs rely on the existence of assessments such as a Common Country Assessment (CCA) which acts as the basis for identifying priorities for the UN's contribution to the achievement of national development goals. Similarly, the World Bank uses Country Assistance Strategies to identify priority areas for engagement, while bilateral donors rely on published or internal country strategies and partnership framework agreements to guide funding.

Despite some improvements, **major planning frameworks struggle with trade-offs between effective and flexible planning and government ownership.** In the absence of government leadership

<sup>5</sup> In response to this challenge, the United Nations, World Bank and European Commission have committed significant resources to strengthen the PCNA methodology, and in particular to adopt the approach to make the TRM a useful tool for prioritisation in different transition contexts. While it is too early to say, these investments should hopefully facilitate a more effective translation of needs into a prioritised plan that can be financed by domestic and external resources.

and capacity to lead the planning process, plans are often “ghost-written” by donor staff and consultants, increasing the risks of embarking on complex approaches that are driven by international good practice without grounding in national context and expectations. This has frequently resulted in plans that are unrealistic and unprioritised, and that underestimate implementation challenges and absorptive capacity. The large resource envelopes created for post-conflict/disaster reconstruction and development in places like South Sudan and Haiti demonstrate this effect. For international actors, such approaches amplify risks, not only in terms of failure to deliver results but also the creation of expectations that cannot be met.

**National ownership is further challenged by the fact that several overlapping planning frameworks are used in parallel.** A CAP will often take place in parallel with government-led development planning processes, often without formalised links or discussions about how to handle possible overlaps. In some contexts (*e.g.* DRC) several parallel government-led planning processes are being supported, which impose significant transaction costs on national stakeholders and undermine ownership. While different plans have been aligned and integrated into one core document, as was the case when the Peacebuilding Strategy was integrated into the PRSP in Sierra Leone, this remains more the exception than the norm.

**Efforts to clarify the relationship between different planning frameworks have resulted in frequent delays in development funding.** The trend has been that PRSPs and PCNAs have focused on longer timeframes and on the delivery of the MDGs, while the CAP has focused on short timeframes and delivery of specific needs-based life-saving and some limited recovery activities. The adverse outcome of this "division of labour" has been frequent delays in disbursement of development assistance, based on the assumption that such aid would only be needed to meet priorities once these are set out in national development strategies with sufficient national involvement and ownership. In the interim, humanitarian aid has been left, and expected, to deliver initial development activities. The lack of coherence and shared priorities also hampers efforts to ensure that humanitarian programming dovetails with future development work, and efforts to ensure that development programming builds on humanitarian knowledge and results.

**A common challenge to all planning tools is the lack of prioritisation and sequencing of activities.** These challenges can be linked to the needs-based approaches that underpin CAPs and PCNAs and the lack of authority in the international system to prioritise certain activities and mandates over others, which is essential in transition contexts. In addition, PCNAs have tended to become vehicles for broader international engagement and dialogue, with technical experts rather than mediators left in charge of highly political negotiations over priorities.

**Limited links between strategic and operational plans also impose constraints during transition.** While some prioritisation might take place at the strategic level, implementation strategies are largely designed through thematic or sector planning processes and defined in the individual strategies that are designed by individual agencies. Such plans are rarely cross-checked against the overall strategy, but are presented for funding by different organisations and agencies. This can add fragmentation, complicate coordination, and challenge collective prioritisation and harmonisation with government-led exercises.

The experience with different planning tools over the last decade also offers lessons that can be used to improve planning and prioritisation (PBSO, 2009; UN and World Bank, 2007a).

- *Transition support requires strict prioritization based on agreed objectives.* Experiences in Sudan and Haiti show that the MDGs might not serve as the most appropriate interim framework during transition. To address the multiplicity of needs during transition mechanisms are required to ensure that key peacebuilding and statebuilding priorities are addressed, while ensuring access to basic services. The 2011 World Development Report shows that the most successful and rapid transitions are those that have focused on a limited set of strategic objectives at any given time,

rather than attempting to address a multitude of priorities in parallel (World Bank, 2011). This calls for a shared understanding of the context, risks, and the drivers of conflict that can underpin strategic decisions on which reform initiatives might hold the highest catalytic potential or conversely holds the highest risk of renewed conflict or instability unless immediately addressed.

- *The international community cannot substitute for national leadership in developing plans.* Weak capacity and legitimacy cannot be an excuse for internationally driven (and written) development strategies. Rather, approaches will need to be adapted to the context, and simplified planning frameworks with shorter time frames should be combined with a specific focus on capacity and institutional strengthening for planning and budgeting functions.
- *Annual prioritisation cycles offer the best prospect of success in highly fluid transitional contexts.* Annual and revolving prioritisation hold the highest potential to deliver incremental support while a situation stabilises and systems and capacities are being established. The example from Timor-Leste (Box 6) shows how the National Priorities Process was able to establish broad objectives that served as basis for rapid engagement and annual reassessment of priorities, and to guide more detailed sector planning exercises.

#### **Box 5. Timor-Leste: The National Priorities Process (2008-2011)**

In the wake of the 2006 crisis, Timor-Leste's National Priorities Process represents one example of an effective Compact. By harmonizing Ministerial and development partner programming while at the same time providing leadership regarding priority identification and sequencing, the Government sought to streamline the transition from post-conflict emergency response toward development in a manner and timeframe that allowed it to remain flexible in responding to 'post-conflict spot fires'.

In order to realize this plan, the Government established what it called the National Priorities Process (NPP) whereby the Ministry of Finance initiated partnerships with key development partners to develop an interim planning and priority setting mechanism. The mechanism encouraged a whole-of-government approach to transition while providing an annual planning framework set by Ministries around identified priorities that development partners could then align to.

In its initial years the process focused primarily on establishing security, and repatriating IDPs. Once peace had been fully restored, the Government settled on infrastructure, agricultural and rural development and human resources development as top priorities. As peace and stability continued, public security and safety remained a priority, along with priorities such as justice and good governance infrastructure. The top tier of enduring national priorities is broadly reflective of the Prime Minister's National Strategic Development Plan, which will be finalised in 2011.

The importance of a whole of government approach throughout the process cannot be understated. The coordination with all stakeholders including civil society and gender organizations has not only helped to build capacity, but has also allowed for a more collaborative, open and transparent national priority identification process as well as allowing for improved and ongoing dialogue with the donor community.

The National Priorities Process is managed by a dedicated Secretariat located within the Ministry of Finance, which is responsible for assisting Ministries to identify goals and the overall cohesion of the NPP through a monitoring and reporting mechanism. This process includes donors and National Priority Working Groups chaired by line Ministries. Working Groups are essential to the success of the NPP in that they bring Ministries, donors and other relevant parties to focus on specific priorities.

- *Different thematic and sector plans should be sequenced and integrated into one core strategy document to support effective prioritisation and focus.* Sequencing and integrating the outcome of different planning processes into one overall strategy document can facilitate the identification

and articulation of priorities, ensure consistent coordination and strengthen alignment of international action in support of transition objectives. The example of the Sierra Leone PRSP shows how different operational planning frameworks can be integrated into one plan, and different institutions supporting larger programs, to increase coherence in international response without diminishing the value or neutrality of individual contributions (see Box 5).

#### **Box 6. Sierra Leone: Donor alignment with the Agenda for Change**

All major development partners in Sierra Leone have aligned their programmes with the country's main strategic planning instrument, the Second Poverty Reduction Strategy Paper (PRSP-II), also known as the Agenda for Change (2008-12). International support for the Agenda for Change has been a decisive factor in ensuring coordinated support and funding for implementation. Development partners combine their initiatives to reduce transaction costs for the government. The Agenda for Change is also well supported by the development partner community through joint strategies. The Joint Vision for Sierra Leone of the UN family, the EC/DFID Joint Assistance Strategy and the World Bank/AfDB Joint Assistance Strategy constitute the core elements of development partner support to the Government of Sierra Leone. All other partners also ensure that their projects and programmes are aligned to the Agenda for Change.

Source : OECD (2011c)

- *The strategy needs to be costed and linked to specific funding sources to avoid fragmentation.* By linking plans with specific funding instruments, international actors can enable better prioritisation and delivery of critical results. Importantly, an understanding of the resource flows and instruments would generate an up-front understanding of what can be realistically achieved based on hard budget constraints, thus decreasing the strategic risks of failure to deliver on agreed priorities.
- *Planning processes can be critical vehicles for engagement and capacity development.* As shown through PCNA experiences, the continued opportunity to engage with key government officials and other concerned stakeholders (including civil society) in prolonged planning and discussions about needs can be critical during transition. International actors should focus less on the "paper/plan" that is produced through these processes and more on the process itself as a vehicle for broader engagement. This nonetheless calls for time and resource intensive engagement, and donors should find different ways of providing and aligning development funding in support of these processes.

### **2.3 Enabling effective prioritisation during transition**

The above highlights how better delivery of results during transition requires use of simplified approaches and more effective prioritisation. International actors need to balance the political aspects of prioritisation with technical planning processes, and manage different constituencies that will often seek to resist the "strict" prioritisation required to support transition. As a starting point, international actors should commit to support the development and use of more basic prioritised strategies during transition engagement. This will involve:

***First, support national transition strategies from the outset but find ways of prioritise even in contexts where strategies are not in place.***

*At the strategic level, national governments will need to lead the process of developing transition strategies, even in contexts where they might lack the legitimacy to undertake more detailed planning on*



behalf of entire populations. Transition strategies should be based on internationally agreed objectives, analysis of risks and drivers of conflict, and on consultations with different stakeholders, including from civil society, to ensure representativeness. These strategies should be used to guide collective prioritisation of different activities, and donors need to be willing to support and finance the basic elements set out in these strategies even if based on a level of simplicity that does not comply with existing rules and procedures that guide development funding.

***Second, undertake annual prioritisation exercises to ensure that transition strategies remain relevant and that engagement is targeting the most critical areas of support.***

*Annual prioritisation should be the norm until a situation has stabilised* to ensure continued relevance of strategies. This would allow frequent reassessment of progress and risks, thus preventing strategic failure. A contextual risk analysis should be done jointly and revisited as part of annual meetings between national and international stakeholders to provide donors with necessary comfort levels to allow use of simplified rules and procedures.

*International approaches need to change to enable annual/rolling prioritisation across years.* The humanitarian model of two-day workshops as basis for planning could be explored during transition. Donors will need to allow for early release of development funding based on broadly defined priorities in national transition strategies rather than on fully elaborated development plans and more detailed sector plans. Increased flexibility in funding allocations could be achieved through increasing contingencies in budgets so that "activities and delivery mechanisms can be adjusted when new risks and opportunities emerge" (World Bank, 2011, p. 33). A few basic performance benchmarks could also be agreed to facilitate decisions about when to move from transition strategies towards proper development plans.

***Third, agree to adapt existing planning and assessment frameworks to ensure coherence and alignment with national transition strategies across sectors.***

*Integrated planning is required during transition to enable development, diplomatic, humanitarian and security-related activities to complement and reinforce each other.* Sector plans could be developed using existing planning tools but these should be brought together into one overall strategic document, possibly in the form of national programmes that specifies how each activity and organisation will deliver specific elements in the transition strategy. Sector plans should be reviewed annually for continued compliance with overall priorities and the involvement of all appropriate actors. Transitional Results Matrices (TRM) could be adapted to such shorter timeframes and used to map priorities against proposed sector plans, as a basis for review and funding during annual round-table meetings.

*International actors will need to support reforms required to strengthen integration and alignment of existing strategic and sector planning tools and processes with transition strategies.* This would involve aligning different operational planning cycles with annual/rolling prioritisation, and further articulation of how different types of support might support transition. Donors should be prepared to adjust multi/bilateral country strategies and the United Nations, World Bank and European Commission should review the TRM guidelines to ensure that these can be used effectively to support annual priority plans.

*Stronger accountability is required in the development of sector plans.* At the sector level, plans should be developed and revisited through a continuous engagement between different national and international stakeholders. Both humanitarian and development engagement already operates in this way, through the formation of cluster and sector working groups that advance thinking around specific issues. Drawing on the positive lessons outlined above regarding the PCNA process, such sector working groups should be streamlined during transition, as the primary vehicle for identifying, agreeing, and revisiting

priorities on a regular basis. Each sector group should operate based on clearly defined accountability and responsibility structures, building on the positive lessons learned from humanitarian clusters.

*The international community needs to clarify its position on how best to support gradual planning and government leadership.* The composition of planning groups and specific accountability arrangements must be decided based on country-context and existing national capacities. To facilitate a smooth transition out of the humanitarian cluster system, in particular in those service delivery sectors that will require rapid national engagement, the Inter Agency Standing Committee (IASC), in consultation with the UN Development Group, should clarify its position on how this process can be managed, how clusters could more clearly support transition priorities and objectives, and the specific capacities needed to facilitate handover to development actors. The roles and authority of the Resident/Humanitarian Coordinator in this regard should also be clarified.

## CHAPTER 3. IDENTIFYING AN EFFECTIVE MIX OF AID INSTRUMENTS

Chapter 3 provides guidance on how an effective mix of aid instruments can be identified to improve financing for agreed priorities and more efficient use of aid, based on criteria of harmonisation, institutional transformation, speed and flexibility, and scope for risk management. Different funding streams and aid instruments should be brought together, to the extent possible, in support for agreed priorities. The mix should be decided based on the need to provide both rapid and sustained delivery, and should in particular focus on country-specific instruments and pooled funds that allow for gradual increase in the use of country systems.

### 3.1 Why a mix of aid instruments is required

No single aid instruments<sup>6</sup> can cover all priorities during transition – hence the need to select and mix different aid instruments to enable coherent and effective use of aid in support of shared priorities. An effective mix should enable rapid and flexible delivery while supporting institutional transformation and transition towards increasing use of country systems for aid delivery.<sup>7</sup> Different aid instruments have different mandates, strengths and weaknesses. Humanitarian, security and development instruments contain large differences in the way they are able to link with national actors and make use of country systems, and the specific conditions under which such linking will take place.

**Transition financing should come primarily from development budget lines and allow for alignment with domestic resources and systems.** Using partner country systems is often perceived to be the same thing as providing general budget support. However, aid instruments can connect to different parts of country systems based on the level of capacity and legitimate institutions in place, ranging from on-treasure budget support to aligning with plans and oversight mechanisms. Different aid instruments exist for this purpose, ranging from general budget support through to project support to non/state actors.

An effective mix will enable rapid release of development assistance while promoting coherence with other funding flows (humanitarian, stabilisation etc). This calls for the use of “portfolio” approaches that can allow different instruments and their respective mandates to support the delivery on different transition objectives. Pooled funds and other dual-objective aid instruments<sup>8</sup> will be particularly important in this regards, as will more effective and specialised use of existing global funding sources in support of transition.

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<sup>6</sup> For the purpose of consistency, the use of aid instruments in this Guidance refers to specific instruments that can be used to channel and deliver financial support. The OECD Statebuilding Guidance (OECD, 2011b) provides more details on other aid modalities, including the use of Technical Assistance.

<sup>7</sup> For a more detailed discussion on options to use country systems, see: OECD, 2009a, p. 63.

<sup>8</sup> Dual objective aid instruments blend the objectives of delivering services (which may require “capacity substitution” in the short term) with the objective of capacity development and improving country systems. Examples of such instruments can be found in the use of multi-donor trust funds with a pooled technical assistance element, Capacity Development Facilities (CDFs) or development-oriented emergency aid.

### 3.2 Lessons learned from experience with different categories of aid instruments

Considerable investment in research and analysis around aid effectiveness has provided a useful starting point for discussion on how to mix instruments (See for instance Ball and Van Beijnum, 2010; OECD, 2010b; World Bank, 2010b). Key categories of aid and associated instruments include:

*Humanitarian aid:* The complexity of providing aid in conflict-affected and transition situations is well recognised and documented. In the humanitarian realm the cluster lead approach has provided accountability and predictability, strengthened flexibility and effectiveness, and addressed the complexity when providing needs-based humanitarian aid. Pooled funding instruments have demonstrated that they can provide more predictable, flexible and timely funding in response to crises, most notably through the Central Emergency Response Fund (CERF) and through country-specific Emergency Response Funds (ERFs) and Common Humanitarian Funds (CHF). The CERF, a global, standing, non-earmarked fund, provides an initial injection of resources to kick-start response to rapid-onset emergencies and to ensure funding to under-funded emergencies. The CHFs and ERFs, as country pooled funds, provide more rapid and predictable funding to critical humanitarian needs, under the direction of the field-level Humanitarian Coordinator (HC). CHFs and ERFs are designed to give the HC greater ability to target funds to the most critical needs, provide up-front funding, encourage donor contributions and allow rapid response to unforeseen needs.

*Project and programme approaches<sup>9</sup>:* Given the immense lack of capacities as well as the challenges and risks faced in transition, and in particular the fluid political and institutional situation, many donors prefer to engage through projects and programmes and technical assistance. These approaches often aim to deliver specific activities that require rapid and effective delivery, as well as to provide capacity development. Smaller projects can be used to encourage innovation and rapid delivery. Program support can have a comparative advantage in transition periods as it is often very staff intensive and offers possibilities for capacity development such as on-the-job-training. Nonetheless, such approaches are sometimes understood as being outside the broader policy and institutional environment and directly reaching non-state actors. Projects and programmes vary infinitely in design and degrees of alignment to country systems. Projects can be delivered directly to and through country systems, and as such depend as much on the quality of these as other modes of delivery.

*Peace and security instruments:* Acknowledging the obstacles that have been created by the ODA criteria, and by internal donor policies and financial controls, a growing number of donors have created specialised budget lines and instruments aimed to provide security related support.<sup>10</sup> The bulk of these budget lines can combine ODA and non-ODA funding, therewith increasing the applicability of funding to transition situations and generating more holistic programming support. These budget lines nonetheless still account for a very small percentage of the total funding allocated to transition situations.

*Pooled funds:* Country pooled funds, used both by humanitarian and development actors, are becoming an important channel for assistance to transition situations. Pooled funds, such as Multi-Donor Trust Funds (MDTFs) and joint programmes, vary largely in the way they are established, ranging from jointly managed pools that implement through country systems through to externally managed and implemented funds. They offer a number of advantages including by enabling strategic engagement in

<sup>9</sup> A programme-based approach is a way of engaging in development co-operation based on co-ordinated support for a locally owned programme of development, such as a national development strategy, a sector programme, a thematic programme or a programme of a specific organization. Project approaches focus on projects to support narrowly defined objectives (OECD, 2006).

<sup>10</sup> Examples include the Stability Fund in the Netherlands, the Stability Instrument of the European Commission, the US Transition Initiatives budget, the UN Peacebuilding Fund, the World Bank State and Peacebuilding Fund, the Canadian GPSF and the Danish Stability Fund.

transition environments and allowing for sharing of risks. They promote a more programmatic approach to, for example, service delivery, and can allow for increasing national ownership and political visibility, while at the same time providing political leverage to international actors in discussions with partner governments (Van Beijnum, 2009). They also allow for pooling of exposure to political and reputational risks by sharing the burden of control and oversight (OECD, 2011a).

Finally, pooled funds can reduce transaction costs for both donor and partner countries by transferring the costs of coordinating and managing funds to a fund administrator. There will likely be significant costs associated with the operation of pooled funds as well, which becomes more visible when charged as overheads. Nonetheless, while effective coordination can be expensive during transition, such costs will likely be significantly lower than the combined costs of separate bilateral funding mechanisms (Ball and Van Beijnum, 2010; World Bank 2010b).<sup>11</sup>

Critical challenges remain to operational effectiveness of country pooled funds, related to the responsibility, management and time involved in setting up these instruments and expectations about what can be delivered within specific time frames.<sup>12</sup> Unrealistic expectations about how quickly pools can be rendered operational and what can be delivered through such instruments - linked largely to procedures of fund managers and lack of implementation capacity on the ground – have contributed to the fragmentation of different funding instruments (as can have been experienced in the case of Southern Sudan) (OECD, 2010b). Several reviews have been undertaken to address these challenges and ensure that pools live up to their potential. Some key conclusions are outlined in Box 7 (Ball and Van Beijnum, 2010).

Pooled funds have also struggled to find a critical mass of donors to enable economies of scale. Some donors are unable or unwilling to contribute to such instruments due to requirements of national rules and regulations (*e.g.* for accountability, appropriation), unwillingness to transfer power to joint mechanisms, dissatisfaction with the results of pooled funding mechanisms to date, and/or because of perceived benefits of using other instruments for direct delivery.

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<sup>11</sup> See for instance UNDG/ECHA (Ball and Van Beijnum, 2010) and World Bank reviews of pooled funds (World Bank 2010b).

<sup>12</sup> See for instance Ball and Van Beijnum, 2010; World Bank, 2010b.

### Box 7. The use of pooled funds in transition situations

Pooled funding mechanisms have been developed to enable more coordination, risk management, and speed and flexibility. The key characteristics of pooled funds or trust funds are that they involve multiple donors, utilising donor contributions against a set of common objectives and activities approved by a joint governing mechanism. They can take many forms, e.g. global or in-country funds; standing funds or funds that are developed in response to a specific situation; funds that channel only ODA funding and funds that channel both ODA and non-ODA funding. The extent to which these funds - whether government-managed or jointly managed trust funds - comply with the above principles will to a large degree depend on the governance structure and the rules and regulations that guide the funds. A UNDG/ECHA study on pooled funding in transition identifies three categories of pooled funds based on the level in which they contribute to government ownership, as well as their potential for rapid and flexible disbursements of funds.

- Funds that emphasis quick/timely disbursement and quick outcomes/impact and that use non-inclusive governance structures and existing capacities and presence on the ground (e.g. CHF, AIAF);
- Funds that emphasis sustainable results and use inclusive governance structures to support ownership and capacity building (currently the bulk of the in-country MDTFs, e.g. MDTF-SS, ARTF, IRFFI, SRF Sudan). Ideally linked to government structures/systems to ensure more rapid movement towards using the budget as key tool for prioritisation (Liberia GEMAP, Afghanistan MDTF);
- Combination of funding modalities with different time horizons for delivering results under one fund structure (fast-track modality based on top-down non-inclusive decision-making, developed simultaneously with or in advance of a central development facility) (e.g. HRF and SRFF and PBF's IRF and PRF).

The study also identified six preconditions for pooled funds to live up to their potential to strengthen aid effectiveness:

1. Appropriate leadership is required by key actors involved in the pool (both at the policy/strategic and the technical levels);
2. Targeted funding should be made available for capacity development activities that can enable local participation, strengthen ownership and enable local service provision;
3. Strategies, procedures and management arrangements should be harmonised across different pooled funds to prevent fragmentation;
4. Constructive donor engagement is needed in Steering Committees both on strategic/policy issues and fund oversight to strengthen risk management;
5. Realistic assumptions on the time to establish and operationalise pooled funds must be agreed and shared;

Effective fund management depends on adequate human and financial resources, an adequate understanding of the context where the fund will be operating, and clarity on fund procedures and on the roles and responsibilities of key stakeholders.

*Budget support:* Even though it is generally (although not always explicitly) agreed that general budget support is the preferred modality to facilitate direct ownership (*i.e.* the partner government is in charge of its own development process), recent work has also highlighted the challenges associated with such support during transition (OECD, 2011a; ID, 2011c). Budget support has been provided with some success, specifically in two kinds of transition contexts: (i) budget support via pooled funds in the early stages of state formation (e.g. East Timor, Afghanistan), (ii) budget support, direct to government, in more

established post-conflict countries with new regimes (*e.g.* Rwanda, Sierra Leone) (World Bank, 2010a). These experiences show that:

- Budget support can provide critical and rapid support to address immediate financing needs to prevent government collapse and help maintain basic state functions. Fragile states often have severe domestic resource constraints and struggle to pay for basic state functions, clear external and domestic arrears and resume debt service. This, in turn, often undermines security, state services (non-payment of wages for civil servants), and related social services, and increases the risk of instability. There is, therefore, a serious need for funding recurrent costs to maintain stability. Budget support opens up an opportunity to engage in dialogue on an overall stabilization and reform strategy rather than a project by project approach.
- Budget support can assist governments to implement policy and institutional transformations with the potential for breaking cycles of fragility and violence. The 2011 WDR argues that, in addition to avoiding the negative effects of parallel systems, aid through the budget supports institutional mechanisms of political decision-making on priorities and trade-offs, leverages the development of public financial management and accountability systems, and creates a tool for coordinating international assistance.

Nonetheless, it is also clear that budget support may *not be* an appropriate instrument to address transition challenges in all contexts. It may be premature when formal authority is still vested in a transitional body, as under UN mandate or a government of national unity which may not be able to make a long term commitment. Budget support may also be not appropriate where budget institutions do not provide sufficient assurance regarding appropriate uses of resources and where adequate measures to mitigate fiduciary risk cannot be put in place. Budget support is also not appropriate where current leaders are not legitimate or not committed to actions that redress fragility, and where there is no commitment to use public resources for development benefits.

In contexts where budget support might not be possible, options exist to use innovative instruments and approaches that can help the move from external delivery towards using country systems. Recent work by the International Dialogue and by the World Bank, European Commission and African Development Bank have provided a better understanding of the challenges and opportunities associated with gradually moving aid on-budget (Box 8). This work has highlighted that ‘budget aid’<sup>13</sup>, because of its cross-cutting nature, should be at the core of an effective mix of instruments to promote institutional transformation and strengthen transition towards greater state capacity and legitimacy. It also points to the potential for using budget support through multilateral organisations to spearhead alignment with national budgets and planning processes.

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<sup>13</sup> Budget aid comprises all types of instruments and sources of assistance to the budget, including policy-based budget support lending and grants (instruments), as well as contributions channelled through multi-donor trust funds (sources of financing), which can finance recurrent expenditures subject to specific fiduciary arrangements.

### Box 8. Understanding budget aid

The concept of budget aid is central and differs from “budget support”. It includes policy-based instruments (lending or grants, this is usually referred to as ‘budget support’, delivered through ‘budget support operations’, BSOs) and the use of other sources of financing to the budget, such as multi-donor trust funds (MDTFs). The release of funds linked to policy-based BSOs is usually triggered by the fulfilment of conditionality. Accordingly, the amount of aid provided through these instruments can vary with the recipient’s ability to meet the requirements. MDTFs can finance discreet projects and also provide resources to the budget. For instance, they can be used to reimburse recurrent expenditures on a regular basis, subject to specific fiduciary arrangements (e.g. verification of payment) signed between the government and the manager of the trust fund. At times, BSOs are channelled through MDTFs and not directly to the central bank and treasury. The combined use of these instruments and sources of financing – that is, budget aid – can simultaneously address issues linked to aid effectiveness and aid predictability.

World Bank and African Development Bank research suggest that budget aid can have several positive effects:

**Support macro-budgetary stability.** Due to their macro-economic vulnerability and inability to raise revenues from regular taxes, many fragile situations struggle to pay for basic state functions, clear external and domestic arrears and resume debt service. Providing a reasonably stable flow of resources to the budget that allows the government to continue salary and credit payments entails a different focus and objective than those in well-performing, general budget support countries, where it is often more about scaling up.

**Support and strengthen state capacity.** Bypassing the government by utilizing alternative delivery mechanisms weakens state capacity and may damage what little pre-existing capacity there is. Ultimately, capacity-building takes place best through gradual ‘learning by doing’. Except for the few large and lumpy investments, international assistance provided through budget aid would allow newly formed governments to gradually exercise their most important functions: setting priorities, making hard choices, and managing expenditures.

**Increase predictability of funding.** Donors could consider more systematically the possibility of providing (programmatic) budget support in situations of fragility, ex ante. Doing so may help tie budget aid into broader and more coherent program of assistance and also help recipient countries’ governments to prioritize a medium-term reform plan. While country performance may vary and therefore affect the ability to provide predictability of resources through performance-based lending, more attention can be paid to combining different instruments/and sources of financing that can be deployed to support the budget, thus allowing the state to fulfil its essential functions. Support to recurrent cost through, for instance, MDTFs, could complement more traditional means of aid delivery and could help avoid threats to state stability, in the event of policy reversals delaying budget support.

Source : World Bank (2010a)

### 3.3 Guiding principles for identifying and determining which aid instruments to use

Choice of aid instruments during transition should be grounded in the aid effectiveness agenda, driven by commitment to deliver rapid and sustainable results, and be understood within existing legal requirements that guide bilateral donor funding decisions and allocations.<sup>14</sup> An optimal mix should be chosen based on the need to allow for continued channelling of humanitarian assistance to humanitarian actors so that these can deliver basic services, while simultaneously facilitate the release of significant

<sup>14</sup> The aid effectiveness agenda refers to a set of international initiatives and agreements that underline the importance of harmonising aid activities: the Paris Declaration (OECD, 2005), the Accra Agenda (OECD, 2008) for Action and the OECD DAC Principles for Good International Engagement in Fragile States (OECD, 2007). These donor initiatives are proceeding in tandem with efforts to improve coordination and harmonisation in the multilateral system, most notably the UN ‘Delivering As One’ process.



levels of development funding to kick-start the recovery process. Instruments should be chosen based on their ability to deliver on agreed priorities. The mix should furthermore combine and complement country-specific aid instruments with resources from global specialised funding sources. This guidance argues that a mix of aid instruments should be context specific and designed based on principles of coordination and harmonisation, institutional transformation, speed and flexibility, and scope for risk management (Table 1).<sup>15</sup>

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<sup>15</sup> Section based on: Ball and Van Beijnum, 2010.

**Table 1. Effectiveness criteria for choice of aid instruments during transition<sup>16</sup>**

|   | Co-ordination and harmonisation  | Institutional transformation  | Speed and flexibility   | Scope for risk management  |
|---|--|---|---|--|
| <b>General budget support</b>   | <b>High.</b> Allows linking of resources to capacity building and outcome achievement.   | <b>High.</b> Clear incentives to strengthen country systems   | <b>Low.</b> Takes time to negotiate and requires up-front investments to strengthen systems   | <b>Mixed.</b> Requires high standards of public financial management and local accountability  |
| <b>Sector budget support</b>  | <b>High.</b> Facilitates joined-up sector dialogue and lower transaction costs   | <b>High.</b> Allows government-led delivery and pooling with domestic resources   | <b>Low.</b> Requires up-front negotiations and investments in sector systems  | <b>Mixed.</b> Requires high standards of public financial management and accountability.   |
| <b>Jointly managed pooled funds that implement through country systems</b>        | <b>High.</b> Allows for pooling of development partners resources. But requires critical mass of donors to be effective as tool for harmonization. | <b>Potentially high.</b> Resources aligned with government strategy. Can allow for additional controls.                         | <b>Mixed.</b> Can take time to establish, as requires significant up-front investments and capacity building and might be subject to lengthy negotiations and lack of prioritisation      | <b>High.</b> Provides framework for risk sharing and additional oversight. But potential risks of not delivering and of dumping risks on implementing partners   |
| <b>Jointly managed pooled funds that do not implement through country systems</b> | <b>Potentially high.</b> Allows for pooling of donor resources. But requires critical mass of donors to be effective as tool for harmonization.    | <b>Potentially high.</b> As long as resources are aligned with government strategy and implementation happens in partnership.   | <b>Mixed.</b> Can take time to establish, and might limit flexibility once resources have been allocated. But allows for more rapid implementation once funding decisions have been made. | <b>High.</b> Provides framework for risk sharing, and can decrease risks of strategic failure through allowing more rapid delivery. But risk of uncoordinated implementation.  |
| <b>Externally managed pooled funds</b>  | <b>Mix.</b> Can allow pooling of donor resources.  | <b>Low.</b> Can support institutions, but in general not aligned with or using country systems.                                 | <b>High.</b> Allows for rapid establishment and funding decisions and provides great deal of flexibility in allocations   | <b>Potentially high.</b> Can deliver rapid results focus in support of immediate peace dividend. But can undermine country ownership if sustained for longer time periods  |
| <b>Project /programme support to state institutions</b>                           | <b>Low.</b> Can make coordination more time consuming, allowing for more fragmented approach.  | <b>Low.</b> Can use country systems to differing extents but can undermine institutions if provided in an uncoordinated manner. | <b>High.</b> Can target specific urgent priorities, through earmarking for specific activities and allow for flexibility in design.   | <b>Potentially high.</b> Offers risk mitigation measures to deliver where government lacks capacity/ legitimacy and allows quick delivery. But risk of promoting "dual public sector" and undermine incentives to support state capacity |
| <b>Project /programme support to and through non-state actors</b>                 | <b>Low.</b> Can make coordination more time consuming, allowing for more fragmented approach.  | <b>Low.</b> Can undermine institutions.   | <b>High.</b> Can help to meet short-term service delivery needs where state capacities are weak, or for communities that are not political priorities.                                    | <b>Mixed.</b> Can undermine transparency and domestic accountability and raise social expectations beyond state capacity, fuelling frustration. But can strengthen state legitimacy over time through support to citizen engagement.     |
| <b>Humanitarian support</b>   | <b>Low.</b> Coordination within clusters but not with other resource flows.  | <b>Non-applicable.</b> Based on neutrality and impartiality   | <b>High.</b> Rapid and flexible based on clearly defined mandates   | <b>Potentially high.</b> Allows for better risk management through by-passing state structures but comes with security risks to staff.   |

*Co-ordination and harmonisation.* Coordination strengthens coherency, can increase effectiveness, support national and local ownership and improve accountability. Individual aid instruments can contribute

<sup>16</sup> The ratings in this table are indicative and should be understood within the reality of specific country-contexts.

to, or challenge, coordination through the way their governance and management arrangements are designed. As highlighted in Chapter 2, successful operational coordination relies on better planning and prioritization; if these are coordinated, and if the prioritisation exercise is perceived as legitimate (*i.e.* responding to community needs), then the use of aid instruments will also be better coordinated – and thereby more nationally owned, more accountable, and more effective. Critical to this will be the quality of national and international leadership and management capacity in-country, as much as the confidence built with the population.

*Institutional transformation.* Country systems need strengthening to ensure sustainability of development efforts, but a gradual approach is required to overcome problems associated with weak capacity and lack of legitimacy. This does not mean bypassing government institutions all-together; rather it means sequencing national engagement to start with a focus on strategic leadership over priorities and policy direction and commitment to consult with civil society (International Dialogue, 2007; g7+, 2010). Choice of instruments should be driven by an understanding of the underlying assumptions about how each can support institutional transformation, and whether they allow for country actors to provide strategic oversight and lead in key areas from the outset and expand responsibilities as capacity increases. This is particularly important in terms of aligning the different objectives that guide humanitarian and development actors. A gradual handover of service delivery from humanitarian actors is necessary as priorities evolve, development programmes become operational, and national institutions assume coordination and implementation responsibilities. Nonetheless, the focus on institutions should not come on the expense of rapid delivery, and development actors should build on humanitarian presence, capacities and knowledge as they scale up. Box 9 shows how, in the case of Liberia, aid instruments were used to speed up the transition towards using country systems by using external oversight and accountability.

#### **Box 9. Dual accountability: GEMAP in Liberia**

The Governance and Economic Management Assistance Program (GEMAP) was a multi-donor agreement signed into by the National Transitional Government of Liberia in early 2006, along with USAID, the European Union, United Nations, IMF, World Bank, African Union and the Economic Community of West African States. GEMAP was based upon the premise that in order to restore the public trust in government and attract investment, Liberia had to stem diversion of state resources, manage public finances transparently, deliver government services, and demonstrate the political will to prosecute corruption.

The most unique feature of GEMAP (and also the most controversial) was the placement of financial controllers in key state-owned enterprises, and placement of experts in the Ministry of Finance, Bureau of Budget and Treasury. These experts were granted co-signing authority on spending and were therefore managerial, rather than advisory in capacity, as distinct from other public sector support programmes. It was widely claimed that having co-signatory authority on all financial transactions at key revenue generating government institutions was central to building a culture of accountability in the Liberia civil service. At the same time, the downside of this outsourcing of authority was the lack of capacity transfer, which meant that sustainability was challenged with the departure of international controllers. A more specific focus on building capacities, alongside establishing sound principles for financial management, would have enabled a more rapid and successful handover of authority to the Liberian Government.

Source : USAID Liberia (2009)

*Speed, flexibility and predictability* are central elements of effective engagement in transition situations in order to adjust to unforeseen opportunities and challenges. It is, however, important to understand the meaning of “speed” and how much speed is reasonable to expect in transition situations and that speed may increase risk of unwanted outcomes. While it is important to deliver and show peace

dividends rapidly in essential areas, statebuilding and peacebuilding are long and non-linear processes (OECD, 2010b, World Bank, 2011). Attempts to move too rapidly on a more holistic reform agenda can undermine the statebuilding process. It is essential to set realistic expectations about speed, both for establishing effective funding instruments, dispersing funds, and securing outcomes. Speed is nonetheless essential to facilitate sustainable support. Rapid response mechanisms can provide peace dividends in contexts where development resources are expected to be slow to emerge. Key elements of successful rapid response initiatives include: 1) removing administrative blockages in institutions that administer and manage funds and instruments; 2) ensuring that these institutions secure appropriate personnel and expertise in a timely manner; 3) recognising that the operation of funds and instruments will require serious and prolonged commitment and predictable funding; and 4) ensuring that unearmarked funding is made available in a timely manner or that agencies can make commitments against pledges to initiate operations. Ideally, the mix of funding should be based on a degree of sequencing to enable rapid engagement, with multi-year funding engagements, even for humanitarian-type funding, to allow sufficient start-up time for development instruments.<sup>17</sup> The use of a bridging mechanism, to allow for the slow pace of development instruments, was valuable in Afghanistan, where the Afghanistan Interim Authority Fund was used as a rapid response tool (Box 10).

**Box 10. Sequencing: The Afghan Interim Authority Fund and the Afghanistan Reconstruction Trust Fund**

Established in 2002, the AIAF was prepared and managed by UNDP. The Fund was set up for six months in order to set up a flexible mechanism for quick resource mobilisation and initial institution-building, supporting the recurrent expenditure of Afghan Interim Authority. During this time, the Afghanistan Reconstruction Trust Fund was established in the context of a temporary National Development Strategy (OECD 2010).

Over the six month period from January to July 2002, salary payrolls were re-established for all 32 provinces of Afghanistan, salary payment control systems were installed, finance staff was trained, including in ICT-related skills, and emergency repairs were completed for 30 ministerial offices of the Afghan Interim Authority. The AIAF further supported the commissions created under the Bonn Agreement, including the Emergency Loya Jirga – the traditional grand council - that endorsed the Transitional Administration led by President. The Emergency Loya Jirga was fully funded by the AIAF. Support included conference planning and management, the rehabilitation of the Kabul Polytechnic where the Loya Jirga took place and transportation of regional delegates to Kabul. In accordance with the exit strategy devised for the AIAF prior to its establishment, the fund ceased operations after the successful conclusion of the Emergency Loya Jirga and the installation of the Transitional Administration.

Budgetary support for the Transitional Administration was taken over by the Afghanistan Reconstruction Trust Fund (ARTF) jointly prepared and managed by the World Bank, the Asian Development Bank, the Islamic Development Bank, UNAMA and UNDP, and administered by the WB (Given limitations to the WB's mandate, a Law and Order Trust Fund (LOTFA) was also established to finance police salaries etc). In addition to financing infrastructure projects and the country's recurrent budget deficit, one aspect of the ARTF is to establish financial management and fiduciary standards and help the finance ministry and national audit office to meet standards set. Through demonstration effect, the ARTF's standards are influencing how the government conducts the control and audit function for regular public expenditure beyond functions directly funded. Thus the ARTF is an important platform for capacity development within Afghanistan.

Source : OECD (2010), Brinkerhoff (2007)

*Scope for risk management.* Appropriate and context-specific risk management is critical to effective engagement. Each instrument should spell out the main risks and risk mitigation strategies that will be applied. The mix of instruments should be based on a shared and prioritized approach that effectively pools

<sup>17</sup> These recommendations have also been echoed in the 2011 Independent review of civilian capacities (UN Senior Advisory Group, 2011), which calls for both more rapid actions by agencies in the aftermath of conflict, and a focus on enabling state institutions to perform quickly.

risk, thus mitigating the risk of strategic failure. This allows donors to employ a portfolio approach to risk management; *i.e.* **to use a range of instruments with different levels of risk and return, making it easier to accept one high-risk, innovative instrument as part of an aid portfolio that otherwise consists of fairly low-risk standardised instruments** (OECD, 2011a). A targeted approach to contextual risks allows for more flexibility to shift between different instruments in response to changes in the context, thus avoiding the use of the "on-off switch" (World Bank, 2011).

**The above criteria should also allow national and international actors to understand how different global funding sources can be used to complement country-specific resources.** There is a plethora of global funding sources available to support country priorities, ranging from assessed contributions and core funding available to international organisations to thematic and specialised global pooled funds. It has nonetheless proven problematic to muster global resources in support of country-specific priorities, given the different institutional and operational mandates and procedures that guide these instruments. There is a need to encourage further specialisation among different global funds and to clarify the responsibilities that different global funds could fill to meet country priorities and in relation to country pooled funds. **Table 2 suggests how different global funding sources could be further specialised:**

**Table 2. Options to strengthen division of labour between different global transition funding mechanisms (non-exhaustive)**

| Aid instrument  | Options for priority tasks and responsibilities   |
|---|---|
| <b>CERF</b>   | <ul style="list-style-type: none"> <li>● Continued delivery of life-saving activities</li> </ul>  |
| <b>IDA</b>  | <ul style="list-style-type: none"> <li>● World Bank re-engagement (staffing etc)</li> <li>● Project preparations (feasibility studies etc)</li> </ul>   |
| <b>IMF Rapid Credit Facility</b>                      | <ul style="list-style-type: none"> <li>● Recurrent costs to keep government running</li> <li>● Funding to enable government to undertake initial prioritization</li> <li>● Analysis of policy</li> </ul>  |
| <b>Stability instruments (UK, NL, EU, Canada etc)</b> | <ul style="list-style-type: none"> <li>● Peace and security activities that require non-ODA funding (SSR, DDR)</li> <li>● Seed funding to continued mediation and political dialogue</li> <li>● Peace dividends in non-service delivery sectors</li> </ul>  |
| <b>UN Assessed Contributions</b>                      | <ul style="list-style-type: none"> <li>● Limited project fund for UN mission chief</li> <li>● Civilian capacity funding</li> </ul>  |
| <b>UN Agency core funding</b>                         | <ul style="list-style-type: none"> <li>● Support immediate deployment of agency staff</li> <li>● Finance immediate engagement</li> </ul>  |
| <b>UN Peacebuilding Fund</b>                          | <ul style="list-style-type: none"> <li>● Rapid support to political settlements, peace processes, and for capacity development support for reconciliation and national conflict resolutions mechanisms</li> <li>● Support to the establishment and capacity-building of nationally owned coordination and prioritization mechanisms</li> <li>● Immediate and catalytic support to statebuilding and reestablishment of essential administrative services, economic revitalization and the provision of peace dividends until more formalised funding structured can be established</li> </ul> |
| <b>UNDP Thematic Fund</b>                             | <ul style="list-style-type: none"> <li>● Recovery start-up through early livelihoods initiatives</li> <li>● Initial capacity development for institutions and effective civilian leadership</li> <li>● Quick transition to national leadership of recovery efforts;</li> <li>● National aid coordination mechanisms within government.</li> <li>● Strategic crisis prevention and preparedness;</li> </ul>  |
| <b>World Bank State and Peacebuilding Fund</b>        | <ul style="list-style-type: none"> <li>● Initial capacity development for institutional transformation in areas such as PFM, economic management</li> <li>● Seed funding to allow engagement in planning process</li> <li>● Preparations for setting up longer term funding mechanism (dual accountability) that links to budget</li> </ul>   |

### 3.4 Agreeing a financing strategy that identifies the most effective mix of aid instruments.

A "default" mix of instruments is not possible to identify given the large contextual differences between transition situations. However, the following steps will help national and international actors to develop a financing strategy to combine different aid instruments in support of agreed priorities:

***First, use criteria in Table 1 as basis for clarifying how different instruments would relate to each other and manage trade-offs between speed and sustainability and associated risks.***

*Leverage and strengthen the ability of existing humanitarian instruments to scale up delivery of immediate support and services.* Multi-annual funding during transition will allow humanitarian actors to adapt their programmes to the evolving context and pick up on opportunities as they arise, and importantly to scale up delivery of social services through existing delivery channels.

*Clarify how different aid instruments – country specific and global - can support transition towards use of country systems.* Each instrument should be requested to spell out how it will enable such a shift, and communicate the cases and reasons where this is not an objective or not possible. Instruments should also spell out the explicit risk mitigation strategies that they plan to apply and engage donors in a discussion about the level of flexibility that would be allowed. Donors should primarily rely on country-specific funding arrangements to finance transition priorities, and the roles and strategic use of available global funding mechanisms should be clarified from the outset. Explicit capacity development objectives should be identified in each instrument to further clarify the intended shift.

***Second, ensure that the mix of instruments is designed to jointly address critical and agreed objectives while maintaining flexibility to address urgent needs.***

*Align development financing to immediately deliver on critical transition objectives.* To kick-start delivery, donors should contribute to and rely on fast track modalities that exist in global funds (like the UN Peacebuilding Fund) to provide immediate support, and agree to set up interim modalities that can provide bridge funding until more permanent country-specific funding instruments can be established. The IMF Rapid Credit Facility should be draw on to finance recurrent costs to avoid government collapse, while the World Bank should be requested to draw on its own funding to initiate institutional support.

*Design aid instruments in ways that support gradual handover of recovery activities from humanitarian to development mechanisms to ensure maximum involvement of national actors.* Humanitarian engagement should be scaled down and handed over as soon as possible, in particular in service delivery sectors that will require rapid national engagement (*i.e.* health, education). Such hand-over will require better communications and more regular information sharing between the different communities, including in terms of areas where hand-over might not be possible or warranted. A sequencing of handover might be explored, where humanitarian coordination continues at the provincial level, with local authority leadership, and feeds into national level cluster meetings. Local institutions should contribute both to the elaboration of policies in response to needs and delivery of services to increase legitimacy.

*Acknowledge the important role of non-ODA funds during transition.* Non-ODA funds can play a critical role in transition through opening space for development engagement, and donors should consider establishing or scaling up stabilisation instruments to fund critical non-ODA activities. Funding for agreed transition priorities, including non-ODA, should be reported and tracked at the country level. The DAC should explore incentives to increase such funding, including whether total funding against agreed transition priorities could be recorded under a separate reporting line without changing in the current ODA criteria.

***Third, preference use of country pooled funds but sequence their establishment based on changing objectives and evolving circumstances.***

*Make country pooled funds the centrepiece of a financing strategy to deliver on transition priorities.* Donors should consider increasing support through, or aligning with, country pooled funds. Smaller donors

should in particular be willing to contribute to these funds, recognising the high costs of coordinating and managing such contributions. Larger donors should at a minimum align with the strategic priorities addressed by the pool. The establishment of pooled funds should be premised on achieving a "critical mass" of donors.

*Revise reporting requirements to strengthen donor ability to fund country pooled funds via development budgets.* Donors should be allowed to report development funding provided to country pooled funds as multi-bi rather than bilateral contributions, as such funds would be channelled through multilateral organisations.

*Sequence the establishment of pooled funds based on agreed priorities.* Immediate results require rapid and flexible instruments that rely on external management and implementation, while sustainable development requires jointly managed instruments that work with and through country systems. Mechanisms in support of sustainable development should only be established once these can show a clear link to national priorities and budgets and be used to strengthen country systems. Interim or dual-window approaches can be helpful to facilitate transition from external delivery.

*Improve the effectiveness of pooled funds.* Realistic assumptions are required in terms of the time involved in establishing pooled funds (Ball and Van Beijnum, 2010; World Bank, 2010b). The United Nations and World Bank should develop and communicate their positions on the time involved, and outline areas where response time can be improved. The United Nations should consider harmonising its rate of overheads at seven percent, as currently charged in UN-administered MDTFs (UN Senior Advisory Group, 2011). Donors should engage in dialogue regarding improvements to pledging and disbursement timeframes, and should allow for higher contingencies in interim funds as a way of increasing flexibility to address fast-changing transition objectives.

*Use joint oversight mechanisms to link country pooled funds with national budgets.* Jointly managed pooled funds should preference use of joint oversight mechanisms to shortcut delivery through country systems. Establishing such mechanisms will require up-front investment to strengthen country fiduciary and financial management systems, and fund administrators should find ways to make such investments in the absence of firm financing commitments.

***Fourth, clarify the roles of multilateral organisations in transition and invest in their capacity and systems to provide more coordinated support.***

*Multilateral procedures need amendment to enable more rapid and sustained deployment of specialised staff.* Human resources and financial allocations models must allow for rapid deployment of human and institutional capital during transition (UN Senior Advisory Group, 2011).. The UN should allocate core resources (from assessed contributions, core agency funding and the RC strengthening initiative) to enable DSRSs/RCs to rapidly engage critical staff/capacities and to further differentiate the pool of potential UN leaders with the required skills to match transition challenges. The World Bank should increase flexibility in staffing regulations and allocate its own resources for immediate support to core state functions. Donors should provide access to rapid financing and guarantees to allow implementing agencies to make multi-annual commitments, as per fast track procedures already operated by agencies such as WFP and UNDP, and to facilitate hiring of critical programme staff during the design and approval phase.

*Donors should invest in and strengthen the multilateral system's capacity to support effective planning and implementation.* Multilateral actors are expected to play key coordination and implementation roles during transition, but continued investments are required to strengthen systems and processes to this end. For instance, funding and support is required to strengthen the UNs ability, and the



authority of the DSRS/RC/HC, to support country team efforts to strengthen planning and coherence, to deploy capacity to enable core government functions, and to strengthen nationally-led aid coordination.

*The relationship between different multilateral agencies, in particular the UN and World Bank, needs to improve.* Much has been done to improve UN-World Bank relations, specifically regarding rules and regulations surrounding pooled funds, resulting in a framework agreement and joint fiduciary principles. However, many of these agreements have been drawn up by fund managers, and it would be worthwhile for donors and their multilateral implementing partners to jointly agree on key elements of a pooled fund and the key roles and responsibilities of actors involved. Increased efforts are required at both corporate and field levels to implement agreements, change behaviours, streamline rules and procedures for staff deployment, and to fit legal and procurement rules and regulations to transition challenges. Progress is also needed to establish joint reporting requirements and results frameworks, as well as common standards that can facilitate more flexibility. Some options are set out in Box 11.

#### **Box 11. Options to improve UN-WB relationships**

The United Nations and the World Bank should consider the following options as they continue to improve institutional cooperation and operational procedures:

- Agree on appropriate division of labour based on the comparative advantages of different organisations.
- Streamline policies across various multilateral boards to promote coherence and consistency in messages.
- Implement WDR recommendation on joint operations. To actually effectuate change, the United Nations and World Bank should consider initiating joint programmes during transition and more regular staff exchanges when appropriate.
- Improve field coordination through strengthening incentive structures for mission chiefs and senior officials. Heads of missions should be evaluated partially on their coordination capacities, including through regularly including each other in 360 performance reviews and through participation in joint staff retreats.
- Include senior World Bank staff in Resident Co-ordinator rosters for transition contexts that might require more engagement through country-systems.
- Reform and streamline procurement policies to enable more rapid engagement and use of emergency procedures, including in terms of commitment to scale up local procurement.

*Explore joint multilateral approaches to budget aid.* Donors should use multilateral agencies to spearhead budget support operations. Multilateral agencies should further align their operational procedures and approaches to facilitate such cooperation, drawing in particular on the IMF Rapid Credit Facility, which can provide on-budget aid to fragile states on concessional terms.

## CHAPTER 4. IMPROVING ENGAGEMENT THROUGH USE OF TRANSITION COMPACTS

Chapter 4 details how support to transition could be improved through the use of country-level transition compacts. Compacts are light and flexible agreements between national and international partners. They link an agreement on critical transition priorities with an explicit strategy for how these should be financed through use of different funding sources and instruments. Compacts will improve the coherence and effectiveness of aid, thus reducing the risk of strategic failure, improving results focus, and providing real steps towards stronger national engagement and leadership. They will allow for joint prioritisation between national and international actors and frequent reviews of progress, thus addressing donor concerns about capacity, legitimacy and risks of engagement.

### 4.1 Rationale for and objectives of transition compacts

The evidence presented above is clear: there is a need for serious and significant reform to create faster, more flexible and predictable financing against a more coherent and prioritised strategy, even in contexts where the legitimacy of a government and its institutions might be in question. Similarly, the voices of the countries that have emerged from conflict are also clear: donors and the international community must come together to nurture and nourish state capacities, based on broad consultations and engagement, if they are to assist in building peaceful and resilient states and societies. During a recent monitoring survey on how donors implement the Fragile States Principles, 12 of 13 countries highlighted that the lack of mutual accountability for results as a major shortcomings that prevent more coherent and coordinated support.

This Guidance envisions mutual agreements or compacts (hereafter “compacts”) as a way to bring coherence to diverse interventions, objectives and funding streams during transition. **Such agreements would be grounded in a basic accountability framework, where each actor agrees to work towards a limited set of indicators and to be held accountable for results delivery.** This builds on significant work to explore mutual accountability frameworks as part of the aid effectiveness agenda, but recognises that such frameworks will need to be adapted to face specific transition challenges (OECD, 2008; Wood et al., 2011). Different models have already been tested in various countries (see Annex 1), including the recent Statement of Mutual Commitment between the Government of Liberia and the UN Peacebuilding Commission. See Box 12 for some lessons and characteristics from recent experiences.

### Box 12. Why 'transition compacts'?

Recent years have seen the development of an increasing number of instruments that create a relationship of collaboration between donors and a host country that go beyond "donorship." These instruments, when successful, have enhanced the accountability of donor countries, improved relations with host countries, and helped make aid more targeted, less transaction-intensive, and more effective.

A review of Peacebuilding Strategic Frameworks conducted by the PBSO (2007) defines these frameworks as "mutually accountable and time-bound agreements, between a government and international partners, for directing scarce foreign and public technical, financial and political resources towards building national capacities to address the root causes of violent conflict." The goal of these instruments has been to facilitate the migration away from the supply-driven provision of aid towards a partnership where external resources help to address domestic needs and priorities. The experience has not been uniform, and the nature and extent varies widely. There is a clear consensus, however, that without an instrument that provides both a framework and a forum for prioritization, international assistance will remain fragmented.

The proliferation of instruments and actors trying to create coherence speaks to the latent demand in the international system for a country-level oversight mechanism. Such a mechanism must be flexible (to cope with the diverse array of circumstances in which it might be employed), robust (to hold both donors and host countries accountable to their commitments) and transparent (so that citizens of donor and host countries alike can have visibility in to the use of their resources). There is no existing instrument that meets these criteria. Most existing instruments are either bilateral or are agreements between specific multilateral institutions and countries. These experiences nonetheless provide some insights on further factors that would make compacts successful:

- Mutual commitments. Where both sides are committed to achieving shared goals, there is more understanding of risks and challenges, and a more honest dialogue about how to overcome these.
- Explicit prioritization. Greater focus allows for a shift towards a model of partnership that is more modest, and therefore more realistic about what can be achieved.
- Focused participation. Only most critical international actors are needed from the outset (possibly based on funding levels, political leverage etc) to ensure focus and speed, although compacts should include provisions to broaden membership over time.
- Senior and serious support. Effective decision making and support require a forum with enough seniority and diversity to make decisions and work through problems, and the support of a technically competent secretariat that can manage policy and implementation and advice on adjustments as necessary.
- Flexibility. Compacts should be light on formalistic agreements and detailed negotiations. They should focus on main lines of accountability and be allowed to evolve and develop with the context.

Source : PBSO (2009), International Dialogue (2010)

Specifically, compacts can:

- *Deliver better results through targeting evolving and realistic priorities:* To ensure that international assistance is targeted in response to the most urgent priorities across sectors and population groups, Compacts would provide a framework to agree and revisit collective priorities based on participatory approaches and responding to an evolving country context, thus guiding sector planning processes.

- *Enable collective risk management:* Compacts would help individual donor agencies and their implementing partners to effectively identify key contextual risks and to “pool” programmatic and institutional risks. In constantly changing circumstances, this should help donors to take strategic and informed decisions on the level and type of risks that they can tolerate.
- *Strengthen country-level ownership:* Transition takes a long time<sup>18</sup> and compacts can provide strategic focus from the outset based on a strategy to gradually increasing aid through country systems<sup>19</sup> while simultaneously ensuring that access to basic services is maintained.

**Compacts require political engagement and leadership at the country-level.** They should normally be agreed in-country between national governments and key international partners present, and be based on broad-based consultations and feedback from civil society and other stakeholders, including at the local level. Through such consultations the national government would be better placed to provide at least a minimum level of strategic direction through national transition strategies, even in contexts with extremely weak institutional and human capacity. Nonetheless, in complex emergency and conflict contexts and/or in situations where governments are particularly weak or illegitimate, compacts could still provide the basic organising and coordination framework between development partners present on the ground, to ensure that interventions are priorities and coordinated and that rapid financial support is configured in a way that does not undermine sustainable recovery efforts and limited capacities. Annex two explains the roles, benefits, contributions and actions of different actors in compacts.

There is no single blueprint here, and **compacts need to be designed based on the context, local dynamics, and existing capacities and structures.** In particular, these agreements need to recognise and reflect on the specific characteristics of the conflict, as well as the will and capacity of national actors to lead a prioritisation exercise. The international community should not impose external models or political solutions upon partner countries, but rather seek to engage in open discussions about what framework would best capture issues arising from internal political dynamics and circumstances. Any compact should be based upon a process of inclusive political consultation and participation by civil society to strengthen state legitimacy, and as such will need to be flexible enough to evolve over time.

## 4.2 The four elements of a transition compact

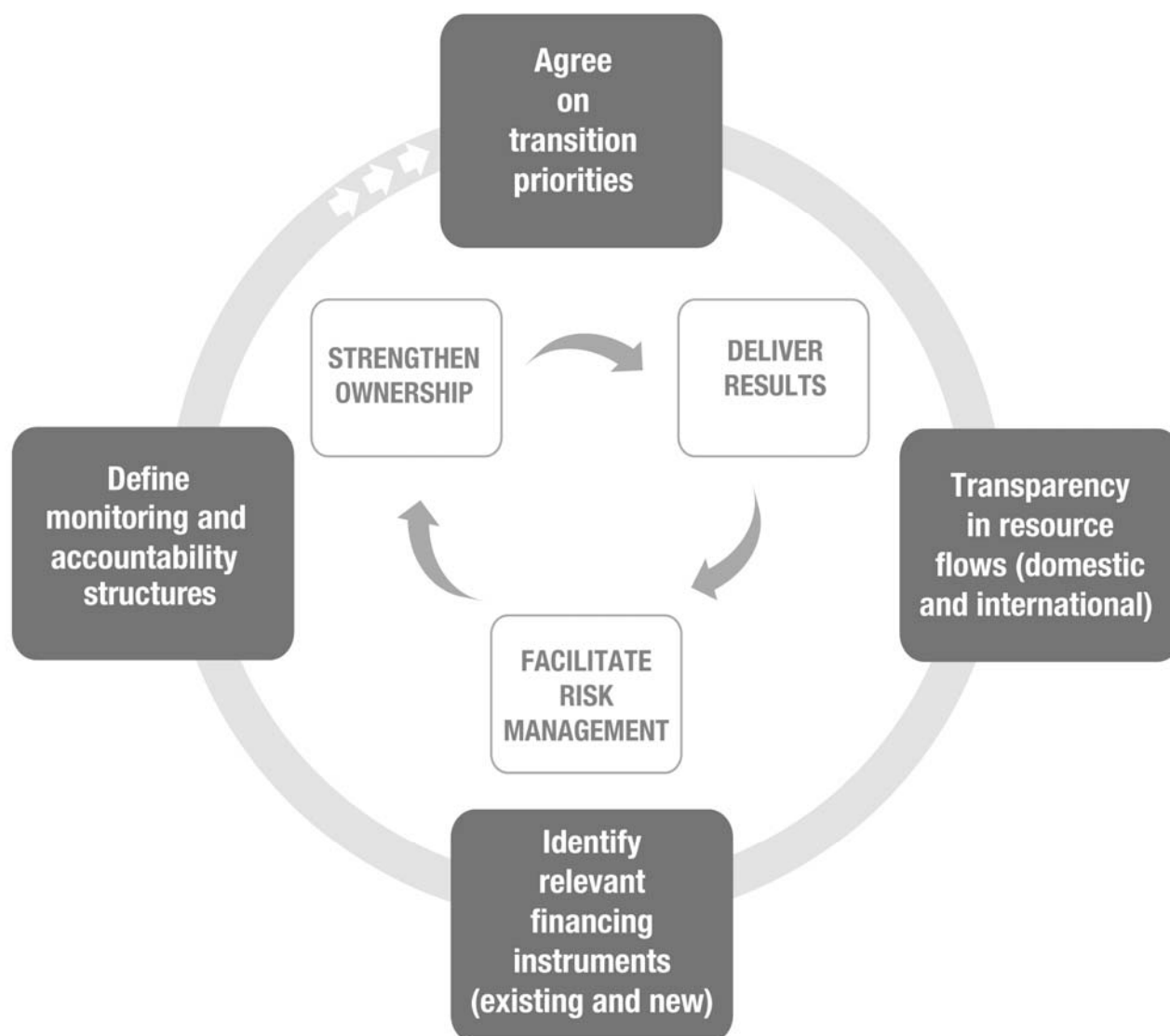
**Compacts are in essence tools to link national priorities with an explicit strategy that combines relevant funding sources and instruments in support of these priorities.** They can be seen to combine four basic elements: (i) agreement on a limited set of priorities; (ii) transparent overview of funding sources and flows; (iii) a strategy for how to finance agreed priorities; and (iv) a very basic monitoring framework to facilitate accountability for results (Figure 2).

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<sup>18</sup> The World Development Report 2011 (World Bank, 2011) suggests that it takes 15 – 30 years for a country's institutional performance to improve from the level of a fragile state like Haiti to the level of a functioning state like Ghana

<sup>19</sup> "Country systems" is being used in the Guidance to indicate any effort to work with and through these systems According to the Paris Declaration and the Accra Agenda for Action (OECD, 2007), country systems and procedures typically include, but are not restricted to, national arrangements and procedures for public financial management, accounting, auditing, procurement, results frameworks and monitoring.

Figure 3. Elements of transition compacts



### *Priorities*

**Compacts should be grounded in a commitment to strict prioritisation across sectors.** This will require complementing humanitarian needs-based approaches with explicit efforts to prioritise peacebuilding and statebuilding activities based on more realistic assumptions about available resources. Prioritisation should ideally be done on the basis of a national plan (e.g. Sierra Leone) but should at a minimum be agreed based on international transition objectives (see chapter 2), a national transition strategy and joint contextual risk analysis.

Compacts should ensure that prioritisation is done in partnership with the government and other relevant country actors rather than by donor staff and consultants (g7+, 2010; International Dialogue, 2010a). Where national governments lack appropriate systems, capacity or legitimacy to effectively manage and guide international support, compacts would allow for more flexible and gradual application of development principles to ensure prioritisation and sequencing of interventions that support the

establishment of functioning country systems. This in turn would allow donors to accept a higher level of simplicity in plans than normally expected.

**Priorities will need to be revisited annually to ensure flexibility and continued relevance.** As explained in Chapter 2, high-level priorities can provide the basis for development of a single, annual, plans and more detailed sector and sub-national plans. Plans and implementation strategies will still be the responsibility of clusters and sector working groups, which bring together different actors and agencies for strategic discussions about how to best address a specific thematic area.

### *Funding sources and instruments*

Compacts should **map expected funding levels and flows** and set out a strategy for how funds will be used to deliver on agreed priorities. National governments and donors should agree how different resource flows (domestic resources, humanitarian and development aid, non-ODA) will support specific priorities. Local aid information management systems should be charged with mapping resource flows against priorities, based, if possible, on local budget categories to facilitate links with national budgets (see Box 13).

#### **Box 13. Aid information management systems in fragile and post-conflict situations**

Aid information management systems (AIMS) are designed to assist developing countries in managing their aid flows, incorporate aid flows onto their national budgets and improve the overall alignment of assistance with country priorities. AIMS can thus fulfil two purposes at the same time: strengthen government capacities to plan, implement, monitor and evaluate the use of public resources, and enable aid coordination and information-sharing.

During transition, these two purposes can potentially be at odds because national governments might not have the immediate capacity to manage and coordinate the use of resources. In such environments, the international community might assume certain AIMS responsibilities with a view to support and strengthen government-led coordination and management structures and capacities. However, AIMS can only respond to a small part of international development actors' needs for fast and reliable information on financial flows in post-conflict contexts. It is thus important that processed, illustrative information and sound data analysis is available in the form of documentation and reports, alongside public access to the database itself. The better the reporting, the more likely it is that the AIMS will serve as a credible and useful decision-making tool for recovery planning as well as for longer term institutional development.

*Source* : UNDP (2010)

More coherence between domestic revenues and external financing– mixing and matching the available tools – is a precondition to a more coherent response. Compacts will help this process through identifying the financing instruments that are best suited to deliver on priorities, facilitate rapid release of development funding, and ensure increasing levels of ownership given local capacities. This will improve efficiency and enable aid to become more catalytic and responsive to changing circumstances.

An effective mix will be based on a **strategy that identifies the different instruments needed to deliver on different transition objectives**. It will prioritize existing and/or new country-specific instruments that can facilitate early release of development funding. The mix should include instruments that can facilitate off-budget delivery, including for humanitarian aid, gender and human rights related activities and support to civil society. Pooled funds and dual-objective aid instruments will likely play an important role in the delivery of transition priorities given their potential to deliver coherent and coordinated support. Sequencing of such pools is of critical importance, as explained in Chapter 3.

Similarly, global pooled and specialized funds should be relied on to kick-start establishment and delivery on agreed priorities.

### *Monitoring and accountability*

Compacts should include a **few basic indicators to measure and assess progress against agreed priorities**. Lessons show that monitoring frameworks can easily become big and bureaucratic, effectively preventing rather than facilitating progress. Key is to identify a few important context-specific indicators that could serve as basis for regular reassessments of priorities, progress and funding arrangements to ensure continued relevance and identify and address opportunities and risks to development investments. Three basic types of indicators should be considered:

- Progress indicators: A few indicators are required to take stock of progress against agreed priorities and to understand whether priorities are still relevant. They could also be used to highlight new and emerging risks.
- Process indicators: A mix of quantitative and qualitative indicators is required to track the transition towards national ownership and institutional transformation. They could track capacity and use of local institutions, the extent to which different instruments deliver agreed results, and whether risks are effectively managed.
- Compliance indicators: Compacts should include a basic compliance element to ensure mutual accountability. Indicators should be based on a resource mapping that outlines likely multiannual flows and how and when international and national actors disclose information on volume and allocations. Indicators could be used to map actors against results and the outcome could be published and reviewed annually.

**Local accountability structures and capacities need to be strengthened at different levels.** Such systems play critical roles in monitoring and holding national governments to account through allowing citizens to participate and feedback on progress. Donors should consider using and strengthening local systems from the outset to provide independent oversight of government-executed activities as part of the compact monitoring framework, including through the establishment of joint oversight and dual accountability mechanisms. The World Development Report recognises that such systems should be strengthened at different levels, including through "community-driven development programs and direct contracting to NGOs using results-based financing" (World Bank, 2011, p. 202). Working at different levels can enable management of donor fiduciary risk and provide space to establish and strengthen national systems.

**“Best fit” co-ordination and governance arrangements should be established to manage the process, assess progress and enforce compliance.** The massive aid inflow during transition overwhelms systems with limited absorptive capacity – or limited capacity to meet onerous donor requirements. The burden to coordinate the ensuing fragmented international response is often placed on the government, which puts further strain on its limited resources and capacities. Donors must recognise the transaction cost of coordination and find ways of addressing this, including through the very early establishment and operationalisation of aid coordination units within the government (UN Senior Advisory Group, 2011) and through specific capacity development efforts.) Donors should agree to align behind these units, provide staffing support on request, and should comply and respond fully to government requests for data for their aid management systems as an enabling factor for better planning.

### 4.3 Operationalising transition compacts

Compacts need to be flexible and context-specific. By focusing initially on a small number of key priorities, a general commitment to transparency on resource flows and a certain level of multi-year financial commitments, compacts could hold a lighter footprint and be adjustable to dynamic situations and varying needs in the context of transition. Compacts should be a priority as soon as the primary focus area expands to encompass a wide range of transition objectives. Their implementation should be understood within existing legal requirements that guide bilateral donor funding decisions and allocations and will require the following:

***First, make transition compacts an important part of international engagement during transition.***

*Compacts should be formalised as an integral part of the global response, including by the UN Security Council when it adopts resolutions setting up UN missions. Donors should commit to provide the resources necessary to enable compacts to be established and operate, including through global pooled funds and by strengthening the authority and capacity of multilateral agencies to provide rapid support.*

***Second, agree on effective management and accountability structures and put in place structures to enable these to perform.***

*Compacts should be led by the national government in partnership with international actors. Government leadership in the Compact should be grounded in commitment to reach out and consult broadly with civil society and other relevant stakeholders, to monitor performance, and strengthen legitimacy over time. International engagement should initially remain limited to key actors (based on level of confidence, perceived legitimacy and authority, funding etc), with the explicit goal of rapidly scaling up participation over time. Governments should indicate which international actors would be best placed to act as convenor of the international community, based on demonstrated competence and engagement.*

*Leadership structures should be agreed among international actors. The capacity of the United Nations to act as a proxy for the international community in UN mission settings will need to be strengthened, and the United Nations should clearly articulate what would be needed to perform this role in an effective and efficient way. In non-mission settings, international actors should move to operationalise the commitment to appoint a lead donor, strengthen division of labour, and define the specific leadership roles expected from the United Nations and World Bank resident representatives. Box 14 sets out more detailed management options.*



#### **Box 14. Options to manage transition compacts**

It will be critical to ensure that multilateral and bilateral leads have the means necessary to hold their peers accountable to the commitments made in Compacts. Options to enable this include:

- Donors support the establishment and operationalisation of aid coordination units within government, as main focal point for compacts and agree to align behind these from the outset. These units should be integrated into government structures and report directly to the Minister, but could be staffed by technical assistance if required.
- The DSRS/RC should be given a certain level of authority and resources as part of the mandate to support the capacity development of national and local civil servants, and/or to hire relevant expertise needed to support the political dialogue, management of compacts, and negotiations over evolving priorities. The relevant coordination mechanisms of the United Nations need to be strengthened for this purpose;
- The lead donors should develop terms of reference (as per OECD, 2011b), jointly with national responsible authorities and concerned civil society stakeholders, which would set out the process for decision making, rules and responsibilities, and accountability criteria.
- International actors should preference the use of country accountability institutions. Compacts could identify and spell out what domestic institutions, including the technical branches of various ministries and oversight mechanisms, will be used to facilitate monitoring, reporting and auditing of various modes of engagement, as well as any additional arrangements required to strengthen these institutions.

*Identify innovative ways of managing the "dual accountability dilemma".* Compacts should recognise the need to adapt approaches to better manage accountability pressures and allow actors to communicate on results and risks of engagement, including through identifying dual purpose results that would show the value of investments to both country population and donor constituency within a shorter timeframe (World Bank, 2011).

***Third, adapt and amend donor policies and procedures to enable more flexible and predictable financing and engagement at country-level.***

*Further devolution of decision making authority to country-based staff.* This will allow country actors the required mandates and expertise to engage in the design and implementation of compacts. Field-level staff should receive greater discretion over short-term spending decisions through use of ex post justifications for reallocation of project activities during the budget year.

*Nurture closer cooperation between donor staff in different policy communities at both headquarters and in the field.* Coordinated engagement will require a specialised approach to staffing. Specific actions include closer cooperation between humanitarian and development staff at country level, and mixed teams of humanitarian and development specialists. Expertise should be drawn from different policy communities to ensure capacities for holistic context analyses and programming. Humanitarian desk officers should automatically be transferred to country teams during transition. This might require revisiting and adapting existing bilateral policies and procedures. Follow-up work to this guidance should be to map these reforms against principled and mandated activities and roles of the various contributing actors.

***Fourth, support the government in establishing aid tracking and coordination mechanisms at the country-level to enable more clarity of resource flows and commit to provide data on all aid flows.***

*Aid tracking and coordination mechanisms are required from the outset.* These mechanisms need to be government-led and be anchored in existing inter-governmental coordination mechanisms and constitutional divisions of responsibility. Such systems would enable more transparency of domestic and international flows, and how these resources relate to agreed priorities. Compacts should be complemented with donor commitment to support and assist in setting up aid coordination mechanism and database, and donors should explore incentives to encourage different communities involved to use these mechanisms for reporting.

*Be transparent about the likely levels of aid from different budget lines across years.* National and international stakeholders should be open about the likely level of support that can be expected in different sectors and how this will be used to support the transition. Such an up-to-date mapping of resource allocations to support funding of identified priorities would provide a hard budget constraint and baseline for agreeing on the right ambition level and priorities.

***Finally, fund the establishment and operationalisation of compacts.***

Up-front investments will be required for compacts to support and strengthen national engagement, deployment of critical staff, and support to setting up the required administrative and fund management structures. In particular, funding is required in support of continued political dialogue to strengthen political settlements. Such financing is a precondition for coordinated and coherent engagement, and should initially be provided by global funds such as the UN Peacebuilding Fund, the UN DOCO Country Coordination Fund and the UNDP/BCPR Thematic Trust Fund. Donors need to recognise and accept the higher administrative and coordination costs of working in transition contexts, and be willing to finance deployment of specific expertise to facilitate inclusive political processes that are meaningful and legitimate in the eyes of the population, conduct context and risk-analysis, strategic planning, resource tracking and monitoring as well as management of pooled funds.

## ANNEX A. INTERNATIONAL EXPERIENCES WITH USE OF COMPACTS

Recent years have seen the development of an increasing number of instruments aimed, inter alia, at creating a relationship of collaboration between donors and a host country that goes beyond Donorship and at enhancing the accountability of donor countries. A review of Peacebuilding Strategic Frameworks conducted by the PBSO (2007) defines these frameworks as "mutually accountable and time-bound agreements, between a government and international partners, for directing scarce foreign and public technical, financial and political resources towards building national capacities to address the root causes of violent conflict." Increasingly articulated around the implementation of an existing national vision/strategy, such Compacts can play an important role in translating domestically generated strategies into mutual frameworks that can facilitate better implementation. They can also be used to reach agreement on priorities in the absence of a national strategy (*e.g.* Timor-Leste). Some experiences include:

***Afghanistan:*** Covering the period 2006-2010, the Afghanistan Compact was endorsed by 61 countries and international organizations. The five year political agreement and strategy provided the framework for the partnership between the Afghan Government and the international community, outlining specific, measurable, time-bound targets in three interdependent areas: i) Security, ii) Governance, rule of law and human rights, and iii) Economic and social development. The Compact was significant in that it integrated security, governance and development and set out mutual commitments, which, while not legally binding, provided the basis for a more coherent and strategic approach to providing assistance to Afghanistan. The Compact set up a Joint Coordinating and Monitoring Board (JCMB) co-chaired by the Afghan government and UN, as well as associated sectoral working groups, to hold the government and international community mutually accountable for their commitments. The Afghanistan Compact gained added legitimacy through being endorsement by the UN Security Council.

***Iraq:*** partnership with the international community, the International Compact with Iraq (ICI) is an initiative of the Government of Iraq. It seeks to achieve a National Vision for Iraq to facilitate, for the period 2007-2012, the consolidation of peace and the pursuit of political, economic, and social development. Domestically, the ICI aims to build a national Compact around the government's political and economic program and to restore the Iraqi people's trust in the state and its ability to protect them and meet their basic needs. Internationally, the Compact establishes a framework of mutual commitments to support Iraq and strengthen its resolve to address critical reforms. The ICI is premised on the belief that peacebuilding and economic prosperity maintain a symbiotic relationship. Developed in close partnership with the United Nations and World Bank—as well as other international partners—the International Compact with Iraq builds on and aims to enhance existing national planning and aid coordination mechanisms, such as the National Development Strategy for Iraq, Sectoral Working Groups, and Cluster Teams. In direct support of Iraqi Government-led reform efforts, the Compact establishes a schedule for the proposed actions of international partners, including tangible financial commitments.

Recent experiences with Compacts in ***DRC and Southern Sudan*** provide evidence of how governance can be improved through better interaction and coherence among different modalities and actors. There are early indications that such planning and coordination tools have encouraged better prioritisation of activities and improved modalities for how governments and international partners should interact. This is helping increase the accountability between government and donors and to their citizens (International Dialogue, 2010).

**Liberia:** The draft statement on mutual commitments on peacebuilding in Liberia was agreed between the Government of Liberia and the PBC in October 2010. Based on the National Vision for 2030 it identifies three critical peacebuilding priorities in the areas of rule of law, security sector reform, and national reconciliation. The statement sets out commitments by the Government and the PBC, and indicates that the statement will inform the Liberia Priority Plan, which will be developed by the Government.

Emerging lessons from recent experiences with compacts include:

- Focus the compact on a small number of key, high level goals and priorities necessary to achieve fundamental objectives critical to peacebuilding and statebuilding. These goals should encompass actions by all relevant policy communities – diplomatic, security, humanitarian and development – at both local and national levels. Other subsidiary goals should be delegated elsewhere, *e.g.* to the PRSP process, IFI policy based financing, or sector aid coordination groups. Regular compact round-tables or high level decision making forum can intervene when subsidiary processes don't work.
- Ensure that the high level forum is well led on both government and international sides and that the secretariat has the technical capacity to present well formulated options to the forum.
- Commitments in the compact need to be costed and integrated into the government's budget framework, including those actions not financed from the budget, with sufficient clarity to monitor outcomes, final and interim outputs, inputs and organizational responsibilities for delivery.
- Actionable commitments to full transparency of donor and government financing, interim progress and results need to be built into the compact based on clear but simple monitoring arrangements.

## ANNEX B. TRANSITION COMPACTS – INDICATION OF ROLES, BENEFITS, CONTRIBUTIONS AND ACTIONS REQUIRED FOR DIFFERENT ACTORS<sup>20</sup>

|                      | Host Government/Country stakeholders   | Multilateral and operational agencies   | Donors   |
|----------------------|--|---|--|
| <b>Roles</b>         | <ul style="list-style-type: none"> <li>• Provide strategic leadership to Compact</li> <li>• Provide vision and engage in priority setting</li> <li>• Reach out and bring in views and input from local communities and civil society through appropriate mechanisms</li> <li>• Lead annual participatory reviews of progress as basis for revisiting priorities and ensuring compliance</li> </ul> | <ul style="list-style-type: none"> <li>• Manage day to day operation of Compact in partnership with national and international stakeholders</li> <li>• Participate in collective priority setting and undertake more detailed sector/cluster planning</li> <li>• Contribute to design of aid instruments – assess transition strategies for increased use of country systems</li> <li>• Provide catalyst funding from global pooled and specialized funds</li> <li>• Support the execution of annual monitoring exercise</li> </ul> | <ul style="list-style-type: none"> <li>• Provider of external resources for transition objectives</li> <li>• Contribute to political negotiations</li> <li>• Participate in collective priority setting based on relevant analysis</li> <li>• Contribute to and approve mix of instruments</li> <li>• Participate in collective monitoring exercise</li> <li>• Contribute to joint result reporting and communication</li> </ul> |
| <b>Benefits</b>      | <ul style="list-style-type: none"> <li>• Coherent international support</li> <li>• Alignment and harmonization of resources (domestic and foreign)</li> <li>• Opportunities for constructive dialogue</li> <li>• Forum for taking stock and reassessing results against priorities</li> </ul>  | <ul style="list-style-type: none"> <li>• Increased coherence in funding streams</li> <li>• Rapid access to flexible development funds – less strain on humanitarian funding for recovery</li> <li>• Collective engagement with government and donors</li> <li>• Accountability for transition results</li> <li>• Opportunity to highlight and address key risks and implementation challenges</li> </ul>  | <ul style="list-style-type: none"> <li>• Collective understanding and management of risks</li> <li>• Improved transparency, coordination and coherence of efforts</li> <li>• Accountability for results</li> <li>• Collective strategic thinking and greater inter- and intra- ministerial coordination of international transition engagement</li> </ul>  |
| <b>Contributions</b> | <ul style="list-style-type: none"> <li>• Domestic financing for agreed priorities</li> <li>• Aid coordination and management</li> <li>• Regular consultations with local communities and civil society on priorities</li> <li>• Transparency on flows and willingness to be held to account</li> </ul>   | <ul style="list-style-type: none"> <li>• Coordinate multilateral system and provide coordination role on behalf of international system</li> <li>• Use core funding and existing funds to facilitate rapid delivery and staff deployment</li> </ul>   | <ul style="list-style-type: none"> <li>• Financing – predictable and early release of development funding</li> <li>• Overall coherence between different objectives</li> <li>• Transparency in flows and actions and willingness to be held to account</li> </ul>  |
| <b>Major actions</b> | <ul style="list-style-type: none"> <li>• Pending feedback from g7+</li> </ul>  | <ul style="list-style-type: none"> <li>• Reform procedures to allow automatic use emergency procedures to deliver results during transition</li> <li>• Reform existing funding sources (core funding, specialized funds) to provide interim funding for immediate staffing and delivery</li> <li>• Implement existing agreements that regulate cooperation between UN and WB</li> <li>• Sequence the establishment of pooled funds based on objectives and level of external oversight required</li> </ul>                          | <ul style="list-style-type: none"> <li>• Devolved responsibility to empower country based actors</li> <li>• Integrate whole-of-government thinking in transition operations</li> <li>• Allow collective prioritization of funds</li> <li>• Facilitate early release of development funding – establish specialized funds if needed</li> <li>• Contribute to or align with country pooled funds</li> </ul>                        |

<sup>20</sup> The following should be understood within the context of existing planning and coordination systems and taking into account existing legal requirements that guide bilateral donor funding decisions and allocations

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