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**DEVELOPMENT CO-OPERATION DIRECTORATE
DEVELOPMENT ASSISTANCE COMMITTEE**

International Network on Conflict and Fragility (INCAF)

Policy Statement on Transition Financing

Monrovia, 14 June 2011

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INCAF POLICY STATEMENT ON TRANSITION FINANCING

Monrovia, 14 June 2011

This Policy Statement identifies central measures required to improve the quality of aid provided by INCAF members during transition. It draws upon evidence and commitments identified in the forthcoming INCAF Guidance on Transition Financing, the strategic direction provided by members during the 2nd INCAF Director-level meeting in Monrovia on June 14, 2011, and subsequent written feedback from members. The Statement reflects an emerging consensus on the strategic direction that INCAF members will take forward into preparations for the Fourth High Level Forum in Busan, and will serve as a communication tool to disseminate these messages to the Working Party on Aid Effectiveness and the International Dialogue on Peacebuilding and Statebuilding, in the lead-up to HLF 4. INCAF will also use this Statement to finalise the Guidance and communicate more widely with key stakeholders.

INCAF members welcome the forthcoming OECD DAC Guidance on Transition Financing, which draws together work carried out over the past years. We urge the Task Team to finalise the Guidance in advance of its next meeting, and confirm our intention to immediately advance implementation of key recommendations in the Guidance. In particular:

We commit to strengthen the international framework and aid architecture to deliver better results during transition

- Fragile and conflict-affected states represent unique challenges and high risks, which require specific approaches to identify priorities and deliver transformative results. Transitions are complex and nonlinear, and we acknowledge that the current aid architecture is not properly set up to provide the differentiated and timely support required. We will support activities to decrease fragmentation, competition and overlap between mandates and approaches. As part of this, we will further explore the relationship between different international guiding principles being applied during transition, including the Paris Declaration, the Fragile States Principles, and the Principles for Good Humanitarian Donorship.
- An international agreement on peacebuilding and statebuilding objectives is required to guide the definition and measurement of results and impact at the country level. Such an agreement is currently emerging through the International Dialogue and should clarify relevant links with humanitarian objectives.
- Multilateral organisations can play a key role during transition. We will strengthen the ability of multilateral actors to deliver support in a coordinated and coherent manner. The United

Nations and the World Bank should immediately implement and adhere to existing agreements for cooperation, strengthen on-going efforts and explore new opportunities to streamline rules and procedures for more rapid staff deployment, amend legal and procurement rules, and clarify positions on roles and responsibilities during transition between humanitarian and development engagement. We commit to support these efforts through institutional Boards and through continued financing. We will also prepare an official response to the UN Secretary-General's report on peacebuilding, based on the elements in the forthcoming Guidance.

We will prioritise the use of Transition Compacts¹ as an evolving country-specific mechanism to agree on priorities and strengthen mutual accountability for results

- Transition Compacts can strengthen mutual accountability by linking political dialogue with prioritization and financial support, and guide the definition and measurement of results at country level. Compacts should be light, country-specific, flexible, responsive to changing context, and transparent in disclosing how resources flow over time and through different instruments. They should build on rather than duplicate existing local mechanisms.
- The development of Compacts will require strategic leadership by national governments and should be grounded in active consultations with national stakeholders. We will support and align behind national leadership, where possible, and reinforce existing national mechanisms for management and accountability.
- Compacts will also require accountability among international actors to facilitate coordination and coherence of efforts. We will work to strengthen the ability of the United Nations to coordinate international engagement during the first phase of Compacts, and request that the UN clearly articulates how it would use existing resources and mechanisms to perform this role in an effective and accountable manner. We will also take steps to devolve sufficient decision-making and funding authority to the country-level and improve the coherence of development, diplomacy, humanitarian and security engagement, while recognising and respecting their specific mandates.
- Strict prioritisation is required during transition to deliver results, ideally through nationally led processes. Compacts should set out priorities based on annual and rolling sector plans and provide opportunities for regular reassessment of these priorities by all concerned stakeholders to ensure continued relevance. To support more effective prioritisation, we encourage reform

1. This Statement uses the shorter term "Compact" to describe mutual accountability arrangements that are used to agree on priorities, results and measures between a government and its international partners. It sets out an agreement to an approach, and does not represent specific funding commitments. During the INCAF meeting some members suggested that other terms might be explored to strengthen the notion that these are not new bureaucratic mechanisms that will require significant efforts and resources to be formalised. Suggestions include "joint/mutual agreements", "transition frameworks" and "mutual accountability agreement". The International Dialogue is currently using "country-level agreements" and "compacts" to describe the same idea. For consistency reasons it is proposed that INCAF awaits the outcome of the Dialogue before deciding on terminology.

and streamlining of existing planning frameworks to improve coordination and accountability of sectoral planning processes.

- Effective use of Compacts will depend on continued and accelerated learning on what makes these modalities work during transition. To facilitate further evidence gathering, we commit to put in place Compacts in different contexts and to undertake periodic reviews of their performance.

We will identify and use an appropriate mix of instruments, drawing on different budget lines as required, to deliver on identified priorities

- A mix of instruments is required to deliver on priorities during transition and to manage the trade-offs between speed and sustainability. We will assess and agree on the appropriate mix of instruments based on criteria of ownership, coordination, speed and flexibility, and ability to manage risks. Transition financing should come primarily from development budgets, and 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.
- We recognise that collective instruments such as pooled funds can improve coherence, predictability, risk management, and alignment with national priorities, but that the establishment of such funds may need to be sequenced. Immediate results will likely require rapid and flexible instruments that rely on external management and implementation, while sustainable support for development will require jointly managed instruments that work with and through country systems. We agree that mechanisms in support of sustained development should only be established once these can show a clear link to national priorities and budgets and be used to strengthen country systems and facilitate move towards budget support. We furthermore support the g7+ suggestion that more rapid transition towards country systems can be facilitated by combining such funds with mechanisms for additional oversight and controls.
- Aid tracking and coordination systems are required to enable transparency and predictability of resource flows in support of agreed objectives and priorities. We commit to report on all aid flows against agreed priorities and, when necessary, support and prioritise the establishment of appropriate in-country aid tracking mechanisms. We in particular acknowledge the importance of providing non-ODA funding for peace and security, including through global pooled funds and stability instruments, and will work to report such spending against agreed priorities.

We will improve results delivery through better balancing of risks and opportunities and more realistic risk management

- Institutional procedures and reporting requirements should be improved to facilitate effective transitional engagement. We commit to move from approaches that focus on risk avoidance

towards better risk management. This will require amendments to staff incentives, increased flexibility in budget lines, and improved internal and external communication on risks.

- Joint assessment and identification of risks can facilitate more effective context-based risk management. We will work to develop joint risk assessment tools and to apply these in different transition contexts, and will share the outcome of these assessments with national and international partners as needed to ensure that priorities are identified to address specific risks.
- Risks to individual donors are often higher than those to a collective group of countries. Against this backdrop we will work towards developing common approaches and best practice and applying tools and instruments, including pooled funds, which can facilitate collective management of risks. We will also explore options to differentiate approaches to allow for higher risk appetite in parts of our aid portfolio.
- We recognize that the multilateral system has an important role to play in terms of pooling of risks, but that we cannot simply ask these organizations to accept higher risks. Rather, we will work with the UN, WB and regional organizations to improve their policies and procedures to enable better management of specific risks. This might also include looking at specific instruments that can be used to deliver higher-risk initiatives and allowing for higher contingencies in funds to strengthen flexibility.