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DEVELOPMENT CO-OPERATION DIRECTORATE
DEVELOPMENT ASSISTANCE COMMITTEE

International Network on Conflict and Fragility (INCAF)

OECD INCAF POLICY STATEMENTS ON FINANCING AND STATEBUILDING

DAC Senior Level Meeting, 14 April (afternoon) and 15 April (morning) 2010

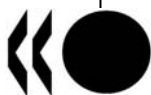
This document is submitted for INFORMATION under Item 5 of the Draft Annotated Senior Level Meeting Agenda [DCD/DAC/A(2010)5/REV3].

Meeting at Directors-level on 24 February 2010, members of the OECD DAC's International Network on Conflict and Fragility (INCAF) approved policy statements on i) transition financing and ii) support to statebuilding. These statements are put before the DAC SLM for information.

Contact: Rory Keane - Tel: +33 (0) 1 45 24 15 07 - Email: rory.keane@oecd.org

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POLICY STATEMENT ON FINANCING

Building a Better Response – Findings on Transition Financing Challenges and the Way Forward

Background

1. While more than one-third of Official Development Assistance (ODA) in 2008 was spent in fragile and conflict-affected countries, recent INCAF work has highlighted challenges and shortcomings associated with such aid. For example, the 2010 Annual Report *"Resource flows to fragile and conflict-affected states"* stresses the need for increased predictability of aid over time, for heightened attention in times of particular needs, and for considering global aid allocations, as some fragile states are becoming increasingly dependent on a handful of donors. Resource patterns show a stop-and-go engagement in most fragile states, whereas in post-conflict countries international engagement is still marked by a sudden influx of aid, which in the following five years tails off just as local aid management and absorption capacity increases.

2. In fact half of all fragile states will see a fall in Country Programmable Aid (CPA) in 2009, just as trade, investment and remittances are contracting.

3. It is widely accepted that aid does not always flow in timely, predictable and effective ways to meet the greatest needs in countries recovering from conflict. Furthermore, the international community continues to face major challenges in providing relevant and targeted support during the transition period.¹ These problems have been documented in the Accra Agenda for Action (AAA) and in the UN Secretary-General's report on "Peace-building in the immediate aftermath of conflict." As a response both to the recommendation in the AAA and to a specific request in the Secretary-General's report, INCAF has committed to identifying policy and operational guidance and alternatives that can improve the speed, flexibility and predictability of funding to countries emerging from periods of violent conflict. The following highlights initial findings of this work, based on the consensus reached by the Financing and Aid Architecture Task Team at the end of 2009.

Policy messages for approval by INCAF Directors

4. INCAF members welcome progress made in the Financing and Aid Architecture Task Team to address critical shortcomings in the international aid architecture related to transition financing. Providing adequate, rapid and flexible financing to situations of conflict and fragility is critical so as to ensure life saving activities, protection of affected population groups, peace dividends and livelihood support, and to contribute to statebuilding. In taking this work forward, the Task Team should ensure that the work builds on the Principles for Good International Engagement in Fragile States and Situations and links to relevant work in the Peacebuilding, Statebuilding and Security Task Team.

¹ The term "transition" describes countries "transitioning" out of conflict towards sustainable development. "Transition" also denotes a move to greater national ownership and an increase in the capacity of the state to ensure the safety and welfare of its citizens. "Transition financing" covers a broad spectrum of activities that traditionally fall between the humanitarian and development "categories", including recovery and reconstruction activities and security-related and peacebuilding activities (often referred to as stabilization).

5. INCAF members are concerned that the existing aid architecture has created rigid compartments for 'humanitarian' and 'development' aid that do not always lend themselves to flexible responses to the fluid context of war to peace transitions. Humanitarian principles and the specific imperatives of humanitarian assistance should be safeguarded, but artificially dividing transitions into phases and timeframes that do not reflect the actual country or local specific context and needs is counterproductive. Different funds and mechanisms are often governed by different principles, rules and regulations, and managed by different departments of the same donor government or organisation. This creates rigidity rather than flexibility. We agree that one objective of the Task Team's work should be to develop recommendations to address these obstacles.

6. INCAF members recognise that at decisive moments, such as war to peace transitions, donor governments exert significant influence on the transition trajectory through decisions taken about what activities to finance and how such financing should be provided. This is important given most of the forces shaping events in fragile and conflict-affected countries are beyond the direct control and influence of donor government policies and operations. At these times, the legitimate authority of the country in transition is not always fully capable of working closely with donors and as a result donors often make decisions, driven by humanitarian objectives and in the interests of stability and security. Financing decisions in these situations always create consequences that go far beyond the timescale and scope of the funded activity. INCAF members commit to improving our understanding of how to manage and mitigate the risks associated with financial support in these fluid transition situations. We welcome the progress to date on the Risk Management Study and look forward to the final report informing the development of operational guidance.

7. ODA from OECD/DAC countries is only one part of overall resource flows to these countries. INCAF members recognise the important role that non-ODA funding for peace and security can play during the transition period and recommend that the DAC continues to work toward capturing data on different resources flowing to transition activities. We also recommend that the annual resource flows report for fragile states, which has piloted ways of collecting information on non-aid flows and documenting Whole of Government/System approaches, be taken up at the broader level of the DAC. The DAC should invite and encourage other policy communities who do not currently report to the DAC to identify their flows on a voluntary basis as well, as an investment in a global public good that can serve as a means to ensure gaps and opportunities are better understood. At a time of economic recession, this shared view is all the more important to improve policy coordination and coherence beyond ODA spending.

8. INCAF members welcome the paper "*Transition Financing: Building a Better Response*" and endorse its recommendations.² The paper provides a solid foundation for continued efforts to address the challenges associated with transition financing and to explore innovative improvements to the current financing aid architecture. INCAF members request that the Task Team prepare detailed draft policy and operational guidance on transition financing by the end of 2010, for approval in advance of the High Level Forum 4 on Aid Effectiveness in Seoul in 2011.

9. The Task Team is also encouraged to explore how the guidance will be rolled-out and monitored including through a specific focus on transition issues in future OECD-DAC peer reviews.

² The report recommends that the following measures would facilitate more effective international engagement in transition situations: (i) change the starting point and approach to transition; (ii) adapt donor policies and procedures; (iii) improve efforts to measure transition financing across instruments and modalities; (iv) identify the right priorities and objectives; (v) establish a clearer link between financing instruments and national ownership; and (vi) improve the operation of pooled funding. See room document 3 for more details.

10. INCAF members call on the Task Team to be bold and innovative in the guidance it prepares. The guidance should take account of the existing aid architecture, but should not necessarily be confined by its parameters. Rather, practical and realistic recommendations are needed to enable development and other partners to align their aspirations with the ability to deliver, to improve the policies and practices currently governing their financial flows and to facilitate the implementation of some procedural and cultural changes within donor administrations. The recommendations should take into account the range of tools and instruments available for donors when providing transition financing. To be responsive to context and take the needs of the partner country as a starting point, flexible ways of using existing donor instruments, including switching between instruments and decentralised management, should be considered.

11. INCAF members also recognise the critical importance of improving implementation mechanisms and instruments to ensure effective and rapid response to specific needs. The range of issues that transitions can present is very wide and difficult to anticipate in advance. Change will depend on the ability of donors, fund administrators and implementing agencies to jointly improve the operational effectiveness of existing and future pooled funding instruments and to work through strategic coordination structures that can bring together different funding sources. Recognising the need to work towards national ownership, we agree that different funding instruments should be understood in the context of statebuilding and national ownership and that we need to improve our approach to identifying and prioritising needs during the fluid and sometimes long and complex transition period. We commit to working with development partners to effect these changes and request the Task Team to identify practical ways we can do so. We acknowledge that our ability to stay the course while responding to setbacks and ensuring ongoing dialogue and momentum will require patience and perseverance.

12. Development assistance is only one part of the overall picture, and INCAF members recognise that more active engagement with other policy communities is needed as the work progresses. We welcome the active participation of the multilateral system in the Task Team, and in particular the membership of UN OCHA on behalf of the humanitarian community. As the work advances, we ask the Task Team to facilitate further outreach and input from other policy communities, including the Good Humanitarian Donorship group, the wider UN peacebuilding architecture and representatives of key humanitarian NGOs. We request that the Task Team solicits contributions on different themes, such as pooled funding mechanisms, from a broad range of bilateral and multilateral agencies, partner countries (e.g. through the International Dialogue on Peacebuilding and Statebuilding), emerging donors and regional organisations.

13. INCAF members request that key conclusions from the paper "Transition Financing: Building a Better Response" are forwarded to the UN in response to the Secretary-General's request, and as official OECD input to the implementation of the report on "Peace-building in the immediate aftermath of conflict." In addition, the main findings and recommendations, in the Executive Summary, should be used to inform other policy and operational work in INCAF, as well as other current processes such as the World Bank World Development Report and the review of the UN Peacebuilding architecture.

POLICY STATEMENT ON STATEBUILDING

Improving international support to statebuilding in conflict-affected and fragile situations

Background: From the Principles for Good International Engagement in Fragile States and Situations to OECD guidance on statebuilding

1. Statebuilding in situations of conflict and fragility is a major concern for the international community. States matter for development, for peace and human security. Conflict, state fragility and breakdown pose significant risks across a number of fronts, both national and international. The OECD DAC *Principles for Good International Engagement in Fragile States and Situations* see statebuilding as a central objective for our engagement in situations of conflict and fragility. The challenge of statebuilding is also at the centre of discussions between partner and donor countries in the International Dialogue on Peacebuilding and Statebuilding.

2. Since the endorsement of the Principles in April 2007, INCAF has made considerable progress in clarifying the concepts and dilemmas of statebuilding in conflict-affected and fragile situations. The work of INCAF's Task Team on Peacebuilding, Statebuilding and Security has contributed significantly to clarifying our understanding of statebuilding its internal dynamics, including its key dimensions and linkages with peacebuilding.

3. INCAF members welcome the forthcoming OECD DAC guidance on statebuilding in conflict-affected and fragile situations which draws together work on statebuilding carried out over the past years. We urge the Task Team to finalise the guidance so that it can be approved in conjunction with this policy statement by the DAC in the first half of 2010. INCAF members also recommend presenting the approved guidance and final policy statement to the OECD DAC High Level Meeting.

Policy messages for approval by INCAF Directors

Understanding statebuilding in conflict-affected and fragile contexts

4. INCAF members subscribe to the understanding of statebuilding as outlined in the forthcoming OECD DAC guidance. Statebuilding is a **primarily internal and fundamentally political process** led by political forces within a country, but affected by regional and global factors. It involves the **transformation of state-society relationships** in three essential dimensions: i) the political settlement and the political processes through which state and society are connected; ii) the capability and responsiveness of the state to fulfil its principal functions, iii) broader social expectations and perceptions about what the state ought to do and the ability of society to articulate its demands.

5. INCAF members affirm that the **legitimacy of the state** lies at the heart of the interaction between the three dimensions outlined above. Understanding the multiple sources of state legitimacy and how these sources co-exist, compete and/or undermine one another, is crucial for the statebuilding agenda. It also requires donors and international actors to move beyond pre-conceived conceptions of legitimacy as based only on adherence to certain formal procedures or the delivery of basic services. This requires all relevant actors to look open-mindedly and empirically at how people's perceptions and beliefs about what

constitutes legitimate public authority are shaped in a specific context and how these influence state behaviour.

6. While recognising that the internal nature of the process inevitably places limits on the scope for external action, INCAF members agree that the international community can have a positive (or negative) impact in support of statebuilding in conditions of conflict and fragility, as outlined in the forthcoming guidance. Providing support to statebuilding with a focus on state-society relationships, however, **requires a major shift in the way we think, act and work together**. Supporting statebuilding is not business as usual.

Key objectives and actions for INCAF member support to statebuilding

7. INCAF members acknowledge that the challenge now lies in translating conceptual advances into improved donor policy and practice. The guidance represents a milestone in describing how all relevant actors should address statebuilding in conflict-affected and fragile situations. It gives actionable guidance to inform strategies, assessments, programmes, aid delivery instruments and ways of operating at headquarters and in the field, underpinned by a robust conceptual framework.

8. INCAF members emphasise the need to act. In order to support the implementation of the OECD DAC guidance on statebuilding and drive behavioural change within our agencies, we commit to the following objectives and actions:

Overall donor country strategy

INCAF members agree to:

- Work together and with partner country stakeholders to analyse and define statebuilding objectives in country strategy documents and analyse dilemmas and trade offs
- Specifically include regional and global dimensions of statebuilding in country strategies
- Deepen work, through INCAF and with other policy communities on global drivers of conflict and fragility
- Step up efforts to find mutual understandings with government and key partners on the most fundamental priorities for statebuilding, both at country level and internationally through the International Dialogue on Peacebuilding and Statebuilding
- Respect the lead co-ordination role of the United Nations SRSG in peacekeeping missions
- Nominate (a) lead donor(s)/coordinator(s) to drive co-operation and policy dialogue with government and establish clear terms of reference to hold lead donor(s) to account

9. When defining engagement in conflict-affected and fragile situations, INCAF members will clarify what role we can play to support processes of statebuilding. We resolve to set objectives in our country strategies that reflect the key dimensions of state-society relationships and demonstrate how we can contribute to the longer-term processes of statebuilding. We recognise the key role played by non-state partners especially local civil society, media and the private sector in transforming state-society relationships and will seek ways to engage with them. INCAF members recognise that there can be dilemmas and trade-offs between our various objectives, and our strategies should acknowledge these. We will set out a process for managing dilemmas over time and in relation to different actors and partners.

10. INCAF members are aware that the global and regional political and economic context creates incentives that impact on the process of statebuilding at country level. Some of these incentives are positive, others such as opportunities for revenues from illegal trade in resources or diversion of financial

assets, are not. We acknowledge that our country strategies need to address these dimensions more strongly, for example by increasing support to partner country governments to take part in international initiatives such as EITI and to comply with international codes of conduct and regulations. We will also identify how our actions at the global and regional level can influence (positively and negatively) the prospects for statebuilding in conflict-affected and fragile situations. We will consider how INCAF in co-operation with other parts of the OECD can help to facilitate this engagement at the global level in the future, recognising the need for INCAF members to adopt whole of government approaches to tackle these global challenges.

11. INCAF members agree that it is vital that we find mutual understandings with government and key partners on the most fundamental priorities for statebuilding. This will require frequent and regular dialogues with government and with non-state partners (beyond formal donor conferences and Consultative Group meetings) to share perspectives on the dynamics of change and the evolving priorities of statebuilding. INCAF members welcome the International Dialogue on Peacebuilding and Statebuilding as a forum to hold such discussions at the global and national level, and to develop consensus around international objectives for statebuilding and peacebuilding and assessing progress against these priorities. At the country level, we will take a coherent, longer-term approach to statebuilding as part of the international community's joint response.

12. Given the high cost of donor fragmentation and duplication in fragile contexts, INCAF members recognise the importance of finding ways to support greater donor co-ordination. We confirm our commitment to respect the lead co-ordination role of the United Nations SRSG in peacekeeping missions as described in the recent report by the UN Secretary General on Peacebuilding in the Immediate Aftermath of Conflict. At the same time we recognise the need to strengthen capacity in the UN to support statebuilding. In other settings we accept to work with an overall lead donor/ coordinator to drive collaboration and co-ordination among ourselves and improve the quality of the policy dialogue with partners. We agree that (a) lead donor(s)/ coordinator(s) should be nominated as much as possible with full agreement of the government, taking into account donor performance and capacity on the ground. We will establish clear terms of reference for lead donors/ coordinators that should be agreed among partners locally.

Analysis and Monitoring

INCAF members agree to:

- Focus analysis on key dimensions of statebuilding and state-society relations
- Increase the number of joint analyses and increase efforts to share analysis in general
- Establish protocols within their agencies for how assessment results feed into planning and statebuilding programming
- Monitor donor impact on statebuilding at country level to both ensure a do no harm approach and regular adjustment of strategies and programmes
- Jointly develop baskets of indicators that can be used to assess progress in statebuilding outcomes at the country level in line with the understanding articulated in the guidance

13. INCAF members affirm that a thorough understanding about the country context has to be the starting point for support to statebuilding processes. We will step up efforts to operationalise the principle that context matters and focus our analysis on the key dimensions of statebuilding and state-society relations. We confirm our earlier commitment in the Accra Agenda for Action (par. 21) to conduct joint assessments of governance and capacity and to examine the causes of conflict, fragility and insecurity and the contemporary barriers to peace, all of which will better inform our efforts. While we will do our utmost

to conduct joint analysis, in cases where this will not be possible, we resolve to increase our efforts to share analysis and information with our partners in a transparent and coordinated manner. We will also ensure a stronger link between analysis and planning by establishing clear protocols within our agencies for how results of an assessment feed into our planning and statebuilding programming.

14. INCAF members resolve to monitor and evaluate the impact of all our activities on statebuilding processes to ensure that we do no harm and to allow for continuous learning and adjustments of our strategies and programmes. We will develop indicators to measure progress in statebuilding outcomes at the country level based on the conceptual understanding set out in the OECD guidance on statebuilding and a future international consensus with partner countries established through the International Dialogue on Peacebuilding and Statebuilding. This will require working jointly to design appropriate baskets of indicators for statebuilding that are measurable at country level.

Country programme design and delivery

INCAF members agree to:

- Review and strengthen in-country programmes by focusing interventions on key dimensions of statebuilding, especially supporting i) inclusive political settlements and processes ii) delivery of security and justice, ii) revenue and expenditure management, iii) state responsiveness to social expectations and iv) economic management
- Support specific efforts to address the causes of conflict and fragility and strengthen the drivers for peace
- Work with a broader range of actors and support both state and non-state actors and their interactions
- Increase support to facilitate the development of positive state-society relations at the local level and address any issues of geographical exclusion

15. INCAF members resolve to examine how to strengthen programmes in conflict-affected and fragile situations by focusing interventions on key dimensions of statebuilding. We will consider how to contribute to shaping an inclusive political settlement and promote shared spaces for state-society interaction and dialogue. We will focus on integrated approaches to develop principal state functions of security and justice, revenue management and service delivery, and economic management, and develop more gradual strategies for progressively over time ensuring responsiveness, transparency and accountability. We resolve to make specific efforts to address social expectations, in particular those recognised as structural drivers of conflict and fragility, and to support the ability of society to articulate their demands and needs, and understand their responsibilities. Finally, we recognise the importance of addressing the causes and effects of conflict and fragility for building peaceful states. This can be achieved through peaceful resolution of grievances, reconciliation and political, social and economic transformation (including efforts to promote women's empowerment and gender equality), thereby establishing durable positive peace.

16. While there is broad recognition in the development community about the relevance of informal rules for governance, in practice our programmes and approaches too often focus solely on formal rules and institutions. INCAF members resolve to find ways to work with a broader range of actors and to consider ways to support both state and non-state actors and their interactions at national and local levels. We will also structure our programmes in ways that allow increased flexibility and adaptation to changing circumstances. Finally, we resolve to increase our support at a local level to help facilitate the development of positive state-society relations in areas where the relationship has been at the heart of conflict and fragility.

Financing and Aid delivery instruments

INCAF members agree to:

- Review at country level how aid instruments impact on the statebuilding process and how they can be adapted to make a positive contribution to statebuilding and peacebuilding
- Increase the use of pooled funds, when appropriate, that, as much as possible, are jointly managed with partner country governments and “on budget”
- Increase the proportion of sector-wide and programme-based approaches and extend their application beyond service-delivery programmes.
- Increase efforts to develop partner country capacity to utilize a variety of aid instruments through coordinated technical assistance.

17. INCAF members are conscious that the decisions made over how aid is delivered can have a profound impact on the statebuilding process. INCAF members pledge to review how aid instruments at country level impact on the statebuilding process and to align them with longer-term statebuilding objectives. This will need to be based on realistic assumptions regarding the expected level of government involvement and ownership at different stages of our engagement. We acknowledge the need for a better understanding of existing and future absorptive capacity as a basis for decisions on volumes and sequencing of aid.

18. While we will need to maintain a variety of aid instruments to suit different contexts, we will strive to improve and increase the use of pooled funds that, as much as possible, are jointly managed with partner country governments in support of national priorities and that channel funds through the national budgets. We will seek to increase our proportion of sector-wide and programme-based approaches and extend their application beyond service-delivery programmes. At the same time, we are aware of the importance of the partner countries’ capacity in dealing with a variety of aid instruments, for which technical assistance is critical. In this regard, appropriate technical assistance should be provided in a coordinated manner.

19. INCAF members recognise the critical need to increase our own capacity to support statebuilding processes in conflict-affected and fragile situations. We resolve to increase staffing levels and put incentives in place to attract the best staff to work in these situations, and for longer time periods, and to encourage these staff to develop relevant and in-depth country and regional knowledge. We will review our Human Resources policies and regulations to incentivise collaboration and whole-of-government cooperation among our in-country staff. We will step up our efforts to train our staff on the complexities of working in conflict-affected and fragile contexts and will seek to increase the extent of joint training across government and with other development partners.

20. INCAF members pledge to review policies, procedures and practice in the light of statebuilding objectives to ensure consistency and alignment with the OECD DAC guidance on statebuilding. In-country we will monitor the impact of our hiring and procurement procedures on the local economy and labour market and make adjustments to maximize the local benefits while minimizing the adverse side effects of our procedures. We reconfirm previous commitments to provide partner countries with complete, accurate, detailed and timely information on our aid disbursements, with special attention to data on off-budget support (project, programme and technical assistance).

Joint application of the statebuilding guidance in 3 countries

INCAF members agree to:

- Jointly apply the guidance in 3 countries
- Report on progress at future INCAF meetings

21. To make progress on all of the above, and as a first step, INCAF members commit to work together in 3 countries (chosen on the basis of country demand) to apply the OECD DAC statebuilding guidance and to evaluate the effectiveness of these efforts over time. This will require a collective engagement by our agencies in the field and at headquarter level. A joint approach will help to generate incentives for, and support to, some of the actions required to translate our commitments into reality. We will work through INCAF to define the details of the approach on how to advance the application of the statebuilding guidance. We will consider holding meetings at country-level among INCAF field representatives to advance the implementation of the guidance. We request the INCAF Secretariat to provide substantial support to this process and will report back on progress of the application at future INCAF meetings.

Monitoring implementation of the policy commitment and roll out of the statebuilding guidance

INCAF members agree to:

- Monitor the overall implementation of selected key actions from the policy statement and forthcoming statebuilding guidance, through the INCAF Secretariat
- Monitor and report progress on the application of the statebuilding guidance in selected countries, through the INCAF Secretariat
- Roll out and disseminate the OECD DAC guidance on statebuilding in headquarters and in field offices
- Discuss and validate main findings of the guidance with partner countries and civil society organisations in appropriate settings, including the International Dialogue

22. INCAF endorsement of the OECD DAC guidance on statebuilding and the objectives and actions outlined in this policy statement signals a commitment towards a step change in our engagement in conflict-affected and fragile situations. We recognise that our strategies, programmes, tools, aid instruments and operations will need to strengthen, develop, transform, and further evolve to make our support to statebuilding more effective. In line with recent agreements in the DAC, we request that performance against commitments outlined above and the overall implementation of the statebuilding guidance be monitored through the INCAF. This will require identifying indicators for key commitments. As mentioned above, we will also monitor and report progress on the country application of the statebuilding guidance. This should build to the maximum extent on existing processes for monitoring such as DAC Peer Reviews and the Monitoring of the Implementation of the Principles for Good International Engagement in Fragile States and Situations.

23. To roll out and disseminate the OECD DAC guidance on statebuilding we agree to launch the guidance in our agencies at headquarters and in the field through presentations and other means. We welcome support by the INCAF Secretariat to assist us in disseminating and launching the guidance. We will consider the possibility of one or several regional workshops to bring together staff from our field offices to present and discuss the statebuilding guidance and its application. We will develop a solid communications strategy and connect this policy statement and the guidance to operational work to ensure results on the ground that can be monitored.