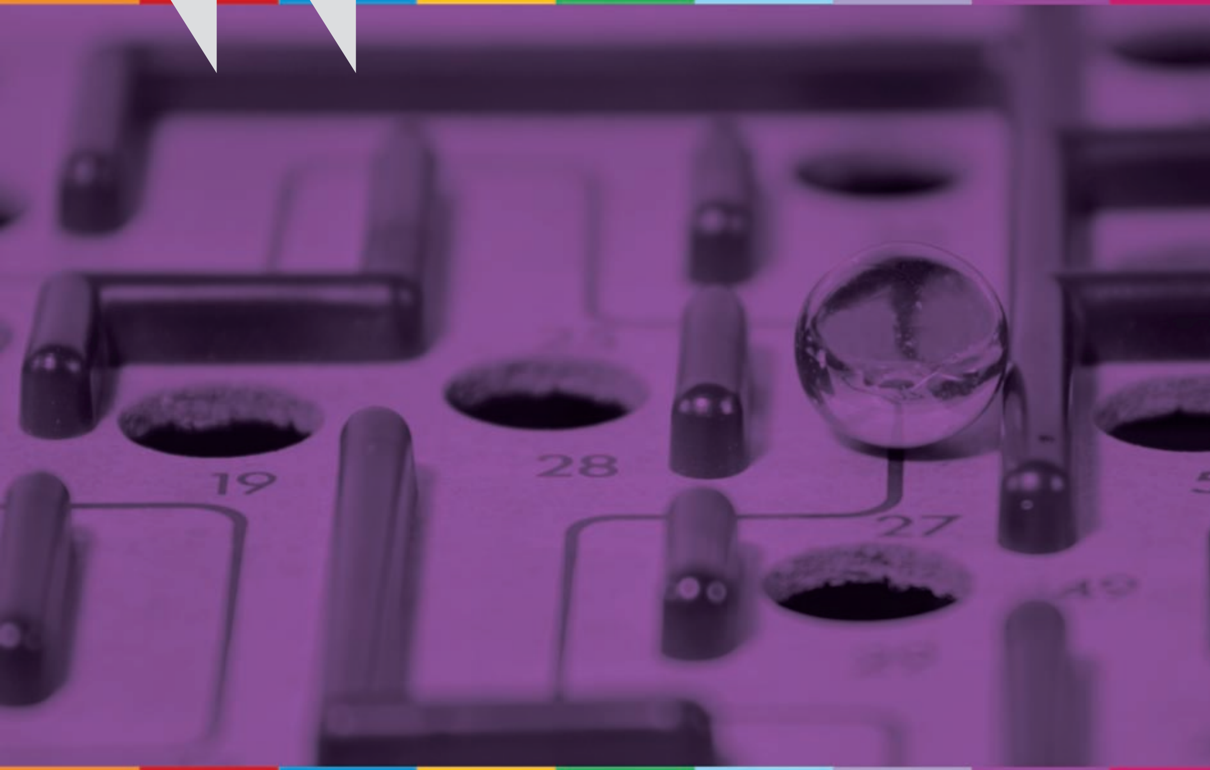
Conflict and Fragility

Transition Financing

BUILDING A BETTER RESPONSE



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Foreword

This report has been prepared by the Financing and Aid Architecture Task Team of the OECD DAC (Development Assistance Committee) International Network on Conflict and Fragility (INCAF). The work of the task team is a result of the widespread recognition that more effective, rapid and flexible financing to conflict-affected countries is needed. The purpose is to translate previous commitments into practice in order to effectively address challenges associated with transition financing.

Financing is about much more than the flow of resources. It affects behaviour, aid architecture, the power and influence of different groups, priorities and capacity development. It signals approval or disapproval. And there is no neutral choice – making a financing decision always creates consequences that go far beyond the time scale and scope of the funded activity.

Successful transition financing will depend on the ability of development partners to improve the policies and practices currently governing their financial flows, the implementation of some procedural and cultural changes within donor administrations, and a willingness to expand and fully utilise the range of tools and instruments available for in-country transition financing.

I am very thankful that the authors of the study, together with the Task Team, have provided us all, practitioners and policy makers, with this extensive mapping of financing practices. This study constitutes a key component in understanding the challenges and possible solutions for better financing in conflict-affected countries.

Supporting countries trapped in a vicious circle of poverty and conflict is a moral obligation and responsibility of the international community. We cannot fail to meet this challenge.

Gunilla Carlsson
Minister for International Development Co-operation
Ministry for Foreign Affairs
Sweden

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The principle author was Tasneem Mowjee with important contributions from Judith Randel, Asma Zubairi and other staff at Development Initiatives. Asbjorn Wee and Elisabet Hedin contributed to the finalisation of the report and elaboration of key findings and recommendations. Overall guidance was provided by Task Team Chair Henrik Hammargren, and substantive contributions were also received from Anja Bille Bahncke, Nicole Ball, Jaco Beerends, Christina Bennett, Emily Bosch, Felipe Camargo, Magnus Carlquist, Rebecca Dale, Steve Darvill, Lisa Doughten, Bronte Flecker, Francois Gaulme, Xiang He, Philippe-Georges Jacques, Michael Jensen, Anja Koenig, Satu Lassila, Damian Lilly, Magnus Lindell, Rachel Locke, Ingrid Löfström-Berg, Christian Lotz, Joanna Macrae, Ted Maly, Phil Marker, Madalene O'Donnell, Jorge Pereiro Pinon, Henning Plate, Nicola Pontara, Joanne Raisin, James Rogan, Tania Schimmell, Simon Scott, Julien Serre, Anita Shah, Dag Sigurdson, Natasha Smith, Dorothee Starck, Richard Taylor, Graham Thompson, Jennifer Worrell, Ronald Wormgoor, and Sana Zemri. In addition, the authors would like to thank all INCAF members who participated in the study and took the time to provide information through interviews and round-table discussions.

This publication was prepared by a team of OECD staff co-ordinated by Asbjorn Wee. Christine Graves, Thérèse Hogan and Isabel Huber provided valuable editorial assistance, Stephanie Coic contributed to the graphic design and Peter Vogelpoel did the typesetting.

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Abbreviations

AAA	Accra Agenda for Action
AIAF	Afghan Interim Authority Fund
AIDCO	Europaid Co-operation Office
ANDS	Afghanistan National Development Strategy
ARTF	Afghanistan Reconstruction Trust Fund
BCPR	Bureau for Conflict Prevention and Recovery
BSF	Basic Services Fund
CAP	Consolidated appeal
CAR	Central African Republic
CBTF	Capacity Building Trust Fund
CERF	Central Emergency Relief Fund
CFET	Consolidated Fund for East Timor
CHAP	Common Humanitarian Action Plans
CHASE	Conflict and Humanitarian and Security (DFID)
CHF	Common Humanitarian Fund
CHPF	Common Humanitarian Pooled Fund
CPA	Comprehensive Peace Agreement
CSP	Consolidated Support Programme
CWGER	UNDP Cluster Working Group on Early Recovery
DDR	Disarmament, demobilisation and reintegration
DFID	Department for International Development (United Kingdom)
DG	Directorate General
DG RELEX	Directorate General External Relations
DRC	Democratic Republic of the Congo
EC	European Commission
ECHO	European Commission Humanitarian Office

ECOWAS	Economic Council of West African States
EDG	European Development Fund
ES/CNDRR	*Commission Nationale de Désarmement, Démobilisation, et Réinsertion*
FNL – PALIPEHUTU	Forces Nationales de Libération – Party for the Liberation of the Hutu People, Burundi
FSP	Fragile States Partnership
FTS	Financial tracking service
GHD	Good Humanitarian Donorship
GoSS	Government of South Sudan
HA	Humanitarian aid
HC	Humanitarian co-ordinator
HPP II	Humanitarian Plus II Programme
IDA	International Development Agency
IDPs	Internally Displaced Persons
INCAF	OECD DAC International Network on Conflict and Fragility
JAM	Joint assessment mission
LOTFA	Law and Order Trust Fund for Afghanistan
LRRD	Linking Relief, Rehabilitation and Development
MA	Monitoring Agent
MDG	Millennium Development Goals
MDRP	Multi-Country Demobilisation and Reintegration Programme
MDTF	Multi-Donor Trust Fund
MFA	Ministry of Foreign Affairs
MOD	Ministry of Defence
MOFEP	Ministry of Finance and Economic Planning
NFI	Non-food items
NGOs	Non-governmental organisations
OC	Oversight Committee
ODA	Official development assistance
OECD DAC	Organisation for Economic Co-operation and Development – Development Assistance Committee
ONUB	United Nations Operation in Burundi
PAP	Priority Action Plan

PBF	Peacebuilding Fund
PCNA	Post-Conflict Needs Assessment
PD	Paris Declaration
PNDDR	*Programme National de Désarmement, Démobilisation et Réinsertion*
RC	Resident co-ordinator
RRP	Recovery and Rehabilitation Programme
SIDA	Swedish International Development Co-operation Agency
SIPs	Sector Investment Programmes
SPA	Strategic Partnership Arrangement
SPF	State and Peacebuilding Fund
SRF	Sudan Recovery Fund
SSR	Security Sector Reform
START	Stabilisation Reconstruction Task Force
SWAp	Sector-wide approach
TFET	Trust Fund for East Timor
TSP	Transitional Support Programme
UN OCHA	United Nations Office for the Coordination of Humanitarian Affairs
UN SG	United Nations Secretary General
UNAMA	United Nations Assistance Mission in Afghanistan
UNDG	United Nations Development Group
UNDP	United Nations Development Programme
UNDPKO	United Nations Department of Peacekeeping Operations
UNHCR	United Nations High Commission for Refugees
UNICEF	United Nations Children's Fund
UNMIS	United Nations Mission in Sudan
UNTAET	United Nations Transitional Administration in East Timor

Executive summary

Building a better response: towards more effective, rapid and flexible financing for transition

This report has been prepared by the Financing and Aid Architecture Task Team of the OECD DAC (Development Assistance Committee) International Network on Conflict and Fragility (INCAF). It aims to establish an agreed conceptual foundation that will enable OECD DAC members and implementing partners to address the challenges associated with transition financing and the current aid financing architecture. The findings presented are based on: (i) a desk review of donor policies and procedures, and existing funding instruments in specific countries; (ii) an extensive literature review and analysis of DAC and Financial Tracking System financial data; and (iii) interviews with key informants from DAC member countries and multilateral agencies.

The report adopts the term "transition" to describe 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 falls between the "humanitarian" and "development" categories, including recovery and reconstruction activities and security-related and peacebuilding activities (often referred to as stabilisation). Funding itself encompasses not only international donor activity, but also domestic resource mobilisation and debt relief, often overlooked in the immediate post-conflict period.

While recognising that many of the forces shaping events in fragile and conflict-affected countries are outside donor control, the study argues that donors do have influence through their decisions about which transition activities to finance and how to do this. Financing is about much more than the flow of resources: it affects behaviour, aid architecture, the power and influence of different groups, priorities and capacity development. It signals approval or disapproval. And there is no neutral choice – making a financing decision always creates consequences that go far beyond the timescale of the funded activity.

This work was commissioned because of widespread recognition that aid modalities are not working well in transition situations and that more effective, rapid and flexible financing is needed at this critical juncture. Successful transition financing will depend on the ability of development partners to improve the policies and practices currently governing their financial flows, the implementation of procedural and cultural changes within donor administrations, and a willingness to expand and fully utilise the full range of tools and instruments available for in-country transition financing.

Different dimensions of transition financing challenges

Aid flows to fragile and conflict-affected countries. Financial analysis demonstrates that donors provide significant amounts of humanitarian and development aid to conflict-affected states – but how much of this aid is dedicated to supporting the transition out of conflict is unclear. This is because there is a lack of consensus on what activities fall within the category of transition, there are no unified budgeting or reporting codes to pull together funding allocations from different budget lines, and there are different methodologies and approaches to identifying and assessing transition-related needs. As a result, it is difficult to calculate accurate estimates of the shortfalls in transition financing. Despite this challenge, there is general agreement amongst international actors that money available does not flow in timely and effective ways to the highest-priority transition needs.

Aid architecture. Efforts to improve international engagement in transition situations are constrained by an aid architecture that creates rigid compartments for humanitarian and development aid, where these are governed by different principles, rules and regulations, and often managed by different departments of the same donor agency/organisation. Often there is a lack of clear responsibility and accountability for funding. In addition, a bifurcated aid architecture does not correspond to reality on the ground, which requires simultaneous and co-ordinated funding for humanitarian, transition (including security) and development activities.

Furthermore, humanitarian aid tends to bypass government structures while development aid is usually predicated on working with and through governments. In transition situations, this creates tension between the need to protect humanitarian principles, such as impartiality and neutrality, while simultaneously working to build the capacity of nascent government structures.

Donor policies and procedures in transition situations. The report concludes that many donors do have the required degree of procedural flexibility to provide effective and rapid support to transition situations. However, there are still open questions regarding who in the donor community and implementing agencies bears responsibility for the transition. Current donor staff incentive structures do not reward staff for taking risks, and as a result staff often do not make full use of the available flexibility. When staff do take risks, they are less likely to publicise them, which impedes efforts to institutionalise knowledge and develop guidance on good practice in transition situations.

Co-ordination with and amongst different parts of donor governments also remains a challenge for aid agencies, in particular in transition situations where ODA flows constitute a small part of the overall financial and institutional engagement of donor governments. In addition, donor financing decisions are frequently based on a system of predetermined actions and instruments, triggered by a standard set of chronological events (peace agreements, elections, the departure of peacekeepers and so on), which in reality bear little relation to needs.

In-country financing instruments for transition. The report further concludes that multi-donor trust funds (MDTFs) have been helpful in enabling development partners to engage more holistically and strategically in transition environments and that, once they are up and running, these trust funds significantly reduce transaction costs for both donors and host governments. MDTFs also enable donors to adopt a collective approach to the risks inherent in transition situations. However, MDTFs need to overcome several critical challenges if they are to provide appropriate assistance. These challenges include managing how quickly funds are made operational, how trade-offs between quick delivery and capacity building are handled, and how proliferation of instruments can be avoided. International actors need to improve co-ordination and harmonisation between different funds and develop greater clarity on MDTF characteristics, such as the degree of national ownership, the speed of operation, overall fund objectives and agreement on what the funds can and cannot do.

Key findings and recommendations

The report concludes that the following measures would facilitate more effective international engagement in transition situations:

Change the starting point and approach to transition: An aid architecture divided into humanitarian and development compartments clearly limits effectiveness in transition situations. International actors should instead adopt a long-term, non-linear approach to transition. They should focus less on the instruments and approaches available within particular managerial structures and more on the actual objectives that they are trying to support. This change of approach will require reflection on how to provide appropriate long-term, flexible and effective assistance to countries emerging from protracted crises, but where government counterparts are weak or not fully legitimate. Appropriate tools and instruments from development and humanitarian modalities should be used in a funding "mix" that allows programmes to meet transition goals, while respecting the need to avoid fragmentation of the instruments and tools.

Adapt donor policies and procedures: Aid agencies need to address the key question of who takes responsibility for the transition. A more co-ordinated engagement will require a different approach to staffing, where capacity and expertise should be drawn from different policy communities to enable holistic context analyses, strategies and programming. Aid agencies will need to change both institutional structures and people (their attitudes and incentives for taking risks), and improve incentives for joint working across departments (such as being held accountable for shared results). In addition, donor governments will need to improve their ability to manage and mitigate risks associated with transition financing.

Improve efforts to measure transition financing across instruments and modalities: It is difficult to capture the full range of resources for transition situations and to determine the extent of funding shortfalls when decisions and management are determined by different instruments and departments in a single donor government bureaucracy. Donors should acknowledge the important role that non-ODA funds can play during the transition period and find better ways of recording all the resources flowing to transition activities. This would not necessarily require a change in the current ODA criteria, but could involve other ways of recognising/recording aid to key transition activities. The DAC should explore the need to revise DAC reporting codes to better reflect the basket of activities that make up transition funding.

Identify the right priorities and objectives: Timely and realistic planning is a fundamental pre-condition for flexible engagement and effective financing. Proper needs assessments should be based on a holistic and realistic understanding of the needs of the country, and provide a prioritised vision of what should be achieved. Plans for transition financing should also set out the objectives that development partners are working towards, the specific activities that will be financed, precise funding sources, and the people who will be responsible for implementing the activities and accounting for results. International actors and national partners should be clear about the links between different instruments (and any transitions between them), and the common governance framework that will provide overall oversight.

Establish a clearer link between financing instruments and national ownership: The choice of financing instruments and methods has an impact on the approach to national ownership. The current aid architecture does not promote effective and co-ordinated engagement with difficult government partnerships during the transition period, which increases the risks of funding being used as a political tool rather than as a response to needs. Evidence from, for example, Central African Republic (CAR) and Timor-Leste show how a political push to rapidly designate these situations as "post-conflict" resulted in a shift of focus away from critical humanitarian, peacebuilding and statebuilding activities, which in turn undermined long-term development investments. Similarly, the Southern Sudan experience highlights how unrealistic expectations about government capacity in the immediate aftermath of conflict led to inappropriate forms of international engagement. The choice of instruments for transition financing should be based on a clear understanding of the ways that different funding approaches and mechanisms affect national ownership, the pros and cons of different instruments, and the lessons and good practices that can be translated into practical recommendations for improving the implementation of transition activities and support.

Improve the operation of pooled funding: Pooled funding instruments are useful tools for encouraging more holistic and effective approaches to transition situations. However, the operational impact and effectiveness of these funds need further improvements to systematise the positive lessons learned. This includes better management of the trade-off between ensuring quick and effective delivery of services and supporting the longer-term development of government capacity and legitimacy. In addition, international partners* should commit to decreasing fragmentation, improving the participation of national authorities in the governance of funds, clarifying and managing expectations about what can be delivered through pooled funds, increasing the predictability of funding flows, and decreasing the earmarking of contributions into funds. International partners should also aim for greater clarity and co-ordination between bilateral and multilateral funding programmes and between global and country-specific funds.

* The term "international partners" is used throughout this report to refer primarily to the bilateral and multilateral donor community.

1. Background and rationale for transition financing

This chapter explains the background and rationale for why the OECD DAC has decided to undertake this study. It also highlights why transition financing has importance also beyond the scope and timefrmae of the funded activity.

Introduction

Through adoption of the Principles of Good International Engagement in Fragile States and Situations in April 2007, OECD DAC members committed themselves to make rapid and flexible financing available to ensure that their engagement in fragile states and conflicts would be better targeted towards changing conditions.[1] Similarly, the Principles and Good Practice of Humanitarian Donorship (the GHD initiative) have tried to improve the effectiveness of humanitarian response by ensuring a higher degree of predictability, accountability and partnership.[2]

The Accra High Level Forum on Aid Effectiveness in September 2008 highlighted the need to improve funding modalities as well as organisational and staffing responses. In the Accra Agenda for Action (AAA) donors committed to work on "flexible, rapid and long-term funding modalities, on a pooled basis when appropriate, to bridge humanitarian, recovery and longer term development phases, and to support stabilisation, inclusive peacebuilding and the building of capable, accountable and responsive states".[3] Accra furthermore recommended that the OECD DAC should establish a special Task Team to take this work forward. The UN Secretary-General's report (UN, 2009) "Peace-building in the immediate aftermath of conflict" also urges donors to work through the OECD DAC to find bold and innovative solutions that "will establish flexible, rapid and predictable funding modalities in countries emerging from conflict".

As a response both to the recommendation in the AAA and the request in the UN Secretary-General's report on peacebuilding, the DAC Network on Conflict and Fragility (INCAF) has initiated efforts to develop policy and operational guidance that can make funding to countries transiting from conflict more flexible, rapid and predictable. This report presents initial findings of this work, as agreed by bilateral and multilateral members in INCAF. It also provides an agreed conceptual foundation for future work to address the challenges associated with transition financing and to explore innovative improvements to the current financing aid architecture. The final product will be presented for endorsement at the Fourth High Level Forum on Aid Effectiveness in Seoul in 2011.

The analysis and findings presented below are based on: (i) a desk review of donor policies and procedures and existing funding instruments in specific countries, (ii) an extensive literature review and analysis of DAC and Financial Tracking System financial data, and (iii) interviews with key informants from DAC member countries and multilateral agencies.

The report is structured as follows: Chapter two outlines international efforts to date and clarifies the challenges and key concepts related to transition. Chapter three analyses aid flows to fragile and conflict-affected states. Chapter four then moves to map donor policies and procedures, and presents some recent good practice with regard to transition financing, while chapter five maps country-specific tools and instruments available during the transition period. Chapter six summarises the key messages and conclusions that will be carried forward in the preparation of specific OECD DAC guidance on transition financing.

Why transition financing matters – and why it is about more than money

Providing adequate financing to situations of conflict and fragility is key to ensuring both life-saving activities as well as peace dividends and livelihood support, and to start building the foundations for sustainable recovery, peace and state capacity. However, the international community has faced major challenges in providing effective and targeted support to countries recovering from conflict, as has been amply documented in recent years.

Underpinning this report is the recognition that most of the forces shaping events in fragile situations and countries emerging from conflict are outside donor control. However, financing is one thing that is within donor control. Donors can decide how much to fund, which agencies or organisations to finance, what restrictions or conditions are applied and when to turn the funding tap on and off. Recognising the impact of financing is thus important in order to understand many of the risks and challenges for external actors during the transition period.

Finance is often used as a signal. Financial pledges are signals of confidence in a peace process or regime change. They are used to stimulate further progress or "reward" governments seen to be striving for internationally agreed standards. Conversely, finance is sometimes withdrawn to signal disapproval – not of the activity being financed, but of governments, policies or events. Withdrawal of finance may have nothing to do with aid effectiveness and is likely to be driven by political forces outside the aid agency. Disapproval of a regime can result in funds being cut from, for example, social service delivery programmes designed to directly reach the poorest and most marginalised.

The type of finance can also be used as a signal. Humanitarian and development financing engage with the state to different degrees – humanitarian aid often bypasses state structures while development funding is provided through, and in support of, the state. Donors may fund the same activities from a development assistance budget line in one place, and a humanitarian one in another. Often, decisions on which budget line to use have nothing to do with the type of activity and everything to do with avoiding endorsing unacceptable regimes by supplying development assistance. Humanitarian assistance, on the other hand, is perceived to be neutral and impartial notwithstanding the fact that a decision to label activities as humanitarian rather than development is inherently political.

Yet financing has an influence far beyond turning the tap on and off, including the following:

- **Financing modalities can result in the empowerment or disempowerment of different organisations.** If funding is restricted to a particular group of actors (such as the UN or international NGOs; international or national organisations), it empowers these actors in several ways. First, it may empower the organisation to select recipients and control what is funded, as well as when and how. Second, it may provide a modest source of the best type of income (core unearmarked funding) by enabling it to charge an administration fee. Third, these financing choices influence the extent to which different partners are visible to, and dialogue with, the original donor and are thus able to shape donor thinking.
- **Financing modalities affect the way needs are defined and priorities are set.** Pooled funds, for instance, can finance only priorities defined by the strategy guiding the funds. Organisations that want access to these pooled funds thus have a clear incentive to participate in joint needs assessment and prioritisation exercises that are frequently used to define these strategies. More use of pooled funds can thus advance the Paris and UN humanitarian reform agendas by strengthening incentives to participate in joint needs assessment and priority setting. Non-pooled funds, on the other hand, pose the risk of fragmentation and skewed attention to the needs of favoured groups or sectors.
- **Financing modalities can incentivise particular types of behaviour.** Pooled funding can incentivise alignment with overall development plans and advance accountability to broader objectives. Direct bilateral funding might inhibit alignment behind national plans and priorities.
- **Financing modalities can drive or inhibit co-ordination.** For instance, MDTF allocation processes can drive co-ordination by creating a forum where donors and agencies exchange information about their programmes and agree on funding priorities. Financing modalities also determine who will be eligible for MDTF funding and dictate who has an incentive to attend those meetings. Similarly, direct bilateral funding might impede in-country co-ordination.
- **Financing modalities can support or preclude the development of capacity.** For instance, a decision to exclude agencies that do not use specified accounting procedures might strengthen longer-term adherence to good practices, but will likely undercut initial potential to

deploy existing local capacity. Rules that require or preclude financing through government agencies or local civil society organisations exclude a whole range of options in transition situations. What may have begun as a perceived problem with domestic capacity may in fact become further entrenched by funding mechanisms that inhibit the development of more robust indigenous capacities.

Financing is thus not just a flow of resources: it affects behaviour, aid architecture, the power and influence of different groups, priorities and capacity development. It signals approval or disapproval. And there is no neutral choice – making a financing decision always creates consequences that go far beyond time-bound funding for an activity. This understanding will be further developed in this report through more detailed analysis of aid flows, and policies and mechanisms applied during the transition period.

Notes

1. DAC Principles on Good International Engagement in Fragile States and Situations. Available from: *www.oecd.org/document/46/0,3343,en_2649_33693550_35233262_1_1_1_1,00.html*.
2. Taken from *www.humanitarianreform.org/* and *www.goodhumanitariandonorship.org/*.
3. *The Accra Action Agenda*, article 21.
4. UN Secretary-General (2009), paragraph 77.

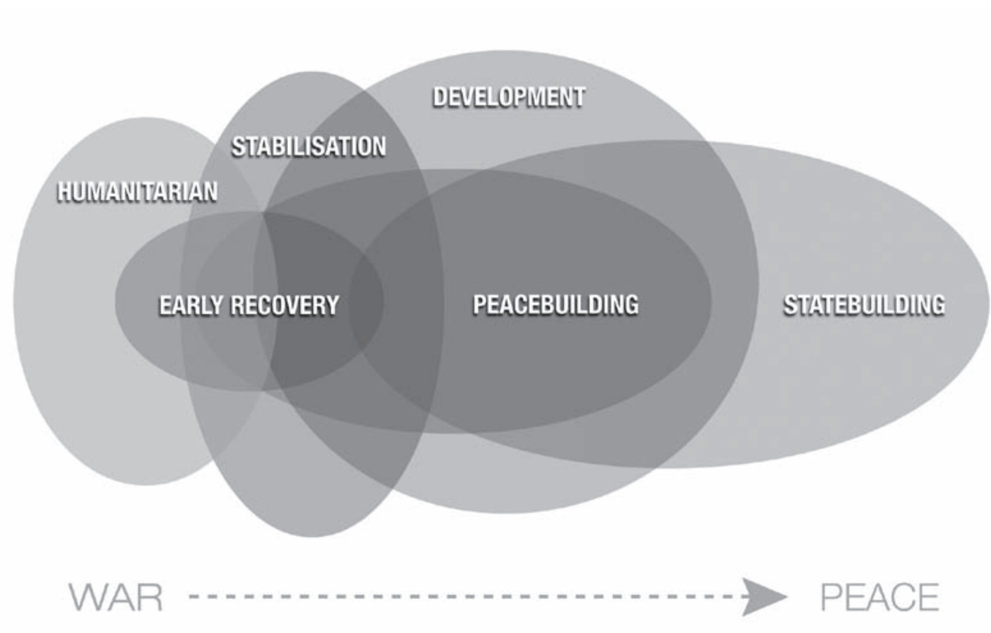
2. Understanding transition – challenges and key concepts

This chapter outlines some of the key international efforts to date to conceptualise international assistance in support of war-to-peace transition. It also clarifies the challenges and key concepts involved and defines transition as a set of shifts and characteristics that influence international engagement.

International efforts to conceptualise assistance to conflict-affected countries

This report recognises and accepts the fact that aid does not flow in timely and effective ways to the greatest needs during transition periods and argues that this is largely attributable to the sub-optimal quality of international engagement. Rapid and flexible financing for critical peacebuilding and state-building activities is constrained by an aid architecture that is separated into humanitarian and development aid, governed by different principles, rules and regulations, and often managed by different departments of donor agencies/organisations. This has resulted in the proliferation and fragmentation of mechanisms at country and headquarters levels, exacerbated by limited donor field presence. The availability of rapid and flexible financing is also restricted by sometimes conflicting political agendas, priorities, guiding principles, funding cycles, targets and indicators that guide international engagement. As a result, the aid architecture often appears to be segmented and incoherent. Other constrains include a continued lack of clarity on how to prioritise

Figure 2.1. **Spectrum of peace interventions**



Source: Bailey and Pavanello (2009).

activities, the difficulties of managing trade-offs between quick delivery and the need to ensure support for longer-term development of effective and resilient states, and problems of sequencing crucial activities and interventions.

Figure 2.1 portrays some of the concepts that are in use as well as the overlaps between them. Key definitions are listed in Annex A.

The principles that govern international assistance are part of the various models of assistance outlined in Figure 2.1. On the development side, donors and implementing agencies have signed up to the Paris Declaration (OECD, 2005), the Principles on Good International Engagement in Fragile States and Situations (OECD, 2007) and the AAA (OECD, 2008). In 2003, donors also committed to the Principles for Good Humanitarian Donorship (GHD). Annex B provides an overview of the synergies and tensions between the different sets of principles.

These different principles are helping to improve international humanitarian and development assistance. For example, the Paris Declaration has resulted in more frequent use of pooled 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 sectoral 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 needs-based 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 the global and country levels (the Central Emergency Relief Fund, CERF, and Common Humanitarian Funds) and the cluster approach (which aims to improve co-ordination and avoid gaps in the provision of humanitarian aid). The GHD principles are guided by international humanitarian law, which means they make very limited reference to the role of the affected state.

The Fragile States Principles (FSP) were created to complement the Paris Declaration 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 Paris Declaration and FSP frameworks strive towards alignment, harmonisation and accountability, one key difference is that the FSP at present lack mutual commitments on results.

* Nevertheless, the latest Paris monitoring report suggests that donors need to accelerate progress to meet targets for reduced fragmentation, greater predictability and use of country systems. For example, aid delivered within programme-based approaches increased to 47% in 2007 compared with a 2010 target of 66%.

A particular challenge with having multiple sets of principles is that, in some countries, three or even all four sets of principles might apply simultaneously and be subject to periodic re-configuration as the context fluctuates. For example, in Sudan, donors may be operating according to the GHD principles in Darfur and the FSP in Southern Sudan. In Uganda, the international donor community was applying primarily the Paris Agenda at the Kampala level and the GHD principles in the north during the conflict between Lord's Resistance Army and the Government of Uganda.

The segmentation of governing principles and international response becomes a major impediment to effective engagement in transition situations when international actors are attempting to move from life-saving efforts towards supporting sustainable development in partner countries emerging from conflict. This is because it does not reflect reality on the ground and makes co-ordination and co-operation between different operational and policy communities challenging. As a result, aid agencies are often left struggling to create links between humanitarian and development instruments when the post-conflict transition phase requires different mixes of activities that come from both disciplines.

The following analysis argues that, where government counterparts are weak or illegitimate, international actors should move from focusing on financing flows only to adopting a systemic approach that provides appropriate long-term but flexible forms of assistance that address the full range of needs and opportunities on the ground. Aid actors should, therefore, strive to harness all available instruments and capacities to meet the needs of the country, rather than putting the needs into somewhat artificial categories that create obstacles to transition. Such a shift would enable more effective and efficient use of aid and, ultimately, would positively affect results and development outcomes.

Several efforts have been made to improve engagement across different policy communities. However, most of these integration attempts have tended to focus on the post-peace period. Peacebuilding and statebuilding activities need to start before an official end to hostilities if the international community is to provide adequate and timely support. This approach was highlighted in the 2009 UN Secretary-General's Report on Peacebuilding in the Immediate Aftermath of Conflict (UN, 2009). The report also recognises the need for "better coherence and co-ordination, clarity on roles and responsibilities, coherent integrated strategies, stronger partnerships among key actors, and a move towards greater predictability and accountability" across policy communities. See Box 2.1 for further details on the Secretary-General's report.

Understanding transition

The analysis in this report is premised on an agreement among DAC members that international engagement in support of peace and stability would ultimately depend on the ability to ensure greater flexibility between different aid communities, policies and mechanisms. Recognising that peacebuilding and statebuilding are long-term processes that require targeted approaches and modalities, this report adapts the term "transition" as the basis for a further analysis of a wider set of key issues for supporting

Box 2.1. UN Secretary General's Report on Peacebuilding in the Immediate Aftermath of Conflict

In its presidential statement of 20 May 2008 (S/PRST/2008/16), the Security Council invited the Secretary-General to provide advice on how to support national efforts to secure sustainable peace more rapidly and effectively, including in the areas of co-ordination, civilian deployment capabilities and financing. The final report was presented in July 2009, and focuses on the challenges that post-conflict countries and the international community face in the immediate aftermath of conflict, defined as the first two years after the main conflict in a country has ended.

The report argues that the immediate post-conflict period offers a window of opportunity to provide basic security, deliver peace dividends, shore up and build confidence in the political process, and strengthen core national capacity to lead peacebuilding efforts thereby beginning to lay the foundations for sustainable development. It also highlights five core challenges that need to be handled to facilitate an earlier, more coherent. response from the UN and the wider international community, including (a) stronger, more effective and better supported United Nations leadership teams on the ground; (b) early agreement on priorities and alignment of resources behind them; (c) the strengthening of United Nations support for national ownership and capacity development from the outset; (d) the rationalisation and enhancement of the United Nations system's capacity to provide knowledge, expertise and deployable personnel to meet the most urgent peacebuilding needs, in concert with partners who have a comparative advantage in particular areas, as well as assisting countries to identify and draw on the most relevant capacities globally; and (e) enhancement of the speed, alignment, flexibility and risk tolerance of funding mechanisms.

The report recognises that existing funding mechanisms are not suited to early post-conflict situations, which require a considerable degree of speed, flexibility and risk tolerance. It thus urges the OECD DAC to develop innovative solutions that will establish flexible, rapid and predictable funding modalities for countries emerging from conflict.

countries emerging from conflict. This term aims to capture the need for urgent and rapid support to lifesaving activities, while at the same time reflecting the notion of countries transitioning out of conflict towards sustainable development. It also reflects a transition towards greater national ownership and state responsibility for the safety and welfare of citizens.

The transition period is understood to signify the following gradual shifts in international engagement:

- From primarily focusing on life-saving activities to engagement aimed at establishing sustainable peace and viable state structures.
- From respecting humanitarian principles of humanity, neutrality and impartiality to making more explicit political choices towards peacebuilding and statebuilding objectives.
- From support through humanitarian aid modalities that normally by default avoid state engagement in conflict situations to development aid modalities that regard the state as the primary partner and channel.
- From working mainly with international organisations to working with local partners.

The above suggests that transition financing covers a broad spectrum of activities, including early and longer-term recovery and reconstruction activities that traditionally fall between the humanitarian and development categories and security-related and peacebuilding activities (often referred to as stabilisation). Furthermore, the shift towards a stronger focus on statebuilding highlights the importance of including national resource mobilisation and debt relief as part of the overall financial picture – areas which are normally not given much attention during the immediate post-conflict period.

More specifically, transition can be understood to have the following characteristics:

- It is a longer-term process that countries go through when moving from violent conflict towards sustainable peace and development. As such, it should reflect a realistic understanding of context-specific peacebuilding and statebuilding, and be guided by a longer-term vision of sustainable peace and development.
- It is a non-linear process that presents tensions and trade-offs between the need to provide rapid support to peace implementations and life-saving activities while at the same time supporting development of sustainable state structures. International support and engagement might be needed even before there is a formal end to hostilities.

- It requires a shared space between humanitarian and development (and often security) actors, as countries might experience humanitarian emergencies, longer-term development/investment programmes and peacekeeping efforts simultaneously. This requires a flexible approach that does not compromise humanitarian principles when applying the modalities and principles that guide specific interventions.
- It often requires an adaptable mix of resources and instruments from different parts of donor governments, including both official development assistance (ODA) eligible financing and non-ODA funds.
- It imposes particular constraints on international actors, as post-conflict situations present particular challenges in terms of insecurity and capacity deficits; international engagement requires better co-ordination to avoid fragmentation of approaches and instruments.
- It requires a flexible and pragmatic approach to programming based on an in-depth understanding of the country context. International actors need to be able to adapt to changing political realities and institutional capacities and to move back and forth among different modalities, approaches and frameworks.
- It requires a flexible approach to national ownership that focuses on actors beyond the central government. While both humanitarian and development principles give clear guidance on how to engage with governments, the transition period can impose significant constraints on international engagement when moving towards more national ownership in situations of weak capacity. Appropriate long-term but flexible assistance will need to be adapted to situations where government counterparts are weak or illegitimate.

The above understanding of transition financing raises the question of how the international community can better record progress of transition activities and how priority areas of intervention are identified and funded. These issues will be explored further below, as the report moves to mapping financial flows, donor policies and practices, and country-specific financing instruments available during the transition period.

3. Aid flows to fragile and conflict-affected states

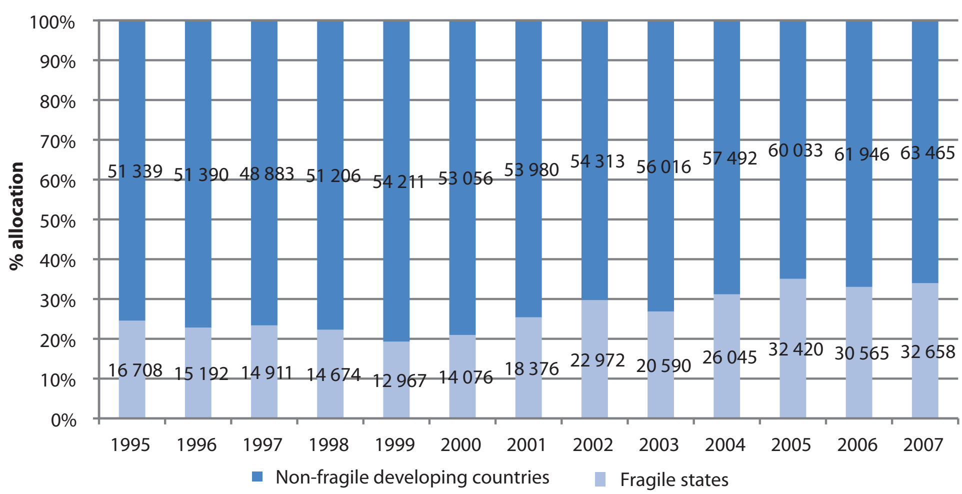
This chapter uses DAC data and other information sources to provide a brief overview of overall aid flows to fragile and conflict-affected states. It then moves to outline the specific challenges and bottlenecks associated with measuring and monitoring transition financing, and suggests areas where development partners need to improve their current practice.

Official development assistance to fragile and conflict-affected states

OECD DAC statistics show that fragile and conflict-affected countries receive substantial amounts of aid, and that the aid levels have increased gradually since 2000 (Figure 3.1). In 2007, donors spent around 34% of total ODA (net of debt relief) in the 48 countries currently defined as fragile or conflict-affected states (see OECD 2009 for a full list). However, the data also show that aid to fragile and conflict-affected states is highly concentrated, with almost half of the total being allocated for five countries in 2007: Afghanistan, Ethiopia, Iraq, Pakistan and Sudan (OECD, 2009).

Figure 3.2 compares ODA from all donors (not just DAC donors) to fragile and conflict-affected states as a whole with ODA to fragile and non-fragile states located in sub-Saharan Africa. This shows that non-fragile sub-Saharan African countries generally receive higher levels of aid per capita than fragile states, whether sub-Saharan African or as a whole. Within the fragile-states category, countries in sub-Saharan Africa have received less aid per capita than countries outside this region since 2003. This is likely to be linked to the high levels of aid to Iraq and Afghanistan. Per capita aid to sub-Saharan countries fell from USD 26 in 1995 to USD 16 in 1999 before recovering gradually to reach USD 31 in 2007. Thus, despite the increased funding to fragile states and an expansion in the DAC definition of ODA that would allow donors to count more activities as ODA eligible in fragile states, per capita ODA to fragile states in sub-Saharan Africa has increased by only USD 5 since 1995.

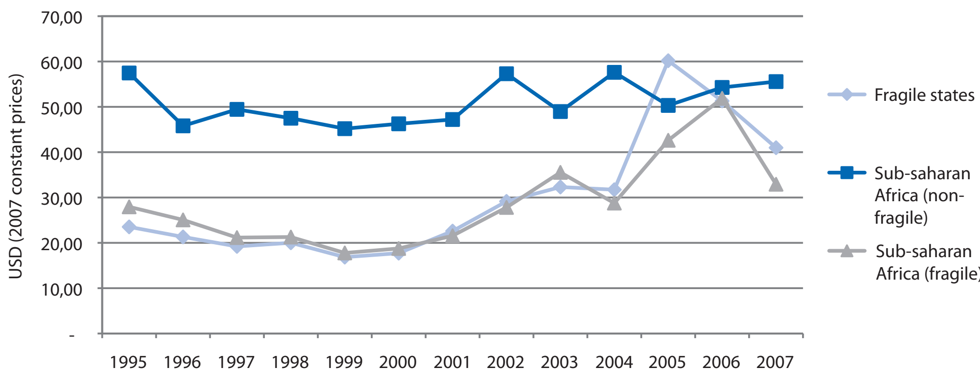
Figure 3.1. **ODA to fragile and non-fragile states 1995-2007**



Source: DAC 2a disbursements from all donors.

This finding raises questions about the conventional understanding that the increased focus on fragile and conflict-affected states since the early 1990s has resulted in increased aid volumes to conflict-affected countries. However, it matches the overall trend in aid over the past decades, which was marked by a dramatic drop during the late 1990s.

Figure 3.2. **Per capita ODA to fragile and non-fragile states: 1995-2007 (USD)**

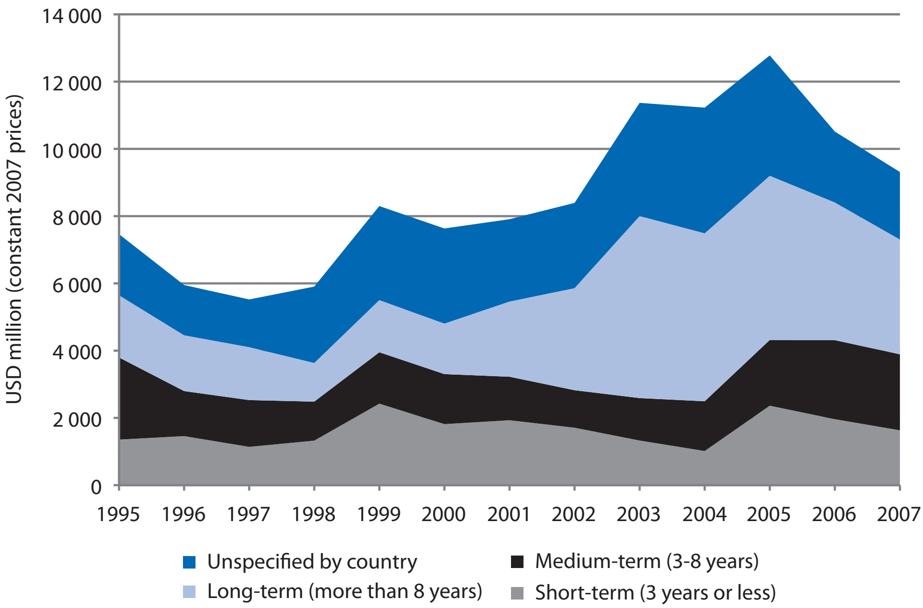


Source: DAC 2a ODA disbursements from all donors.

Donors provide a significant proportion of ODA to fragile and conflict-affected states in the form of long-term humanitarian assistance. In Chad, humanitarian assistance has been between 44% and 58% of total ODA for the past four years, while the DRC has received around 40% of total ODA in the form of humanitarian assistance annually since 1994. Burundi received nearly 75% of ODA in the form of humanitarian assistance in 2004, and in most years since 1995 humanitarian aid has been over half of ODA (Development Initiatives, 2009).

Globally, humanitarian assistance has averaged around 10% of ODA since 1995. This has been used as the benchmark to differentiate occasional and small-scale humanitarian responses from countries where humanitarian assistance has been a more significant component of ODA. Figure 3.3 shows humanitarian assistance to countries that have received more than 10% of their ODA in this form of aid (Development Initiatives 2009). It illustrates that, since 2000, most humanitarian assistance has gone to countries that have received such aid for over eight years. Long-term humanitarian aid has been focused on a few countries – Sudan, Iraq, the DRC, Afghanistan and Ethiopia. This is not surprising, given that transition situations can move between crisis and post-crisis phases for a long time. In fact, research estimates that about half of all post-conflict countries relapse into conflict within a decade (Collier, 2007).

Figure 3.3. **Long-, medium- and short-term humanitarian assistance 1995-2007 (USD million)**



Source: DAC 2a disbursements from all donors.

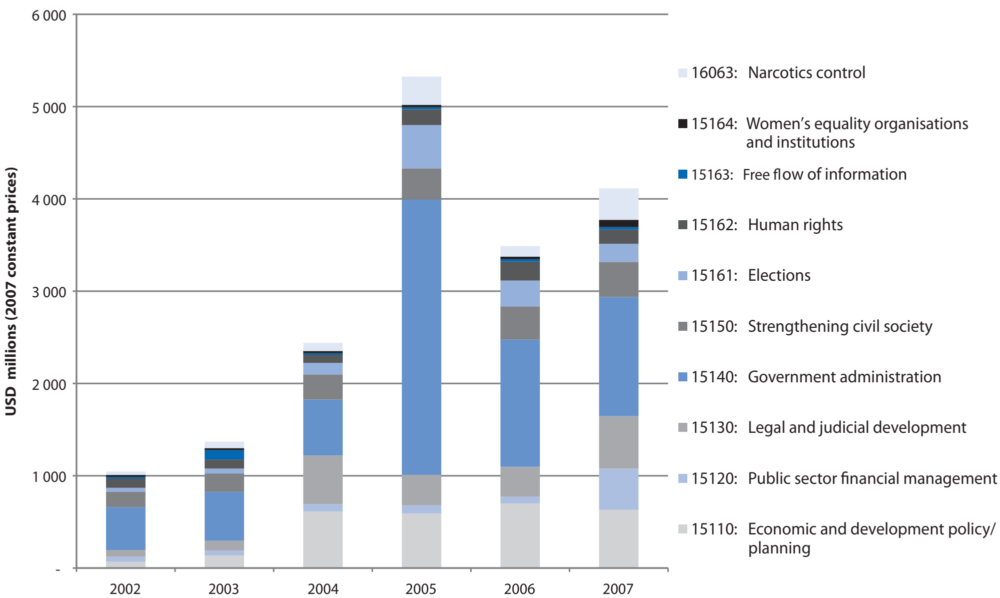
Measuring transition financing

The data presented above highlight that donors provide significant amounts of humanitarian and development aid to fragile and conflict-affected states. However, it is difficult to quantify and assess how much of this funding is specifically to support countries to transition out of conflict. The following section presents some of the challenges associated with measuring and assessing transition financing levels.

Efforts to quantify total funding for transition activities face significant challenges. There is no consensus within the international aid community on what specific activities fall into this category. Donors also find it difficult to consolidate and report on transition financing because the funding often comes from several budget lines and/or different parts of a donor government. In addition, different methodologies and approaches for identifying and assessing needs mean there is limited agreement on how to establish a baseline for providing transition financing.

DAC statistics provide some indication of the level of transition financing that donors provide from development budget lines. For example, Figure 3.4 presents aid flows to a set of activities that are generally deemed important for post-conflict transition, based on DAC categorisation of aid by sector. This shows a dramatic increase in funding for government administration in 2005. However, this was due to substantial funding to Afghanistan and Iraq (USD 164 million and USD 2.3 billion, respectively). The funding to Iraq dropped to USD 693 million in 2006.

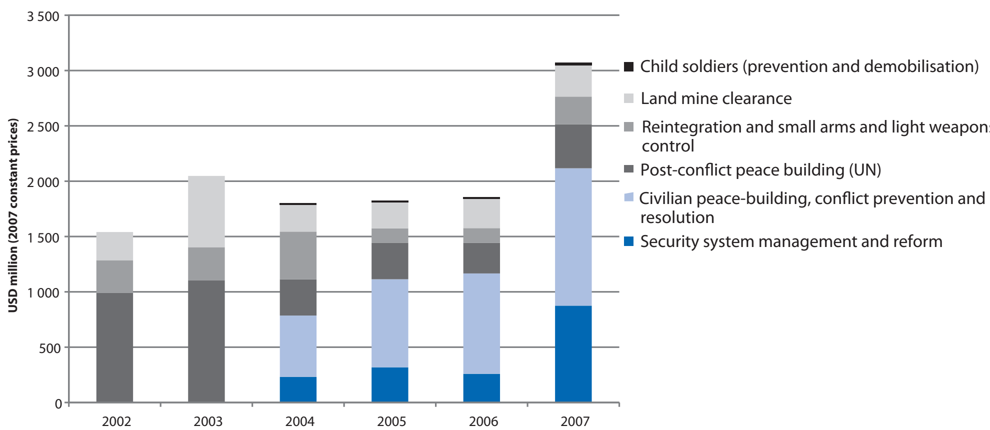
Figure 3.4. **Funding for transition activities 2002-2007 (USD million)**



Source: DAC CRS commitments by all donors.

Figure 3.5 shows ODA funding to sectors related to peace, security and conflict, which has increased substantially in recent years. Funding for civilian peacebuilding activities more than doubled to reach USD 1.2 billion in 2007, and security system management and reform nearly tripled over four years from USD 232 million to USD 875 million. The dramatic increase in funding reflects the broader recognition over recent years of the important relationship between security and development. Recent expansions of the ODA criteria to include critical peace and security activities have enabled the DAC databases to capture more of the relevant transition funding.[1] However, these expansions have also highlighted difficulties in defining specific security activities during the transition period; also, certain critical activities continue to fall outside of the DAC reporting and are therefore not captured in the statistical database. These include, for example, the use of military personnel to decommission weapons and carry out demining.

Figure 3.5. **ODA to security related sectors 2002-2007 (USD million)**



Source: DAC CRS commitments by all donors.

Donors are increasingly recognising that aid is just one part of the total resource envelope during the post-conflict period. In particular, the recent focus on security-related expenditures is a reflection of a growing focus on stability as an important condition for peacebuilding and statebuilding. UN peacekeeping expenditures are at a historic peak with 20 ongoing missions, providing wide-ranging support to peace and stabilisation and supported by a budget of USD 7.1 billion for 2008. This equals one-fifth of total ODA to fragile and conflict-affected states. The UN spent USD 1.1 billion on peace-keeping in the DRC alone, which was slightly more than total ODA to the country in 2007. Table 3.1 presents total funding for peacekeeping operations between 2000 and 2008, with 2007 peacekeeping expenditure as a proportion of ODA to each country.

In addition to UN mandated peacekeeping missions, the international community spends enormous amounts on other peace and stability operations around the world, including in Afghanistan and Iraq. These operations are financed mostly from defence and foreign affairs budgets and as such are not recorded by official DAC statistics, nor counted as official ODA. While it is difficult to provide accurate figures on the overall amounts spent on such operations, as an example total NATO spending in Afghanistan (excluding bilateral military expenditure) amounted to USD 361 million in 2008, which equals almost 10% of what OECD DAC members provide in ODA to Afghanistan (USD 3.9 billion in 2007). The same applies to an increasing number of regional peacekeeping operations by organisations such as the African Union and ECOWAS.

In conclusion, the current aid flow systems show that significant financial resources (ODA and non-ODA) flow to conflict-affected states each year. The majority of these funds flow to high-profile conflict contexts like Afghanistan, Iraq and Sudan, suggesting that political priorities influence allocation decisions. However, evidence from country cases shows that aid does not flow in a timely and effective way to respond to needs. The UN Secretary General's recent report on peacebuilding referred to a funding gap in the immediate aftermath of conflict. This gap was also explored earlier in

Table 3.1. **Peacekeeping expenditures, 2000-2008 (USD million)**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2007 expenditure as % of ODA
Burundi	.	.	.	40	304	239	118	.	32	
Central African Republic and Chad	.	.	.	.	.	.	.	182	301	35
Côte d'Ivoire	.	.	.	83	337	382	450	471	475	300
Congo, Dem. Rep.	246	389	480	636	901	1 055	1 085	1 116	1 191	102
Darfur	.	.	.	.	.	.	.	1 276	1 500	See Sudan
Diseng. Observer Force (Syrian Golan)	35	34	39	40	.	40	40	40	46	
Eritrea	164	185	210	184	180	156	126	113	100	73
Georgia	24	25	29	30	31	31	32	35	35	11
Haiti	.	.	.	35	377	480	484	535	575	84
Kosovo	361	360	330	316	294	234	210	220	198	
Liberia	.	.	.	548	741	707	676	688	604	101
Lebanon	46	50	.	.	56	.	.	714	689	76
Sierra Leone	521	618	603	449	265	86	-	-	24	
Sudan	.	.	.	.	219	801	990	846	821	101
Timor-Leste	528	454	288	196	82	2	147	153	173	55
Western Sahara	46	41	41	42	45	46	44	48	48	
Total	**1 971**	**2 156**	**2 020**	**2 599**	**3 832**	**4 259**	**4 402**	**6 485**	**6 868**	

Source: Center on International Cooperation (2009) and DAC databases.

a study by the Financing Task Force of the Cluster Working Group on Early Recovery (CWGER), which examined the extent to which humanitarian instruments financed early recovery activities (see Box 3.1).

The analysis in the CWGER report is limited to humanitarian financing instruments, rather than covering all potential sources of funding; hence it is difficult to draw global conclusions. The identified shortfalls in funding can also partially be explained by the fact that most humanitarian funding is allocated based on lifesaving criteria, which would exclude activities that cannot be strictly classified as humanitarian. Complementary data on transition financing from UNDP field offices suggest that, as with humanitarian and development funding, funding shortfalls vary across countries. For example, in 2008, three out of six UNDP project applications in the Central African Republic went unfunded while three project applications each for the DRC and Southern Sudan received funding. In Burundi, UNDP financed seven project proposals in 2008 from its core funding.[3]

Box 3.1. **Humanitarian funding for early recovery**

A total of 3 859 projects were included in the sample for review, selected from Flash Appeals, Consolidated Appeals (CAPs), the Central Emergency Response Fund (CERF) and the Common Humanitarian Pooled Funds (CHPFs) from the period 2006-08. The results of the analysis were as follows:

- Of the fifteen Flash Appeals reviewed from 2006 to 2008, only 17% of the early recovery funding requirement was met compared, with 53% of the requirement for humanitarian aid.
- For fifteen CAPs reviewed from 2006 to 2008, 44% of the early recovery funding requirement was met, compared with 78% of the humanitarian requirement.
- In terms of the CERF,[2] a total of USD 1 billion was approved for all projects in 20 natural-disaster and conflict countries under both the Rapid Response and the Under Funded Emergencies windows, included in the sample from 2006-08. Of the USD 1 002 863 476 approved, USD 29 856 408 was approved for early recovery projects. 3% of total funding for the period for the sample under review was therefore allocated to early recovery projects.
- For the CHPF for Sudan (2008), 43% of the early recovery appeal was funded, compared with 84% of the humanitarian appeal.
- For the CHPF for the DRC (2008), 36% of the early recovery appeal was funded, compared with 57% of the humanitarian appeal.

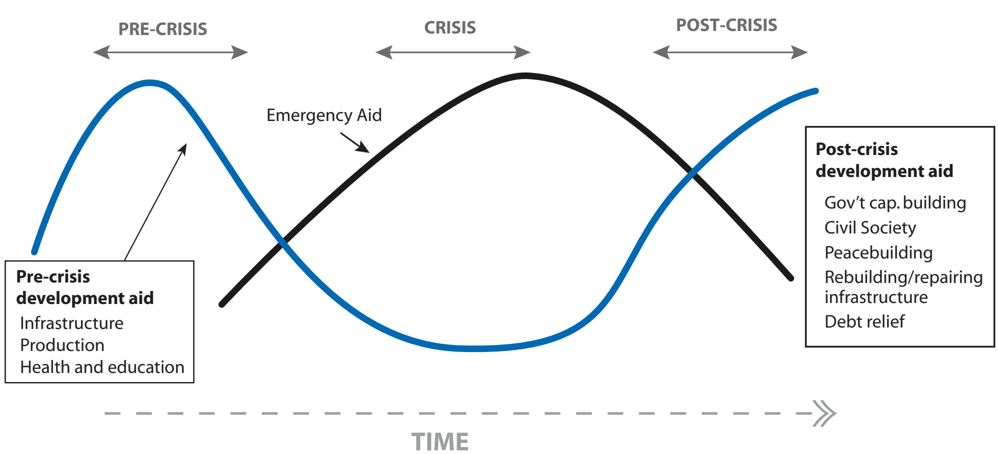
Source: United Nations Cluster Working Group on Early Recovery (2008).

There are several reasons that activities that are critical in post-conflict situations might not get funded. In certain cases, it is because they do not fit with the remit of funding instruments or are not within the mandate of a specific organisation. For example, the World Bank-managed Afghanistan Reconstruction Trust Fund (ARTF) cannot finance security-related activities, in spite of the deteriorating security situation. In Southern Sudan, funding Disarmament, Demobilisation and Reintegration (DDR) was a challenge because the disarmament and demobilisation elements of the programme were financed through assessed contributions to the UN while reintegration had to be funded from voluntary donor contributions. However, there are also examples of how donors and implementing partners have found innovative ways around these constraints. In Afghanistan, for example, this was done by establishing a separate modality for security-related activities, the Law and Order Trust Fund for Afghanistan (LOTFA – see chapter five for more details).

There may also be a funding shortfall because aid flows are often predicated on the idea of a linear pathway of progress out of conflict (see Figure 3.6). In this model, a funding shortfall may occur in the period between the end of crisis arrow in the diagram and the start of the post-crisis arrow, when humanitarian aid is declining quite sharply and development aid is increasing.

While the pattern of aid flows in Figure 3.6 can be observed in certain contexts, there is also evidence of the opposite. For example, data from the DRC and Burundi show that humanitarian aid can increase along with development aid during the immediate post-conflict period, as access to vulnerable populations improves and repatriation programmes begin. Development

Figure 3.6. **Patterns of aid to fragile states in crisis**



Source: World Bank, International Development Association (2007).

aid flows may also be erratic (as in the CAR), instead of following a smooth trajectory. This calls for considerable caution in generalisations about the timing of changes in humanitarian and development aid flows. Furthermore, Figure 3.6 is based on an assumption that there is a static or gradually rising level of needs (or at least of aid flows) in post-crisis periods. In reality, requirements in the post-crisis period may increase sharply given the need to support the establishment of state structures, finance peacebuilding efforts and assist both populations and geographical areas that may have been inaccessible during the conflict.

Moving the debate forward

The analysis of aid flows above demonstrates that donors provide substantial financial support to post-conflict countries and that the resources are drawn from different budget lines – humanitarian, development and defence. Nevertheless, due to the segmentation of the aid architecture (including the separation of ODA and non-ODA funding) and the different mandates and remits of aid instruments and agencies, some activities that are critical in the transition period may go unfunded. The analysis above suggests that the following improvements are needed:

Shift the debate away from funding levels towards improving the quality of engagement. Research for this report identified the fact that the aid community may be referring to different things when discussing possible shortfalls in transition funding. Different interpretations that were expressed include that transition activities are less well funded than humanitarian or development activities; that specific transition activities may go unfunded because of limitations in the remit of the different instruments available during the transition period and a lack of flexibility to shift funding between different instruments once donors have allocated funding; or that shortfalls might occur due to a potential time lag between a reduction in humanitarian assistance in the post-conflict period and an increase in development aid flows in the post-crisis period.

While available data are insufficient to make firm judgements on any of these interpretations (in fact several might be relevant in certain contexts), it is evident that the different interpretations do not facilitate a constructive discussion. The DAC should encourage a shift in the debate away from a focus on funding levels to finding specific solutions that can improve the quality of the international community's overall engagement with, and support to, transition situations.

Improve efforts to measure transition activities and needs across instruments and modalities. The fact that transition funding may come from different instruments within a donor government bureaucracy makes it challenging to ensure a holistic approach. As long as there is no agreed DAC reporting code that covers the full spectrum of transition financing for countries emerging from conflict (including activities that do not count as ODA but are nonetheless crucial for longer-term development, for example in relation to SSR), this will remain a problem. The DAC should examine the need to revise its reporting codes and explore options to capture non-ODA eligible financing.

Furthermore, existing monitoring and reporting frameworks do not take into account the variety of actors involved during the transition period. More clarity around both the types of activities that are involved and how these related to existing DAC codes could provide useful incentives. Similarly, recognising the fluidity of post-conflict situations, more work should be encouraged to enable further disaggregation of financing flows beyond annual data.

Explore to improve flexibility of the aid architecture and coherence between financing modalities. Donors and implementing agencies should move beyond an approach to transition that is focused on the two concepts of humanitarian and development. Transition activities do not fit comfortably into either category, so they are regarded as an exception to the norms. Transition is also falsely regarded as a linear process that can be addressed through interim approaches, and where financing decisions can be triggered by a standard set of chronological events (*e.g.* peace agreements, elections, the departure of peacekeepers). Rather, as discussed above, many countries move into and out of conflict for a long time, which means the exception becomes the norm. More flexibility will be possible only when the international community addresses the challenges in a more integrated manner, and introduces more coherence between different funding streams. Such coherence will also enable more timely and effective delivery of development assistance to finance transition activities.

A more strategic approach to transition situations will also require a different approach to identifying, prioritising and financing needs. Needs assessments should be based on an objective analysis of what is needed or grounded in a preliminary understanding of what international actors can feasibly contribute through different modes of engagement. It should also take into consideration the need to share space during the transition, and recognise that early action might be needed even before a situation can be classified as post-conflict. Holistic transition planning will need to be based on a better understanding of the overall levels of resources that go into these situations, and as such should include humanitarian, development and defence budgets that are available across donor governments, as well as domestic resources. More focus on credible, prioritised needs assessments that bridge different policy communities and serve as a denominator for bringing the different funding streams together should be at the core of addressing this issue, and could be explored in future humanitarian and post-conflict needs assessments reviews. More work might also be needed to strengthen monitoring and evaluation components of planning frameworks, to facilitate regular updates on progress, reprioritisation, and more effective allocation of funds.

This report will now move to map donor policies and procedures for transition situations and identify specific challenges and bottlenecks that prevent development partners from providing flexible and rapid financing during transition.

Notes

1. The extensions of 2004 and 2005 covered the management of security expenditure through civilian oversight and democratic control; security system reform (including all civilian aspects as well as civilian oversight and management); the enhanced role of civil society in the security system; support to legislation for preventing the recruitment of child soldiers; the control, prevention and reduction of small arms and light weapons proliferation; as well as civilian peacebuilding, conflict prevention and conflict resolution.
2. Publicly available CERF data provide information only on approvals of funding to specific projects and disbursement dates. Data on funding requested by specific agencies for specific projects are not available on the CERF website.
3. Based on information supplied by UNDP country offices through BCPR in Geneva. This was part of an information request by Development Initiatives to UNDP, UNHCR and UNICEF.

4. Donor policies and procedures

The analysis presented in this chapter is based on a mapping of donor policies, procedures and operational set-ups for financial allocations to conflict-affected situations, as well as interviews with key informants among DAC member states and observers. The aim is to (i) clarify how policies, structures and decision-making procedures impede or enable donors' ability to ensure rapid and flexible financing for transition and (ii) analyse various funding instruments and modalities for transition financing. This chapter outlines key findings and emerging good practice around decentralised decision-making, joint responsibility and whole-of-government approaches to transition challenges, as well as pooling of resources for joint purposes.

Policies, structures and decision-making procedures for transition situations

Most donors can draw on a range of budget lines and instruments to finance transition activities, which result in a set of co-ordination challenges. In particular, responsibility for responding to transition situations is often scattered across different government departments and co-ordination mechanisms are mostly informal or without decision-making authority. This lack of clarity on who has final responsibility for the transition period negatively affects both response time and the flexibility to combine or move between different modalities and approaches.

Rigid and risk-averse organisational structures have had a tendency to limit creativity and resulted in co-ordination challenges. Donor staff members are often hindered or discouraged from making necessary connections to enable a more holistic response to transition situations, and are left to rely on informal connections and relationships. Also, most agency cultures do not reward staff members who find innovative solutions to institutional challenges, which means that knowledge about rules and options for increased flexibility is not harvested to capture and systematise the knowledge. Annex 3 summarises participating donor policies and structures for engaging in transition situations. It also describes where responsibility for funding decisions lies.

Box 4.1. **Devolved programming: Australia's experience**

In 2001 AusAID committed to devolving program management to country offices. This decision resulted in more senior representation in-country and an increased number of core functions staffed in the field rather than at headquarters. The approach has aimed to improve AusAID's responsiveness to changing local circumstances, enhance AusAID's understanding of context and development of context-driven approaches, improve co-ordination with other stakeholders, promote stronger dialogue and build closer relationships with local partners.

Experience to date has shown that the devolved model has usefully supported flexible approaches to transition financing and programming. Senior staff in the field have had significant authority with respect to budget allocations and programming priorities. Up to a pre-agreed level they are able to adjust AusAID plans, approaches and budget allocations if circumstances change. Importantly, this includes moving funding between humanitarian, development and transitional activities. They are also able to request additional humanitarian funding from a centrally managed account if needed to supplement their response.

Experience has also shown that it is important to balance the benefits of devolution and in-country co-ordination, with the need for effective whole-of-government co-ordination and coherence at headquarters. The Australian government continues to review its experiences in relation to crisis response and transition and to identify lessons that will shape the management model into the future.

Donors are increasingly addressing tensions and dilemmas between existing institutional set-ups and operational procedures on one hand and increasing demands for whole-of-government co-ordination on the other. This report identifies several pragmatic examples of where donors have been able to address and overcome constraints. For example, the Australian government has strived to overcome the responsibility dilemma through a whole-of-government approach that works through inter-departmental committees under the leadership of a government department or the Prime Minister's Cabinet. Similarly, DFID and AusAID have devolved humanitarian decision-making and budget management to country offices to encourage more flexible use of different instruments and budget lines (see Box 4.1). However, DFID continues to manage a substantial amount of its humanitarian aid at headquarters level while AusAID's humanitarian department primarily supports the devolved programmes.

Several countries have developed approaches to encourage more regular interaction between staff from different policy communities. Canada, Denmark, the Netherlands and the United Kingdom have established stabilisation units that bring together staff from development and defence units to encourage more co-ordinated approaches to international peace and security efforts. Similarly, AusAID has recently established a stabilisation and recovery unit that brings together staff members from the fragile states unit with those working on peace and conflict and civil-military relations. Sida has created joint teams of staff members with humanitarian and development backgrounds (as described in Box 4.2), and Switzerland is piloting a similar unit at its Lebanon country office. Common to all these efforts is an understanding of the need to overcome the traditional cultural divide between staff members from different backgrounds.

Most donor organisations still have a complete separation of responsibility for humanitarian and development aid, but some have endeavoured to improve procedures for engagement in conflict-affected states. For example, the European Community (EC) has a separate Directorate General (DG) for humanitarian aid (ECHO) and two DGs working on development related activities. On the development side, however, the Commission has made efforts to improve its flexibility to respond to transition needs by developing guidelines on adapting its contractual procedures for the EC General Budget and the European Development Fund (EDF) to the demands of crisis situations (EC General Budget and EDF) and emergency and post-emergency assistance (EDF only). In practice, this means the authorising officer is allowed to apply quicker and simpler procedures, mainly procurement contracts and direct awards for grant contracts, once the relevant authority has established that the circumstances to apply these procedures exist in a given country or region.* However, these

* Available from: *http://ec.europa.eu/europeaid/work/procedures/implementation/practical_guide/index_en.htm*.

procedures make only programme implementation more flexible, not necessarily the process of programme adoption. The Commission is currently examining how to address this challenge. Also, EC delegates can re-draft country strategies or adapt existing programmes to make them more relevant to fragile situations. Nevertheless, these procedures have rarely been used, partially because of the political nature of any decision to classify a country as fragile.

Another challenge that donors face when engaging during transitions relates to the tension between the need for broad-based humanitarian engagement on

Box 4.2. **Mixing competences: Sweden's experience with joint development-humanitarian teams**

Joint teams of humanitarian and development experts have been established in countries where Sida funds major humanitarian interventions in parallel to development co-operation activities. Such teams are currently operational in Afghanistan, the DRC, Iraq, Palestine and Sudan/Somalia. The overall goal of these teams is to improve both humanitarian action and development co-operation without compromising humanitarian principles. The stated outcomes are to:

- Improve the quality of both humanitarian and development aid in conflict and post-conflict countries through joint contextual analysis.
- Encourage more strategic decisions on when and why to use various instruments (both humanitarian and development) while safeguarding humanitarian principles.
- Facilitate front-loaded development co-operation in post-conflict environments, thereby addressing the frequent frustration of the humanitarian team with regard to the development community's weak capacity to engage early and flexibly to address needs in transition situations.
- Enable a more strategic contribution to prevention of relapse into violent conflict.
- Bridge the cultural divide between staff members from humanitarian and development backgrounds.

As the teams were established in 2009, it is still too early to draw conclusions on the impact. However, some of the initial challenges experienced include:

- Upholding the distinction between humanitarian action and development co-operation (given that the overall goals and principles differ). Overall, respect for humanitarian principles is safeguarded by the fact that all decisions on humanitarian aid (from the humanitarian allocation) are taken by the team director for the humanitarian team, not by the country director.
- Clearer routines and procedures on decision-making, as well as options for organisational set-ups, with a focus on when and how the country team/country director should and could be involved in the assessment of humanitarian interventions.

the one hand, and more focused selection of countries for development support on the other. For example, Sweden's decision in 2007 to focus on a limited number of conflict and post-conflict situations long term is a direct consequence of the reality that limited capacity does not allow for a serious and qualitative engagement in a large number of countries. While longer-term development needs can be covered through division of labour between donors and the use of multilateral funding channels, such a disengagement still leaves Sweden with the challenge of how to phase out responsibly from a country where Sweden has a major humanitarian engagement but no intention of providing more long-term funding from its bilateral development budget.

The problem is further complicated by the fact that the humanitarian principles of responding to needs, as well as the often high-profile of crises, mean that donors engage in a large number of countries with humanitarian aid. One possible solution is set out in the new Danish Humanitarian Strategy, which on an annual basis identifies up to ten protracted crises for extended humanitarian engagement, whilst maintaining a smaller pool of funds for acute emergencies. However, other donors face similar challenges; in particular as OECD DAC Peer Reviews exert significant pressure on donors to focus development co-operation on a limited number of countries.

A number of interviewees also highlighted the influence of political will on funding procedures and decisions, in particular in relation to flexibility. Combined use of ODA and non-ODA funds in particular is vulnerable to political sensitivities and risks, as these require co-ordination between different policy communities and institutional structures. In addition, the fluidity and unpredictability often observed in conflict-affected states result in more direct political oversight, which may limit staff ability to maximise available flexibility when applying different approaches.

Specific funding modalities for transition situations

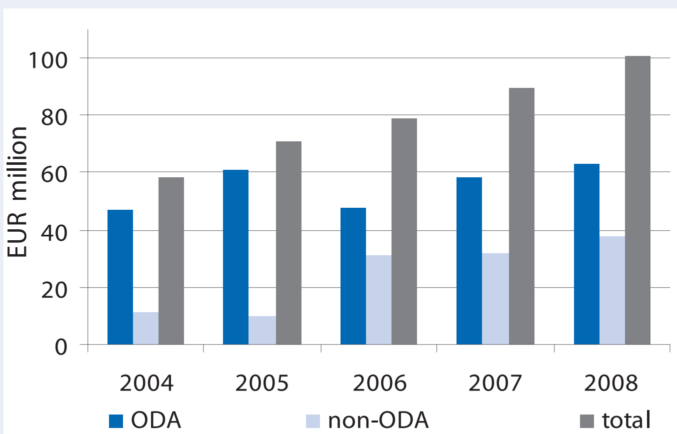
As the previous section has demonstrated, donors use a mix of budget lines to finance transition activities. The Paris Declaration principles of harmonisation and alignment and the Principles of Good International Engagement in Fragile States and Situations have provided both incentives and a clearly articulated rationale for greater use of pooled financing modalities, both among government departments of the same donor (ODA and non-ODA pools) and among different donors (cross-donor pooling). In addition, some donors have established specific funds or budget lines for transition activities. Annex C summarises some of these instruments and their characteristics.

A recent study by the OECD DAC INCAF shows that, while global funding shortfalls remain a concern, pooled funding and joint budget lines are being used as a way to provide incentives for collaboration and an ability

Box 4.3. **The Dutch Stability Fund**

The Dutch Stability Fund was created in 2004 to improve the provision of rapid and flexible financing for activities that are required to promote peace, security and development in situations of conflict and fragility, regardless of whether these activities are ODA-eligible or not. To date, the fund has committed almost EUR 400 million in support of key policy areas such as conflict prevention, mediation, peacekeeping and peacebuilding, including security sector reform and demobilisation and reintegration programmes.

The fund has at its disposal resources from the development budget (ODA) and the general foreign policy budget (non-ODA). Since its creation, overall available financing has almost doubled, from about EUR 58 million in 2004 to more than EUR 100 million four years later. Furthermore, as highlighted in chart below, there has been a disproportionate increase in non-ODA allocations, which almost quadrupled between 2004 and 2008. As a result, non-ODA financing has grown from about 20% to 30% of the total money available in the fund.



Recent evaluations of the fund show that it has been largely successful in achieving its stated objectives, as indicated by the large increase in the proportion of non-ODA funds. Two important factors can be identified to explain this success: (i) the strong political support and understanding of the need to be flexible and pragmatic from the Dutch parliament; and (ii) the delinking of allocation decisions from questions about ODA eligibility. A solid operational framework and decision-making process guiding allocations from the fund has also been instrumental. However, there are continuing challenges related to the inherent tension between being flexible in the face of an emerging crisis and maintaining a more strategic long-term focus on what should be accomplished through the fund.

Source: OECD DAC INCAF 2009.

to respond rapidly (OECD DAC INCAF, 2009). The Dutch Stability Fund is one example of an innovative instrument to promote a co-ordinated response across government agencies (see Box 4.3).

However, the OECD DAC INCAF study also found that if the funds have specific ODA targets (to guide decisions about what the pools can finance) this reduces their flexibility and, in turn, has an impact on how much funding is available for priority activities that are not classified as ODA. For example, the UN Peacebuilding Fund instructs that more than 85% of the total available funding should on average be spent on ODA-eligible activities. Such targets limit the effectiveness of the funds in terms of responding to needs, in particular when the limits result in funding decisions on specific projects and programmes based on prior consideration of ODA eligibility.

Many of the pooled funds have been established recently and donors have not measured their performance and impact yet (the Danish Regions of Origin Initiative and the Dutch Stabilisation Fund are exceptions). Nonetheless, the growing number of such funds shows that donors appreciate them. France and Sweden have expressed a wish for the establishment of similar funds for the explicit reason that they do offer added flexibility in funding the wide range of activities required in post-conflict situations.

Importantly, the OECD DAC INCAF study identified specific constraints on the effectiveness of these pooled funds. Constraints include "financial and human resource capacity, bureaucratic and time consuming procedures for preparing and approving projects, and difficulties in designing projects and programmes that can better integrate activities which are ODA and non-ODA eligible" (OECD DAC INCAF, 2009). The study proposed particular solutions to address these challenges, including the need to allocate adequate staffing levels and staff members with the capacity to address cross-sectoral and cross-departmental objectives and priorities. Staff members also need to better understand the ODA-eligibility criteria to ensure that they classify projects correctly.

Not all donors can set up funds that combine ODA and non-ODA money easily. One interviewee outlined the difficulty of pooling different resources due to fiscal regulations and the Treasury's concerns about the Ministry of Financial Affairs (MFA) managing pooled resources. It was suggested that it would be helpful if the DAC could acknowledge the important role that non-ODA funding can play in post-conflict periods, without necessarily changing the criteria for ODA eligibility. This would make it easier to capture these flows more comprehensively. However, the OECD DAC INCAF study highlighted the difficulties with tracking non-ODA funding for peacebuilding and security-related activities given that financing figures are not centrally collected (but fragmented across ministries and sectoral units). There is also a lack of clarity on which security and peace-related activities should be recorded in any new non-ODA expenditure category.

In addition to these specific funds or budget lines, donors can use budget support for fragile situations. The EC is working with the World Bank and African Development Bank on a Common Approach Paper for the Provision of Budget Aid in Fragile Situations (Multi-agency report, 2008). The aim of the paper is to develop a common rationale for the delivery of budget aid in difficult environment. The draft concept note adopts a working definition of budget aid that includes general budget support ("a form of financial assistance provided directly to a partner country's budget on a regular basis, using its own financial management systems and budget procedures") as well as other aid instruments, such as multi-donor trust funds. The paper argues that budget aid can be crucial in post-conflict situations by supporting state-building and recovery processes and co-ordinating external partners around a government-led process at a time when there are significant increases in external aid flows.

The paper is based on the recognition that budget support may not be appropriate where the government lacks commitment to a reform programme or when donors do not have confidence in the integrity of governance systems to account for the use of funds properly. It thus stresses the need to analyse the different challenges to budget support in fragile situations, including the multitude of administrative procedures that prevent donors from synchronising their disbursements to the budget and/or signalling their financial commitments in a coherent manner.

The DFID paper on implementing Fragile States principle seven (on alignment) uses examples of budget support in Rwanda and Sierra Leone to argue that strong country leadership and commitment are a pre-conditions for successful budget support (DFID, 2009). It also points out that the World Bank and the EC have often used budget support as a short-term or "one-shot" instrument to stabilise post-conflict states, support specific policy commitments and finance core state functions and public-sector salaries. The paper argues, though, that short-term budget support of this kind may not deliver all the benefits associated with a more predictable, longer commitment, such as serving as a platform for dialogue on reform or improving budgeting and planning. In addition, the paper warns that budget support may not lead to sustained improvements in government service delivery if the support is not accompanied by strategic capacity development support to priority sectors. To address this, the paper suggests that sectoral budget support may be more effective because it enables a more focused policy dialogue at the sector level, and can be linked effectively with other programmes building the sector's capacity.

An OECD DAC paper describes how, in some fragile contexts like Timor-Leste, short-term, emergency support for service delivery (*e.g.* health care programmes implemented by NGOs) can evolve into a more harmonised sector-wide approach (SWAp) and, eventually, sector budget support (OECD, 2008). This sequencing of support may allow for capacity development while gradually building an effective partnership between donors and national institutions.

Emerging good practice and implications for donors

The above analysis has highlighted some of the experience and challenges that donors face when engaging in transition situations. It has also pointed to some lessons learned and good practice. Against this backdrop, donors are encouraged to consider the following points in order to improve their internal systems to enable more flexible and rapid transition financing:

Clarify who takes responsibility for the transition within national bureaucracies. DFID and AusAID have decentralised decision-making so that, instead of working with pre-set budgets, in-country staff have the flexibility to decide whether assistance should be provided as humanitarian or development aid. This means closer co-operation between humanitarian and development staff at the country level but, often, there are only informal mechanisms at headquarters to ensure that the two communities co-ordinate and co-operate effectively.

Encourage joint efforts that combine staff capacity and skills to enable holistic context analyses, strategies and programming. Sida is striving to overcome the humanitarian-development divide within the agency by establishing mixed humanitarian and development teams for specific countries while ensuring that decision-making over humanitarian funds remains separate from the country team director, thereby safeguarding humanitarian principles. Similar joint approaches, adequate staff capacity and expertise are important for strengthening donor agencies' capacity to link humanitarian aid and more long-term development programmes as well as addressing cross-sectoral and cross-departmental objectives and priorities, without compromising humanitarian principles and neutrality.

Explore options to ensure division of labour among donors during the transition period. Examine whether the aid effectiveness principle of division of labour can be applied to in-country co-ordination in transition situations. This could allow donors to make a smoother exit in situations where they have no intention of remaining engaged beyond the humanitarian emergency.

Acknowledge the important role that non-ODA funds can play during the transition period. While certain peace and security activities are eligible under existing ODA criteria, the DAC should consider recognising the important role funds that pool ODA and non-ODA resources can play in stabilising the post-conflict period and opening space for development engagement. Such recognition would not necessarily require a change in the current ODA criteria, but could involve other ways of recognising/recording aid to key transition activities (voluntary reporting on peacekeeping expenditures, non-ODA DDR/SSR activities, etc).

The Dutch experience with the Stability Fund highlights the potential benefits of establishing and using pooled funds combining ODA and non-ODA financing, including in terms of increased flexibility in situations that require a more holistic view of peacebuilding. Donors should consider establishing pooled funding mechanisms that bring together resources from different policy communities. Further lessons could also be drawn to demonstrate the impact of these funds and how they link with in-country mechanisms and instruments.

Clarify the assumptions behind each funding instrument and how it relates to the transition period. As funding instruments have different assumptions and regulations about the types of activities that can be covered and different processes for identifying needs, assessing the feasibility of interventions, and benchmarks for recording expenditures, it is difficult to assess the level of funding that goes towards transition activities. Donors are encouraged to further clarify the assumptions that exist within different funding instruments, and to explore options to improve the flexibility within different instruments, as well as the fungibility of financial assistance across different mechanisms (including possibly between humanitarian, development and security budget lines).

5. Funding instruments at the country level

This chapter focuses mainly on the different multilateral pooled funding instruments that donors can use to finance transition activities but sets these in the context of bilateral funding to the extent possible. It looks at different case studies to explore the advantages and challenges related to multi-donor trust funds, and proposes areas of improvements that would increase the effectiveness and efficiency of such funding mechanisms.

Due to the nature of post-conflict situations and because the pooled instruments operate in different ways in the various countries, it is impossible to generalise about the role and operation of pooled funding instruments. The recommendations in this report are based on six case studies: Afghanistan, Burundi, the Central African Republic, the Democratic Republic of Congo, Southern Sudan and Timor-Leste. The findings from Afghanistan and Southern Sudan are presented below. Findings from the remaining four countries are presented in Annex D.

Case study: Afghanistan

In Afghanistan, MDTFs were established in a timely way, both during the Interim Authority phase and in the longer term. The Afghanistan Reconstruction Trust Fund's (ARTF) two windows show the need to cover recurrent costs in the first instance and that investment in infrastructure can then take two to three years to develop. UNDP's Law and Order Trust Fund for Afghanistan (LOTFA) has complemented the World Bank's ARTF so that donors have been able to support policing activities that were not eligible under the ARTF. However, the international community's eagerness to rapidly move into the post-conflict phase probably resulted in overlooking humanitarian needs.

In Afghanistan, decisions on the specific modalities that were set up to provide initial financial support to Afghanistan were influenced by the recognised tension between providing urgent funding necessary to establish the Afghan Interim Authority and initiating longer-term reconstruction and development activities. The Interim Authority did not have domestic revenues to pay civil servants and provide basic social services, so donors requested UNDP to establish the Afghan Interim Authority Fund (AIAF). This arrangement lasted for six months before the Emergency Loya Jirga in 2002 was able to agree on arrangements for longer-term budget support and reconstruction.

The quick establishment of the AIAF was facilitated by the fact that UNDP had established a presence in the country and was able to use its existing Bureau for Crisis Prevention and Recovery (BCPR). The AIAF was established with a six-month time limit because it was intended to hand over to the Afghanistan Reconstruction Trust Fund (ARTF), which was developed during this period, for longer-term budget support financing and investment programmes. The AIAF received a total of USD 73 million from 24 donors and used USD 71 million to pay for the most important elements of re-establishing the civil service such as recruitment, salary payment (including the salaries of teachers), winterisation of government buildings and procurement of office equipment and vehicles for ministers. The UNDP attributed the successful implementation of AIAF-funded activities to the strong leadership of the Interim Authority, which established clear priorities and took ownership of the activities.

The ARTF was set up in the context of a temporary National Development Framework. This temporary framework of the government's vision has since evolved into an Afghanistan National Development Strategy (ANDS) based on three pillars: Security; Governance, Rule of Law and Human Rights; and Economic Growth and Poverty Reduction. While the ANDS is an important step towards a more realistic and better-prioritised national agenda, a 2008 ARTF evaluation argued that it is still weak as a planning instrument.

ARTF reviews in 2005 and 2008 have been positive about its operation. Some interviewees suggested that this might be because intense political interest from donors coincided with a government that was able and willing to take a lead on setting priorities and the World Bank's ability to work strategically with the government to ensure understanding of its procedures. The 2008 evaluation also highlights the ARTF's dissemination of information on its activities as an example of best practice, with a level of detail that none of the other donors in Afghanistan has been able to match.

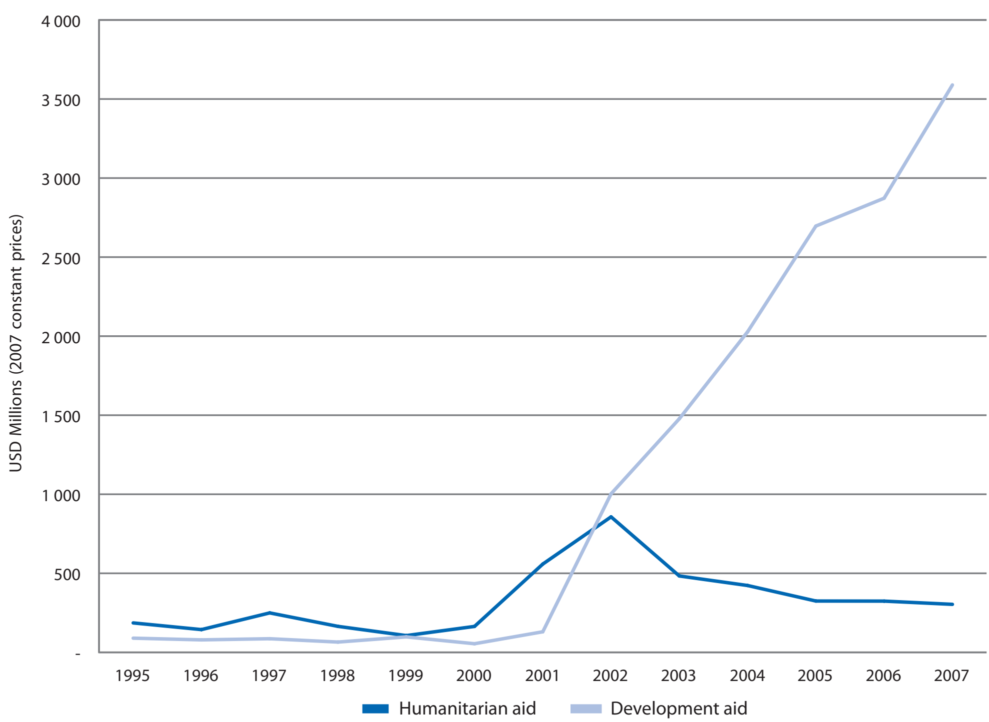
As a World Bank-administered fund, the ARTF cannot finance security-related activities even though this is one of the pillars of the ANDS. This was a critical challenge given that the worsening security situation could undermine other ARTF achievements. To address specific security needs, UNDP established the Law and Order Trust Fund for Afghanistan (LOTFA) in parallel with the ARTF. The LOTFA's objectives are to ensure nationwide payment of police staff remuneration and support the rehabilitation and operationalisation of police facilities. Activities are implemented in co-ordination with Ministries of the Interior and Finance.

In the first couple of years of its operation, the ARTF channelled far more funding through its recurrent expenditure window than through the investment window, estimated at about 1% of total investment flowing into the country (see Annex D). This highlights the need to ensure that recurrent costs are covered and the government stabilised before undertaking investment projects. Of the USD 752 million channelled through the investment window by March 2008, the Fund allocated over two-thirds to community-based development. A focus on recurrent costs alone obviously cannot deliver peace dividends, however, and it would be useful to better understand whether and how the international community delivered peace dividends outside the ARTF.

Afghanistan is a high priority for donors because many of them are engaged with a combination of political, defence and development actors. This is reflected in the very sharp upward trajectory of development assistance (see figure 5.1). Despite this, it has taken five years for development aid to increase from 40% of needs estimated by the Post-Conflict Needs Assessment (PCNA) to around 86% (see Annex D). However, this is based solely on ODA flows from DAC donors so it does not reflect non-ODA flows or assistance from non-DAC donors.

A recent Tufts University study has argued that most donor programmes "are driven by political and security agendas and based, in the main, on the increasingly erroneous assumption that Afghanistan is a post-conflict country".[1] Figure 5.1 shows that humanitarian aid decreased sharply immediately after the Bonn Agreement and has continued to decline more gradually since then, which might indicate that donors were using funding instruments to deliver a specific political message of backing the Afghan government. This, in turn, illustrates the importance of framing transition mechanisms against reliable and updated contextual analyses.

Figure 5.1. **Humanitarian and development aid to Afghanistan (USD million)**



Source: DAC 2a disbursements from all donors.

Case study: Southern Sudan[2]

Southern Sudan has been a daunting challenge to the international community, partly as donors completely underestimated the extent of the destruction brought by the civil war and the time it would take to build government capacity. This contributed to slowing down the operation of the reconstruction and development Multi-Donor Trust Fund, which in turn led to a proliferation of transition mechanisms and thematic trust funds with overlapping and sometimes competing mandates. Donors did not have the capacity to effectively engage in more strategic oversight of the pooled funds, and it also proved difficult to adequately support security-related and peacebuilding activities because funds came from different instruments and budget lines.

The Comprehensive Peace Agreement (CPA) provided a detailed framework for international support to Southern Sudan. A Post-conflict Needs Assessment (PCNA) would develop a reconstruction and development plan for the six-year interim period. International financial support for this plan would be channelled primarily through a Multi-Donor Trust Fund (MDTF), which the Sudanese authorities asked the World Bank to administer. However, international development actors largely underestimated the extent of the destruction brought by the civil war and the time it would take to build government capacity. The PCNA set out an ambitious plan of establishing the nascent Government of Southern Sudan (GoSS) from scratch, to spearhead efforts to achieve the Millennium Development Goals by 2015. Similarly, the MDTF was established with an assumption of GoSS capacity to participate in every step of the decision-making process and based on a commitment of two-thirds GoSS financing for every activity financed by the fund. This gross overestimation of GoSS capacity contributed to slowing the operation of the reconstruction and development MDTF. The fund did not disburse any money between November 2007 and June 2009, and held donor contributions of USD 270 million in May 2009.

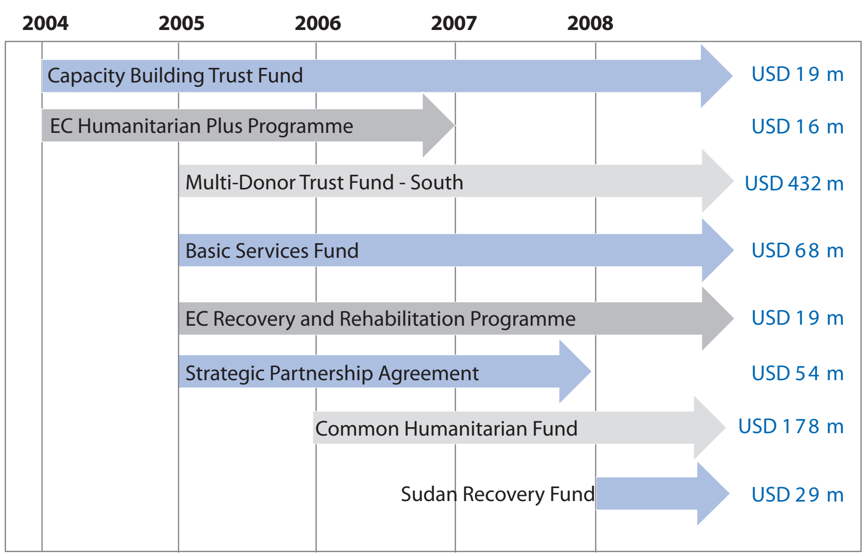
The slowness in operationalising the MDTF and the lack of GoSS capacity to manage the reconstruction and development process resulted in a proliferation of other funding mechanisms with overlapping and sometimes competing mandates. Figure 5.2 shows that, in addition to the MDTF, five other large pooled funds are currently operating in Southern Sudan. On top of this, donors are also pooling financial support through EC programmes (see Annex D for more details).

Both the Capacity Building Trust Fund (CBTF) and the Basic Services Fund (BSF) began operating before the World Bank-established MDTF (in 2004 and 2005, respectively). Donors intended both funds to be short-term transition mechanisms, with their functions of supporting initial government capacity development and service delivery being transferred to the MDTF once this was established. However, both the CBTF and the BSF are still in place. The CBTF is financing a large-scale national training programme on public finance management and administration and supporting public sector reform in response to the financial crisis. The BSF has evolved from a DFID bilateral instrument into an MDTF with funding from other donors, and continues to finance service delivery activities at the local level.

The Common Humanitarian Fund (CHF), piloted in 2005 and established in 2006, has financed recovery activities included in the Sudan Work Plan (annual humanitarian Appeal). Humanitarian funds were initially allocated to support the peace process in Southern Sudan in 2006 when it became clear that the World Bank MDTF would take longer to begin its operations. However, the CHF has continued to provide significant funding to Southern Sudan, in particular because it has proved easier for humanitarian organisations to secure bilateral funding for Darfur. In the 2009 Work Plan for Sudan, 36% of the USD 2 billion requested is for early recovery activities, the majority of which is for Southern Sudan.

The Sudan Recovery Fund (SRF) is the most recent of the pooled instruments (set up in 2008). Administered by UNDP, it is intended to support a series of activities at the local level, including community security and peacebuilding, governance, livelihoods, and basic services. Donors agreed to

Figure 5.2. **Overview of key funding instruments and programmes in Southern Sudan**

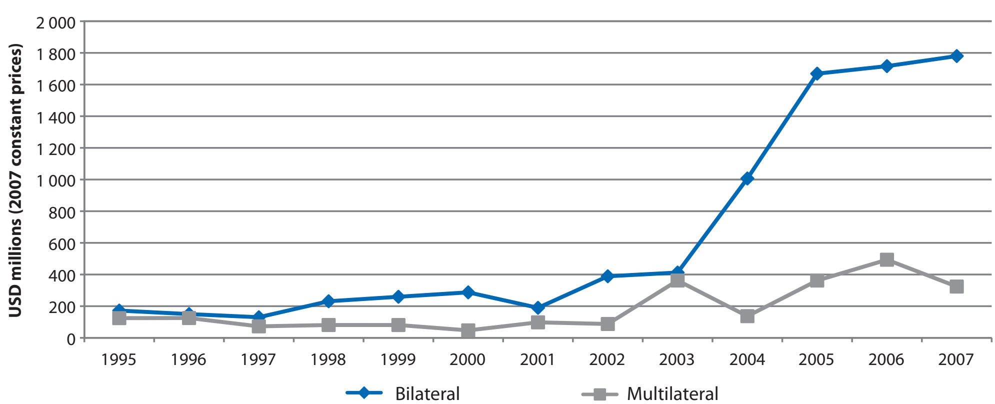


the establishment of the SRF because UN agencies have found it difficult to access funding from the MDTF. DFID also supported the SRF because it felt that there was a need for an instrument with a medium-term planning horizon that could ensure delivery at community level (as opposed to the CHF, which is short-term despite the chronic nature of humanitarian needs in Southern Sudan, and the MDTF, which is focused on large-scale investment projects). DFID also felt that the SRF could broaden the recovery agenda to address security issues, which the MDTF cannot, given the specific limitations to its mandate.

In May 2009, the GoSS proposed reversing the fragmentation and proliferation of funding instruments through a strict rationalisation and division of labour between the different mechanisms. In this proposal, the MDTF would remain responsible overall for large-scale infrastructure and economic interventions that require long lead times. The CBTF would take the lead on public sector reform, the SRF on decentralisation and sub-national development, and the BSF would lead on service delivery by non-state actors. GoSS also proposed a transfer of USD 110 million from the MDTF to other mechanisms to facilitate expenditure.[3] While donors were sympathetic to this proposal, several expressed real difficulties with transferring or re-programming funds that have been committed or disbursed to the MDTF.

Figure 5.3 shows that funding to Sudan has grown dramatically over the past decade, but that most of this is associated with increased bilateral funding. In 2007, bilateral aid represented more than 80% of total funding to Sudan.[4] Nonetheless, while the majority of funding is under the control of bilateral donors, discussions about funding in Southern Sudan have tended to focus on multilateral mechanisms rather than bilateral programmes.

Figure 5.3. **Bilateral and multilateral funding to Sudan 1995-2007 (USD million)**



Source: DAC 2a disbursements from all donors.

At the end of 2008, the GoSS Ministry of Finance and Economic Planning (MOFEP) undertook a donor mapping exercise to gain an overview of existing programmes. The results showed that there were 28 donors operating in Southern Sudan funding a total of 376 projects. Of these, 248, or 66%, were bilateral projects, while the rest were pooled projects (MOFEP's Donor Book 2009 provides a fairly detailed listing of donor projects by sector). There are different ways in which donors can ensure harmonisation but, in MOFEP's view, DFID and the EC were the most harmonised donors because they had the largest proportion of their funding going through pooled mechanisms, while USAID was the least harmonised donor because all of its 34 projects were bilateral. The MOFEP found that donor funds made up 25% of total spending on the six GoSS expenditure priorities (basic health, basic education, water, roads, production and security). Funding for these six priorities accounts for 58% of donor funding, which is significantly less than the 80% that GoSS has requested.

The GoSS mapping exercise suggests that despite rhetoric about ownership, donors prefer to provide most of their assistance bilaterally. One reason for this may be the absence of a prioritised plan. Available donor funding cannot cover the huge needs in Southern Sudan and when these limited funds are allocated without clear prioritisation, the international community is left open to criticism of a "scattergun" approach. Unfortunately, the PCNA in 2005 produced a list of needs without adequate prioritisation, and the various pooled funding instruments have not been able to compensate for the absence of government capacity to develop criteria for resource allocation. Since the government is unlikely to be able to create a comprehensive plan before the referendum in 2011 (partly due to internal political struggles), international focus is on three-year budgets/plans by sector, using a bottom-up planning model. DFID is involved in discussions with the government to develop a five-year health strategy and sector-wide approach with shadow financing, as the BSF phases out. However, the challenge remains to fit large-scale MDTF projects into the individual sector strategies.

The various pooled funding instruments in Southern Sudan have not financed peacebuilding and reconciliation activities though these are critical because of ongoing inter-ethnic conflict and the proliferation of small arms (the SRF was established partially to address this gap). The UN has established an integrated Disarmament, Demobilisation and Reintegration (DDR) Unit, comprising personnel from the UN Mission in Sudan (UNMIS) and UNDP, to assist the government of Sudan in the implementation of the DDR programme.[5] Disarmament, demobilisation as well as reinsertion (*i.e.* the assistance offered to ex-combatants during the transition from demobilisation to reintegration for a period of up to one year) are covered by assessed contributions and are currently fully funded. However, reintegration is financed by voluntary contributions from donors and currently faces a USD 40-50 million shortfall. The government is also struggling to provide its counterpart funding of USD 6.9 million for 2009.[6] As a result, one donor suggested that donors should treat DDR as an overall package and finance it accordingly. Even though the DDR programme is one of the key components of the CPA, implementation has been delayed for four years, partly because the signatories to the CPA could not agree on the appropriate implementation modalities, partly due to the funding shortfalls and partly because of difficulties in establishing a joint unit between UNDPKO and UNDP, as they use different procedures.

In addition to DDR activities, donors need to provide institutional support to the various peacebuilding bodies created by the CPA. These include the Peace Commission, the DDR Commission, the Bureau for Community Security and Arms Control and the Peace and Reconciliation Committee.

Box 5.1. **Lessons learned from the Southern Sudan MDTF**

The following lessons from the Southern Sudan experience were identified in a recently completed World Bank review of the Sudan MDTF (World Bank, 2009):

- The speed and operation of World Bank MDTFs depends on the level of government involvement and capacity. In Southern Sudan, the government took considerable time to establish itself and this hampered the MDTF's operation. Also, the MDTF-South was set up with the conflicting objectives of delivering a quick peace dividend and building government capacity and it was difficult for the World Bank to manage the trade-off between them.
- Fund managers must manage the expectations of various actors about what the fund can achieve. In Sudan, donors and the government had unrealistic expectations about the speed and impact of MDTF-financed activities.
- Pooled funds need to have a clear strategy and to achieve a critical mass if they are to be effective. Some donors believed that the SRF had not achieved this. Hence, in its first allocation, it provided USD 20 million in small NGO grants and for "activities" instead of making a strategic contribution to the transition process. This was partly because the SRF did not have a truly strategic framework based on a detailed contextual analysis though UNDP was working to address this.
- A pooled fund should use procedures that are appropriate for a fragile-states environment. As the Bank has pointed out, its staff tend to add procedures at every level, reflecting a safety-first culture within the organisation. Staff members administering MDTFs need to challenge these additions to maximise the flexibility and speed that donors expect from MDTFs.
- Fund managers need to have a thorough understanding of context and costs. The World Bank, like other actors, under-estimated the costs of services like basic health packages[7] and this led to long delays in agreeing programmes. In Sudan, the World Bank's engagement has been constrained by the fact that it does not have a lending portfolio.

Donors have also financed reconciliation dialogue at the community level and this has identified key priorities for the communities, such as schools, water points and support along migration routes. Funding for the dialogues and recovery programming is not linked, however, so the needs identified at the community level have not been met systematically.

It is clear that funding for governance, peacebuilding and Security System Reform (SSR) remains a challenge for donors. According to the MOFEP mapping of donor funding, donor spending makes up the smallest percentage in the rule of law (13%) and security (4%) sectors.

It is clear that the challenges with implementing activities under the MDTF in Southern Sudan have been driving the gradual proliferation of funding mechanisms. However, the difficult operating environment has meant that most of the funding instruments have faced problems. Perhaps due to the difficulties that traditional pooled fund administrators have experienced, Southern Sudan is unusual in having private companies as administrative agents for two of the funding instruments – the CBTF and the BSF. Even though these administrators tend to be more expensive than the World Bank and UN agencies, donors argued that they are more cost effective and that it is worth spending a little more to ensure better risk management and overall efficiency. The private companies have been able to ensure staff on the ground in Juba, which is critical for successful oversight and implementation.

Overall findings from mapping of instruments

The importance of relevant and effective sequencing and prioritisation cannot be underestimated in post-conflict situations, and should be reflected in the design and creation of specific funding instruments. The case studies show that, in Afghanistan and Timor-Leste, the international community tried to phase funding instruments and ensure a division of responsibilities between the two main institutions that manage MDTFs – the World Bank and the UN. In Southern Sudan, donors supported other interim mechanisms while the World Bank established the MDTF. The slowness of the MDTF in delivering on its activities resulted in the continuation of these interim short-term mechanisms. The phasing of various instruments seems to have been most successful in Afghanistan.

Earlier studies have found donor consensus on the need for both the UN and the World Bank to engage in transition and work more strategically together. This is because transition situations cannot be defined in neat compartments and decisions about the management of post-conflict MDTFs cannot rest on cast-iron divisions of responsibility based on specific time periods or mandates. Flexibility and the ability to disburse quickly are important, along with the ability to harness the capacity and networks of individual agencies and organisations. In the past, different institutional rules and procedures constrained the working relationship of the UN and World Bank. However, recent efforts to negotiate the Fiduciary Principles Accord for Crisis and Emergencies, as part of the UN-World Bank Partnership Framework for Crisis and Post-Crisis Situations,[8] should facilitate more efficient co-ordination. Ideally, this should translate into more effective MDTFs in future post-conflict situations.

The examples of Afghanistan, Southern Sudan and Timor-Leste all demonstrate that there is a trade-off between quick delivery and the slower route of establishing funding mechanisms that work with and develop the capacity of nascent governments. The UN Peacebuilding Fund has also experienced this challenge in Burundi (see Box 5.2). Donors need to bear this challenge in mind when deciding how to channel their funds in post-conflict situations. The DFID paper on implementing Fragile States principle 9 (act fast but stay engaged long enough to give success a chance) points out that although "a single funding channel may be an appealing idea, it is rarely possible in practice. In complex, post-conflict environments, there are simply too many competing demands to be met by a single instrument. Usually, the goal is a strategic mix of instruments and channels". A GHD-commissioned review of humanitarian financing instruments also concluded that donors should not

Box 5.2. **Peacebuilding Fund: lessons learned from Burundi**

The review of the Peacebuilding Fund (Ball and Beijnum, 2009) highlights the following lessons learned by the PBF in Burundi. These are relevant for other transition funds.

- There is a speed-peacebuilding effectiveness trade-off. Rather than focusing on spending money rapidly, or even in the earliest phases of the post-conflict period, the PBF should aim to build capacity early on in the process. This is to ensure a clearer set of priorities and a greater capacity to programme against those priorities, thereby increasing the chances that PBF programming will promote peacebuilding outcomes.
- In post-conflict situations, large funding envelopes risk overwhelming local absorptive capacity.
- Fund managers need to think about sustainability of funding from the beginning. In Burundi, there was little effort to use the PBF to catalyse funding at the early stages. It was only as PBF-funded projects were ending that the government began to consider follow-on funding. The government then looked to donors to provide this funding while donors expected the government to begin supporting initiatives started with PBF funding.
- The initial assumption that the PBF could be implemented with a "light footprint" at the country level, using existing UN resources, without dedicated staff, proved to be incorrect. If PBF resources are to be used to maximum effect, "the importance of adequate capacity at field level cannot be overstated".

rely exclusively on any single funding modality. But it argued strongly that donors must ensure co-ordination between funding instruments, particularly between bilateral funding and pooled financing mechanisms (Stoddard, 2008).

However, recommendations to use a mix of instruments raise questions about donor capacity to manage and engage with a range of instruments/channels. Donors already find it a challenge to engage robustly in the governing bodies of MDTFs. In Southern Sudan, neither the Sudan Consortium nor the Oversight Committee has focused adequately on monitoring the performance of the MDTFs. Instead, they tend to be used for wide-ranging policy discussions (Scanteam, 2007). Since the Technical Secretariat (TS) has accused donors of micromanagement and restricted their involvement, there is no mechanism to hold the TS to account despite donor concerns about the MDTF's performance. Donors need to identify the proper fora for engaging with the government on political issues, and should discourage technical mechanisms from becoming vehicles for wider policy dialogue. Similarly, and recognising that oversight and strategic planning is most easily done in-country, donors need to carefully consider the capacity required at the country level to effectively use pooled fund governance bodies for their intended purposes. Furthermore, if it is necessary to establish multiple funding instruments in a country, a common governance framework could reduce demands on donors and the government.

Recent experiences with Compacts in Afghanistan, DRC and Southern Sudan provide some evidence of how governance can be improved through better interaction and coherence between different modalities and actors. While it is still too early to draw firm conclusions, there are indications that such planning and co-ordination tools have encouraged better prioritisation of activities and improved modalities for how government and donors should interact. Future reviews will ideally draw lessons from the extent to which Compacts have actually been able to foster mutual accountability and an improved focus on results.

Improvements to governance frameworks could also help to ensure better co-ordination between global and country specific funds. Currently, there is a potential overlap between, for example, the UN-managed Peacebuilding Fund (PBF) and country-level MDTFs since all can finance governance, capacity building and reconstruction activities. In particular, the suggestion that the PBF should finance the Stabilisation and Recovery Facility, a pooled fund for Eastern DRC, raises questions about the value added of such global pooled funds compared to country-specific instruments.

In the humanitarian context, a study suggests that pooled mechanisms may increase funding levels because they enable donors to disburse larger sums than they can manage directly (Stoddard, 2008). This is particularly the case in recent years, when aid budgets have increased substantially while donor staff numbers have decreased. The examples of the CAR and the DRC also highlight this point, and show that the combination of strong leadership and a financing mechanism in which donors have confidence can increase funding considerably.

The aid flows to the six case-study countries challenge the assumption that humanitarian aid should decrease as soon as a country is in a transition so that development assistance can take over. The reality is that humanitarian needs are likely to continue and perhaps even increase, either due to continuing violence, improved access to previously unreachable populations, or time required for transition financing instruments to become operational. Afghanistan is an example where the move to a post-conflict context and a switch in aid modalities appear to have come too soon and there is a danger of the same thing happening in the CAR, though on a much smaller scale.

The need for a mix of instruments is underlined by findings from Southern Sudan showing that politically negotiated frameworks and considerations can impede the level of flexibility that is applied to development funding in transition situations. For example, the EC was not able to allocate development aid after 1 July 2009 because the Sudanese government had not ratified the revised Cotonou agreement (also making Sudan ineligible for other types of development aid). As a result, the EC is engaging mainly through humanitarian aid, supplemented by specific instruments for fragile situations, such as the Instrument for Democracy and Human Rights and the Instrument for Stability. Germany's contribution to the second phase of the MDTF depended on the Khartoum government's agreement that funding originally allocated to the whole country could be redirected to Southern Sudan, which the government was reluctant to provide.

In the absence of appropriate channels for using development funds for timely assistance in transition situations, the CHFs have been relied on to finance recovery activities. In the DRC, outside the East, emergency needs are due to structural causes – decades of lack of investment in infrastructure and basic public services. The Humanitarian Action Plan explicitly recognises the need for recovery/rehabilitation activities in order to reduce the need for humanitarian aid to these areas. For example, the humanitarian community has to deal with regular cholera outbreaks in Kalemie (Katanga) due to the failure of the electric supply, which then affects water supplies. Since development actors had not been willing to address the problem, in 2009, OCHA was considering financing the work from the CHF as a preventive activity.

The humanitarian co-ordinator (HC) has allocated CHF funding to post-conflict parts of the DRC but it has proved difficult to spend the money due to the lack of NGOs operating outside the East. CHF funding has a six- or twelve-month limit, which does not make it worthwhile for NGOs to set up offices and start recovery programmes that need to run for two to three years. It is not clear whether this restrictive time limit is due to donor rules and regulations for their humanitarian funding or to the fact that the humanitarian system plans on an annual basis, even though it is addressing long-term needs (see Box 5.3).

Box 5.3. **Allocating CHF funds through clusters**

In both Sudan and the DRC, the HCs allocate funds through decentralised systems (sub-national sectors or provincial clusters). This is logical to ensure that the funds remain responsive in very large and diverse countries. However, this inevitably leads to conflicts of interest because the organisations applying for funding are also selecting the projects. Also, using sectors/clusters to allocate funds runs the risk of overlooking cross-sectoral projects or dividing them artificially to fit within one or more sectors. For example, in the DRC, an NGO had to divide a project to provide seeds and tools and non-food items (NFIs) to the same group of beneficiaries into two applications that were processed separately by the food security and NFI clusters. This also resulted in two sets of reports for the same project and audits for the different parts of the project at different times of the year.

Source: Mowjee, 2009.

The case studies highlight that donors often use specific funding instruments to send political messages in transition processes, which might have negative implications for development effectiveness. For example, the lack of trust in the government's ability to manage development funds in Burundi led donors to allow for more flexible use of humanitarian funds when financing transition activities. In Timor-Leste, an early shift towards using development assistance to build government capacity to deliver services contributed to centralisation, a decrease of service delivery and increased imbalances that eventually contributed to the crisis in 2006 (see Box 5.4).

The above examples show how important it is for donors to retain flexibility, to stay the course and to have a mix of funding instruments at their disposal based on the objectives they are trying to achieve and the intended level of engagement with the state. From the affected population's perspective, the category of assistance does not matter, and it would be more useful for donors to have a range of strategically connected funding tools to draw upon to address the gamut of needs in transition situations. The international community together with national actors should also more closely monitor the delivery of services to communities to ensure that humanitarian agencies do not dramatically reduce services before other mechanisms are operating successfully.

The different global transition funds – the World Bank's State and Peace-Building Fund (SPF), the PBF, the EC Stability Instrument and UNDP-BCPR's Thematic Trust Fund – have the potential to support donor flexibility when engaging in transition situations. However, currently the four funds share somewhat similar and potentially overlapping mandates. This highlights the risks of competition and duplication of efforts, and further clarification of the comparative advantages of each fund would be helpful to further improve the effective mix of global and country-specific pooled funding modalities for transition purposes.

Box 5.4. **Financing statebuilding in Timor-Leste**

A review of development co-operation in Timor-Leste demonstrates the fundamental tension in aid to post-conflict countries: how to simultaneously meet long-term statebuilding challenges and needs while meeting popular expectations for improvements in daily life in the short term. Development partners assumed that by delivering through the state, they would strengthen the state's ability to deliver core services and promote growth in the private sector. Also, they mistakenly assumed that the development process itself would provide a sense of "nation" when nationhood clearly hinged on a deeper reconciliation between groups with a long history of rivalry and enmity. However, the state's capacity developed more slowly than they anticipated and rival factions mobilised dissatisfaction at the failure to deliver meaningful development during the violence in 2006. The government was simply unable to absorb these roles in such a short time and the credibility of institutions and political figures began to erode.

By focusing almost exclusively on institutional statebuilding, international assistance:

- Did not address many of the key issues that eventually led to the 2006 crisis, particularly political exclusion and the lack of economic opportunity.
- Contributed to the centralisation of political power in the executive branch of government and at the national level, and the concentration of economic opportunity in the capital, Dili.
- Contributed, therefore, to imbalances that will be difficult to correct because they require a reallocation of power and resources within the governance system.
- Deepened latent antagonisms between easterners and westerners.

Working through the state, assistance largely followed the government's own tendency to centralise. But the planned time frame to build the Timorese state was unrealistic, as has also been demonstrated by experiences in other post-conflict countries. In retrospect, development partners needed to make a much longer commitment, and maintain a longer-term perspective on the peacebuilding and statebuilding challenges.

Source: Scanteam 2007a.

A study on earmarking of ODA shows that fragile states often experience much higher degrees of earmarking than more stable development contexts (Adugna 2009). Such earmarking tends to be due to lack of predictability, weak local capacity and higher degrees of risks associated with development investments in fragile states. Regardless of the reasons, earmarking tends to reduce the flexibility of aid, as implementing partners are unable to shift funding between different budget lines and priorities. This can have serious consequences in highly fluid conflict-affected environments, where international actors need to respond rapidly to changing realities without being able to rely on governments' ability to introduce and guide priority setting and the sequencing of interventions.

A review of MDTFs concluded that the UN and World Bank have different policies on earmarking. The Iraq MDTFs show how the World Bank was permitted far less earmarking than the UN (Development Initiatives 2006). Such differences may reflect broader institutional mandates and relationships, but it should also be noted that the UNDG Iraq Trust Fund was the first UN MDTF and that subsequent UN MDTFs in transition have largely not permitted earmarking.[9] It has not been possible to examine the effect of different levels of earmarking on the pooled funding mechanisms covered in this chapter.

Lessons learned and future implications for DAC's consideration

The above analysis has highlighted some of the experience and challenges associated with pooled funds, including critical obstacles associated with planning, co-ordination and harmonisation of funding for transition activities. It has also pointed to some interesting lessons learned and good practice, which should be further explored as part of the DAC's effort to improve the international aid architecture in transition situations. These include:

Explore innovative ways to ensure greater harmonisation and synergies between different in-country funding mechanisms. Even if donors decide to provide substantial funding bilaterally, they should ensure that bilateral and multilateral funding is sufficiently co-ordinated to avoid duplication and to enable the government and other donors to prioritise accordingly. Co-ordination of different funding streams is most effective when done at the country level. Donors should also encourage greater co-ordination through more effective division of labour between bilateral and multilateral funding programmes. Effective division of labour should bridge the different policy communities and include humanitarian, development and security activities to ensure that critical activities are funded even if certain actors are unable to finance them.

As a first step, donors should commit to decreasing the fragmentation of funding instruments that has been documented above. However, recognising the limitations of certain funding instruments and the fact that specific funds might be needed to ensure rapid engagement on critical issues, development partners should also commit to establishing specific agreements on how different funding instruments are co-ordinated and used to support commonly defined objectives. Joint governance structures that bring together the different funding streams would be one effective way of countering the negative effects of fragmentation.

Similarly, donors should urgently commit to a gradual decrease in earmarking of funds within pools. Earmarking has a negative impact on their flexibility and thus takes away from the benefits of such funds.

Clarify the assumptions of different funding instruments. Development partners should make clear assumptions about the comparative advantage of different funds and agree on the configuration of in-country funding instruments to ensure some "fungibility" and links between the different funds and windows. This could include humanitarian, development and security instruments, and should be based on a clear understanding of how funds can better manage the trade-off between ensuring effective delivery of services and building government capacity.

The following assumptions should be clarified among development partners in-country:

- What it will take to establish new pooled funding mechanisms, including establishing benchmarks for appropriate funding levels and the critical mass of donors needed before funds are established.
- The expected level of government involvement, ownership, and absorptive capacity, based on a clear understanding of existing and future capacity and links to national budgeting and prioritisation processes.
- Management of expectations for what can be delivered through funds and strategies for communicating these effectively.

Improve the flexibility of funds to react rapidly and respond adequately to shifting circumstances in dynamic post-conflict situations. Donor decisions about the instruments to use should be based on an analysis of the objectives that they (and the government) are trying to achieve, rather than taking the availability of instruments as the starting point. A use of mixed instruments could counter the risk of "putting all their eggs in one basket" or being stuck with ineffective and inappropriate funding instruments. However, such an approach should build on the above-mentioned need for greater harmonisation and co-ordination between different instruments and modalities, and agencies need to balance the need for flexibility and the importance of avoiding fragmentation of instruments.

Improve links between planning and financing. Humanitarian and development processes have different requirements for planning and needs assessments, including in terms of national participation and ownership and time horizon. More focus should be placed on developing prioritised and sequenced needs assessments with strong donor buy-in that can ensure overall strategic coherence between direct bilateral funding, humanitarian, development and security engagement and funding resources.

Recent experiences with Compacts in Afghanistan, the DRC and Southern Sudan provide some useful lessons on innovative modalities for fostering mutual accountability, and possible good practice should be explored drawing on these experiences. Future reviews of humanitarian and post-conflict needs assessments should also include a specific focus on broader coherence issues, and could usefully look at ways of using financing as a way of linking different policy communities and ensuring a more holistic engagement in the transition period.

Clarify relationship between global and country-specific pooled funding mechanisms for transition purposes. Funds like the PBF, the UNDP Thematic Trust Fund, the European Commission Stability Instrument and the World Bank State and Peace-Building Fund could play important catalytic roles in terms of improving the speed and flexibility of transition financing. However, the relationship between these different funds should be clarified, along with their relationship to country-specific planning and funding mechanisms.

Notes

1. Donini, A., 2009.
2. This section is based on donor interviews, as well as a 2008 review for the Joint Donor Partnership in Juba.
3. Sabuni, A.T., 2009.
4. The DAC definition of multilateral aid includes contributions to eligible multilateral agencies that are pooled and disbursed at the multilateral agency's discretion. Therefore, any funding to a multilateral organisation earmarked by the donor is counted as bilateral aid, and the multilateral curve above does not include funds that are earmarked and channelled to specific MDTFs.
5. Currently the world's largest DDR programme with a projected case load of up to 180 000 participants to be demobilised over a period of three years.
6. Sabuni, A.T., 2009.
7. The Joint assessment mission estimated that each classroom would cost USD 13,000 to construct. In practice, the least expensive classroom funded by the BSF has cost USD 23,000. Brown (2008), p 14.
8. The framework provides common guiding principles for working with national authorities and partners to support crisis prevention, stabilisation and recovery strategies while taking into account humanitarian principles of neutrality, impartiality and independence. It calls on the World Bank Group and UN organisations to improve inter-agency communications, strengthen joint planning, increase collaboration on funding mechanisms, and foster a culture of greater collaboration through joint training, evaluation and research.
9. The only exceptions are the Nepal Peace Fund and the newly established Sierra Leone MDTF (not yet operational).

6. Conclusions

This chapter summarises the key findings that have been identified in the report, and points to some overarching issues and challenges that the international community will need to address as it attempts to improve approaches to transition financing. It also highlights critical areas that the OECD DAC should look into as it moves forward with these findings.

Recognising the daunting challenges of transition situations, this report has identified some of the fundamental challenges that need to be addressed to improve international response. The hypothesis has been that aid does not flow the way it is supposed to, and that more effective, rapid and flexible transition financing will depend on development partners' ability to improve the policies and practices currently governing financial flows, as well as expanding and fully utilising the full range of tools and instruments available for in-country transition financing.

The report has mapped donor aid flows, policies, procedures and instruments available when development partners engage in transition situations. It has presented the following overall conclusions:

- **Chapter three looked at aid flows to fragile and conflict-affected countries.** It recognised that, while difficult to estimate the exact levels of transition financing, there is general agreement that funding available does not flow in timely and effective ways to the most relevant needs. This could in many cases be due to a lack of conceptual agreement on what constitutes a transition activity and how to measure needs. The lack of properly identified budgeting and reporting codes across policy communities also makes it difficult to assess whether the international response is coherent and adequate. Development partners need to increase their efforts to measure needs and transition activities across all available instruments and modalities.
- **Chapter four mapped existing donor policies and procedures for engagement in transition situations**. It highlighted the fact that there are still open questions about who, within the donor community and implementing agencies, is (and should be) responsible for the transition. It concluded that a certain degree of flexibility does exist to provide effective and rapid support to transition situations. However, this flexibility is not fully utilised for several reasons. First, the division of responsibility for humanitarian and development aid has led to a lack of adequate attention to the skills that donor staff require to handle the complexity of transitions. Second, donor staff are often operating in a work culture that does not encourage or reward risk taking so they tend not to exploit the funding flexibility that exists. If they do take risks, they are less likely to publicise this, which in turn can mean that their knowledge about the effective use of funds in transition and good practice is not institutionalised. In addition, the fact that many aid systems are fragmented, and that ODA often constitutes only one part of overall financial support to transitions, makes co-ordination particularly challenging. The result is higher-than-usual transaction costs for donors, primarily

in-country. More should be done to ensure that a donor can draw more effectively on the full set of resources and instruments when engaging in specific transition situations.

- **Chapter five mapped in-country instruments that can be used for transition activities.** It concluded that MDTFs have been positive in enabling development partners to engage more holistically and strategically and, once they are up and running, with lower transaction costs for both donors and host governments. In addition, MDTFs can enable donors to adopt a collective approach to the risks inherent in transition situations. However, the chapter highlighted the critical challenges that MDTFs face when operating in transition environments, including in particular the difficulties of managing trade-offs between quick delivery and longer-term development assistance. It also stressed the need to avoid fragmentation of instruments and the burden of earmarking, to improve co-ordination and harmonisation between different funds and between bilateral and multilateral funding, and to improve the overall governance of transition funding (including timely and predictable information to the government).

The report also points to some overarching issues and challenges that the international community will need to address as it attempts to improve approaches to transition financing. These relate to the aid architecture itself; specific engagement modalities that are used to identify, fund, implement and report on progress for transition activities; and not least, the ways that development partners can reflect and address the transition towards national ownership and sustainable development. These issues are all critical pre-conditions for achieving more predictable, rapid and flexible financing during transitions. Each is discussed briefly below, and will be further developed in the forthcoming policy and practical guidance on transition financing:

Improving the starting point and approach for engagement in transition situations

The current aid architecture in which humanitarian and development aid is governed by different rules and regulations, and often managed by different parts within or outside donor agencies, hampers effectiveness because it does not reflect realities on the ground. Aid agencies are left in the position of trying to create links between these two separate sets of instruments.

A longer-term perspective needs to be applied to transition that focuses less on the instruments and approaches available than on the actual objectives international actors are trying to support. The key challenge is how to provide appropriate long-term but flexible and effective assistance to situations of long-term crisis where government counterparts are weak or illegitimate.

Aid actors should conceptualise the problem in this way, and shift their focus to harnessing all available instruments and capacities to meet the needs of the country, rather than trying to put needs into artificial categories. Some donors are already working on ways to reduce the divide between humanitarian and development staff members and budget lines, while others have combined funding sources internally to respond better to peacebuilding efforts (see chapter four).

This has implications for some of the concepts underpinning the current aid architecture. In particular, the assumption of a logical linear linkage between different post-conflict phases and assistance modalities (humanitarian, transition and development), which partially governs the current principles and commitments to which donors have signed up in recent years, does not adequately reflect the challenges of transition. The Secretary-General's report on Peacebuilding (UN, 2009) embodies this very dilemma by focusing on the immediate aftermath of conflict even though it is difficult to isolate this phase in practice. This paper has found that donors often prefer to use humanitarian aid to assist long-term crises in situations where they are unwilling or unable to engage with government counterparts, as development aid is bound by stricter rules and regulations regarding government ownership and potentially signals a "business as usual" approach.

An added complexity in this regard is that a linear approach to the transition is based on the assumption that a set of events can be witnessed in different transition settings. Often, such pattern of events and decisions can evolve into a system of predetermined actions and instruments, triggered by a standard set of chronological events (*e.g.* peace negotiations, peace agreements, elections, the departure of peacekeepers). In reality, however, these triggers and actions might bear little relation to actual needs.

Rather, there is a need to clarify the assumptions of national ownership embedded in different instruments that are used to finance transitions. At present, our approaches and modalities are not adequately configured to engage with difficult government partnerships during the transition period. Funding is also often used as a political tool given that it is the only element that donors can control during this period. An improved understanding of how different funding approaches and mechanisms affect national ownership, and of the pros and cons of different instruments, is important in order to establish practical recommendations for improving the current implementation environment.

Identifying priorities and objectives

Timely and realistic planning is a fundamental pre-condition for flexible engagement and effective financing. The challenges are considerable, however, in particular when transitioning from one-year (or shorter) budgeting processes under humanitarian frameworks to longer term planning processes in the post-conflict setting.

Needs assessments should build on a holistic and realistic understanding of the needs of the country, and a clear vision of what should be achieved. Furthermore, they should set out and prioritise the objectives that development partners should work towards, the specific issues that need financing, and who will be responsible for implementing the activities and accounting for results. Finally, plans should indicate the specific funding sources, links and transition issues between different instruments, and the common governance framework that would be charged with ultimate oversight. Future PCNA reviews should look into these issues, and also explore options to improve planning and monitoring frameworks.

Leadership during the transition period, whether national or international, is crucial to ensure co-ordinated planning and identification of needs. Leadership is also essential to improve donor co-ordination and alignment behind the identified objectives and priorities. Donors need to co-ordinate their funding, particularly as government structures are usually too weak to carry out this function. Recent experiences with the use of Compacts (*i.e.* Afghanistan, DRC) show the potential value of such tools to generate a mutual accountability framework between governments and donors, and further work could look into this model in further detail.

Improving the operation of pooled funding modalities

One important conclusion from the above is that pooled funding instruments provide a good solution for encouraging more holistic and effective approaches. However, the evidence in this report has also highlighted that the operational impact and effectiveness of these funds will require significant improvement to systematise and streamline the positive lessons learned. Donors are also sometimes frustrated by the lack of institutions ready, willing and able to manage a relatively quick and flexible capacity-building mechanism. Using private companies as fund administrators for the CBTF and the BSF in Southern Sudan was successful enough to warrant higher costs according to some of the donors interviewed.

The lack of adequate capacity and administrative support to manage and guide MDTFs in complex emergencies has resulted in slowness in moving pooled mechanisms in a timely manner from the phases of establishment to operationalisation. Constraints on effective implementation include inappropriate procurement procedures, the absence of banking facilities, and the mismatch of funding levels and absorptive capacity. In particular, improvements to pooled funding modalities should include:

- Further clarity on how funds can better manage the trade-off between ensuring effective delivery of services and building government capacity.
- Clarity on the timeliness of different funding instruments and procedures and minimum conditions for establishing new pooled funds.
- Agreement on practical options and recommendations to decrease fragmentation (both of funding mechanisms and reporting and accounting rules and regulations) and to improve the participation of governments in the governance of pooled funds.
- Improvements in the management of expectations about what can be delivered through pooled funds and increased acceptance for the higher overhead costs associated with volatile situations.
- Increased predictability of funding flows and decreased earmarking of contributions into pooled funds.

Changing donor policies and procedures

Aid agencies need to address the key question of who takes responsibility for transition, and take a completely different starting point for determining responses – the objectives to be achieved rather than the instruments available. A more co-ordinated engagement will require a different approach to staffing, where capacity and expertise is drawn from different policy communities to enable holistic context analyses, strategies and programming. Aid agencies will need to change both institutional structures and people (their attitudes and incentives for risk-taking), and improve incentives for joint work across departments (such as being held accountable for shared results).

Timeliness of allocations has been identified as a crucial bottleneck to improved transition financing. Some donors have created special funds for transition situations, mainly to address inflexibilities in the normal allocation system. However, it remains difficult to determine whether these funds, or "normal" funding for that matter, could indeed be adjusted to deliver timely assistance in transition situations. The simple increase of development aid, matched by a decrease in humanitarian aid, cannot be taken as an indication that development aid is flowing appropriately.

This report has argued that some flexibility already exists within donor agencies and, in particular, has set out some interesting practice on how donors have been able to combine different funding sources for transition purposes (chapter four). Further experience gathering could help improve our common understanding of how donors can indeed improve the availability of rapid and flexible development funding early on, without compromising humanitarian principles in the process. Donors should acknowledge the important role that non-ODA funds can play during the transition period. Such recognition would not necessarily require a change in the current ODA criteria, but could involve other ways of recognising and recording aid to key transition activities, including possibly through voluntary reporting on such expenditures.

Next steps for the OECD DAC

This OECD DAC report lays the foundation for the future development of policy and operational guidance for transition financing. Future work on transition financing will include:

- More clarity on the risks associated with transition financing, and options for how donors can better manage and mitigate these risks.
- More detailed lesson learning on donor experiences with institutional and policy approaches to providing transition financing.
- Further work on operational effectiveness of transition financing through elaborating recommendations that could improve the current implementation of pooled funding instruments.
- Establishment of consensus on the assumptions that should be applied to different funding instruments (*e.g.* level of national ownership, speed, objectives).
- Recommended improvements to the current systems and aid architecture for identifying and financing transition needs.

Annex A

Key definitions

Early recovery: A multidimensional process of recovery that begins in a humanitarian setting. It is guided by development principles that seek to build on humanitarian programmes and to catalyze sustainable development opportunities. … It encompasses the restoration of basic services, livelihoods, shelter, governance, security and rule of law, environment and social dimensions, including the reintegration of displaced populations.

Source: UNDP Policy on Early Recovery, 2008.

Humanitarian assistance: The generic term used to describe aid and action designed to save lives, alleviate suffering and maintain and protect human dignity during and in the aftermath of emergencies.

Source: Global Humanitarian Assistance Glossary, Development Initiatives.

Official development assistance (ODA): Flows of official financing administered with the promotion of the economic development and welfare of developing countries as the main objective, and which are concessional in character with a grant element of at least 25% (using a fixed 10 percent rate of discount). By convention, ODA flows comprise contributions of donor government agencies, at all levels, to developing countries ("bilateral ODA") and to multilateral institutions. ODA receipts comprise disbursements by bilateral donors and multilateral institutions.

Source: OECD, Glossary of Statistical Terms.

Peacebuilding involves a range of measures targeted to reduce the risk of lapsing or relapsing into conflict by strengthening national capacities at all levels for conflict management, and to lay the foundations for sustainable peace and development.

Source: Conceptual basis for peacebuilding for the UN system adopted by the Secretary-Generals Policy Committee in May 2007.

Stabilisation: Actions undertaken by international actors to reach a termination of hostilities and consolidate peace, understood as the absence of armed conflict. The term of art dominant in US policy, usually associated with military instruments, usually seen as having a shorter time horizon than peacebuilding, and heavily associated with a post-9/11 counter-terrorism agenda.

Source: Charles T. Call and Elizabeth M. Cousens (2008), "Ending Wars and Building Peace: International Responses to War-Torn Societies," *International Studies Perspectives* 9, 1-21at 4.

Statebuilding is an endogenous process to enhance capacity, institutions and legitimacy of the state driven by state-society relations. Positive statebuilding processes involve reciprocal relations between a state that delivers services for its people and social and political groups who constructively engage with their state.

Source: OECD DAC, *Statebuilding in Situations of Fragility: Initial Findings*, Paris, 2008.

Annex B

Matrix of guiding frameworks

Paris principles and Accra agenda for action	Fragile states principles	Good humanitarian donorship principles
OWNERSHIP: Partner countries set own poverty-reduction strategies, improve institutions and co-ordinate development action. Encouraging participation of civil society and private actors (particularly developed in the Accra Agenda for Action). Donors help build partner capacity to exercise leadership. AAA: "Country ownership is key." Broaden country-level dialogue on development. Developing countries to strengthen their capacity to lead and manage development.	Consider local contexts of capacity and political will (1). Statebuilding is a central tenet (capacity, legitimacy and economic development). This inevitably involves agenda setting and thus counters both Paris principles' attention to Ownership and GHD priority of neutrality. "States are fragile when governments and state structures lack capacity – or in some cases, political will – to deliver public safety and security, good governance and poverty reduction to their citizens." (3) However, they also focus on "do no harm". "International actors should especially seek to avoid activities which undermine national institution-building. (7)	Minimal reference to national ownership, but reaffirmation of "the primary responsibility of states for the victims of humanitarian emergencies within their own borders" (5). Also emphasis on participation of beneficiary: "adequate involvement of beneficiaries in the design, implementation, monitoring and evaluation of humanitarian response." (7) Emphasis on role of international actors rather than partner countries in co-ordination and implementation, "Support and promote the central and unique role of the United Nations in providing leadership and co-ordination of international humanitarian action" (10). Capacity building (see alignment below) is to assist country's ability to "co-ordinate effectively *with* humanitarian partners" (8) rather than to lead co-ordination effort. "Affirm the primary position of civilian organisations in implementing humanitarian action" (19).

Paris principles and Accra agenda for action	Fragile states principles	Good humanitarian donorship principles
ALIGNMENT: Donors align behind partner priorities and use local strategies, institutions and procedures to support locally driven capacity building (development and financial management). Partners undertake reviews and reform appropriately.	Recognise the need to "[a]lign with local priorities in different ways in different contexts" (7). If governments have political will but lack capacity, international actors are expected to align behind government strategies. The use of alternative aid instruments, like international compacts and MDTFs, can support shared priorities and execution.	Rather than being guided by national objectives, basis of HA intervention is response to need. *e.g.* "Allocate humanitarian funding in proportion to needs and on the basis of needs assessments."(6) – synergistic only when assessments are country-led.
Aid flows aligned to national priorities.	Attention on prevention rather than reaction "looking beyond quick-fix solutions to address the root causes of state fragility" (2) resonates with GHD (9), while sets the agenda for national priorities (rather than alignment). However, where "governments demonstrate political will to foster their countries' development but lack capacity, international actors should fully align assistance behind government strategies." (4) Align with local priorities and/or systems.	The principle of providing "humanitarian assistance in ways that are supportive of recovery and long-term development" (9) has synergy potential if long-term development objectives are aligned along national priorities. Problematic, however, when government is implicated in causing a humanitarian crisis for its citizens. GHD focus is on beneficiary, not necessarily nationally identified priorities. GHD principles of *impartiality*, "implementation of actions solely on the basis of need, without discrimination", *neutrality*, "not favour any side in an armed conflict" and *independence* "autonomy of humanitarian objectives from the political, economic, military or any other objectives that any actor may hold" may contrast with aid flow principles, particularly in situations of conflict. (2)

Paris principles and Accra agenda for action	Fragile states principles	Good humanitarian donorship principles
Strengthen capacity by co-ordinated support.	"…strengthening the capacity of regional organisations to prevent and resolve conflicts; and helping fragile states themselves to establish resilient institutions which can withstand political and economic pressures." (2) "Wherever possible, international actors should work jointly with national reformers in government and civil society to develop a shared analysis of challenges and priorities." (7)	"Strengthen the capacity of affected countries and local communities to prevent, prepare for, mitigate and respond to humanitarian crises, with the goal of ensuring that governments and local communities are better able to meet their responsibilities and co-ordinate effectively with humanitarian partners. (8)
Use of country systems. AAA: If donors use aid delivery mechanisms outside country systems, they will transparently state the rationale for this and review their positions at regular intervals. (15 b) Donors will aim to channel 50% or more of government-to-government assistance through country fiduciary systems. (15 e)	Align with local priorities and/or systems (4) where political will is present.	
Strengthen capacity by avoiding parallel implementation structures.	Recognise the political-security-development nexus (5). "International actors should move to support national reformers in developing unified planning frameworks for political, security, humanitarian, economic and development activities at a country level." "[C]areful consideration must be given to how service delivery channels are designed to avoid long-term dependence on parallel, unsustainable structures while at the same time providing sufficient scaling up to meet urgent basic and humanitarian needs." (8)	"Support and promote the central and unique role of the United Nations in providing leadership and co-ordination of international humanitarian action" (10) Principles lend themselves to parallel implementation structures, which may be appropriate for some, but not all crises (*e.g.* natural disasters).

Paris principles and Accra agenda for action	Fragile states principles	Good humanitarian donorship principles
Make aid more predictable.	"Since volatility of engagement … is potentially destabilising for fragile states, international actors commit to improving aid predictability in these countries, by developing a system of mutual consultation and co-ordination prior to a significant reduction in programming." (11)	Predictable, timely funding central to GHD principles, but aimed at funds to UN orgs/NGOs rather than recipient countries. "strive to ensure flexible and timely funding, on the basis of the collective obligation of striving to meet humanitarian needs." (5) "strive to ensure predictability and flexibility in funding to United Nations agencies, funds and programmes and to other key humanitarian organisations." (12) "explore the possibility of reducing, or enhancing the flexibility of, earmarking, and of introducing longer-term funding arrangements." (13) "Maintain readiness to offer support to the implementation of humanitarian action, including the facilitation of safe humanitarian access.» (17)
HARMONISATION: Donors co-ordinate action, simplify procedures and share information to avoid duplication. Attention to specific harmonisation of activities and capacity building in fragile states. Harmonisation of cross cutting themes – environment, climate change, gender.	Harmonisation a central tenet on which Paris explicitly draws for the fragile states context. Whole of government approach, not just funding or planning instruments. "What is necessary is a whole of government approach, involving those responsible for security, political and economic affairs, as well as those responsible for development aid and humanitarian assistance." (5)	Harmonisation focuses on funding and common planning instruments.

Paris principles and Accra agenda for action	Fragile states principles	Good humanitarian donorship principles
Use of common arrangements or procedures (planning, funding, M&E).	"Agree on practical co-ordination mechanisms between international actors … it is important to work together on upstream analysis; joint assessments; shared strategies; co-ordination of political engagement; multi-donor trust funds; and practical initiatives such as the establishment of joint donor offices and common reporting and financial requirements." (8) "To avoid an unintentional exclusionary effect of moves by many donors to be more selective in the partner countries for their aid programs, co-ordination on field presence and aid flows, and mechanisms to finance promising developments in these countries are essential." (10)	"Contribute responsibly, and on the basis of burden-sharing, to United Nations Consolidated Inter-Agency Appeals and to International Red Cross and Red Crescent Movement appeals" (14) "actively support the formulation of Common Humanitarian Action Plans (CHAP) as the primary instrument for strategic planning, prioritisation and co-ordination in complex emergencies.» (14) "Promote the use of Inter-Agency Standing Committee guidelines and principles on humanitarian activities.» (16)
MANAGING FOR RESULTS Partners and donors focus on development results and results are measured. AAA: More accountable and transparent to public for results. (24) Increase medium-term predictability of aid. (26)		"Allocate humanitarian funding in proportion to needs and on the basis of needs assessments". (6) "Support learning and accountability initiatives for the effective and efficient implementation of humanitarian action." (22) "Encourage regular evaluations of international responses to humanitarian crises, including assessments of donor performance." (21)

Paris principles and Accra agenda for action	Fragile states principles	Good humanitarian donorship principles
MUTUAL ACCOUNTABILITY Partners and donors are accountable for development results. Donors to provide timely, transparent and comprehensive aid flow information.	"international actors commit to improving aid predictability in these countries, by developing a system of mutual consultation and co-ordination prior to a significant reduction in programming." (11)	Adequate involvement of beneficiaries in the design, implementation, monitoring and evaluation of humanitarian response. (7) "Request that implementing humanitarian organisations fully adhere to good practice and are committed to promoting accountability, efficiency and effectiveness in implementing humanitarian action." (15)
Mutual accountability of agreed commitments.		"Ensure a high degree of accuracy, timeliness, and transparency in donor reporting on official humanitarian assistance spending, and encourage the development of standardised formats for such reporting." (23)
PARTNERSHIPS AAA introduced a commitment to build more effective and inclusive partnerships for development.	The Principles are intended to help international actors (not just donors) "foster constructive engagement between national and international stakeholders" in fragile situations (Preamble). Civil society has a key role both in demanding good governance and in service delivery. (3)	Donors commit to "[s]upport and promote the central and unique role of the United Nations in providing leadership and co-ordination of international humanitarian action, the special role of the International Committee of the Red Cross, and the vital role of the United Nations, the International Red Cross and Red Crescent Movement and non-governmental organisations in implementing humanitarian action". (10)

Paris principles and Accra agenda for action	Fragile states principles	Good humanitarian donorship principles
Reduce fragmentation of aid. (17) Start dialogue on division of labour across countries by June 2009. (17 e)	Agree on practical co-ordination mechanisms between international actors. "Practical initiatives can take the form of joint donor offices, an agreed division of labour among donors, delegated co-operation arrangements, multi-donor trust funds and common reporting and financial requirements". (8) Address the problem of "aid orphans". (10)	"Contribute responsibly, and on the basis of burden-sharing, to United Nations Consolidated Inter-Agency Appeals and to International Red Cross and Red Crescent Movement appeals." (14)
Increase aid's value for money Respect international agreements on corporate social responsibility. (18 d)	"Increased transparency concerning transactions between partner governments and companies, often based in OECD countries, in the extractive industries sector is a priority". (2)	Focus on promoting the effective and efficient implementation of aid (15, 21).
Deepen engagement with civil society organisations.	Support civil society engagement as part of statebuilding. (3)	NGOs acknowledged as one set of partners that have a special role in implementing humanitarian aid (10).

Paris principles and Accra agenda for action	Fragile states principles	Good humanitarian donorship principles
Adapt aid policies for countries in fragile situations. "Donors will work on flexible, rapid and long-term funding modalities, on a pooled basis where appropriate, to: (i) Bridge humanitarian, recovery and longer-term development phases and (ii) Support stabilisation, including peacebuilding, and the building of capable, accountable and responsive states." Donors will foster partnerships with the UN System, international financial institutions and other donors. (21d) Monitor implementation of Fragile States principles at country level and share results as part of reporting on implementation of Paris Declaration. (21e)		"Provide humanitarian assistance in ways that are supportive of recovery and long-term development, striving to ensure support, where appropriate, to the maintenance and return of sustainable livelihoods and transitions from humanitarian relief to recovery and development activities." (9)

Annex C

List of donors and their funding instruments

Donor	Fund/budget line	Date (est.)	Managed by	Budget size	Governing rules
Canada	Global Peace and Security Fund	2005	Stabilisation and Reconstruction Task Force (START)	USD 235 million budget for fiscal year 2007-2008	
Denmark	Region of Origin Initiative	2003	Department of Humanitarian Affairs, Ministry of Foreign Affairs		
Denmark	Peace and Stability Fund	1999	Ministry of Foreign Affairs	DKK 11m in 2009 for non-ODA + DKK 250m for ODA-eligible activities. In 2010, hope to have DKK 100m for non-ODA (made up of MFA funds and existing MOD funds) in addition to DKK 250 m	Currently only for ODA-eligible activities and the MFA does not expect ODA and non-ODA funding to be merged into one.
EC	Instrument for Stability	2006	DG RELEX (global, short-term elements) and AIDCO (long-term elements)	EUR 2.06 billion over seven years 2007-2013	Can finance non-ODA-eligible activities but not done so yet.
EC	Peace Facility for Africa	2003	African Union	EUR 300 million	Money from European Development Fund but finances non-ODA-eligible activities. However, Member States report contributions as ODA because it is a small percentage of the EDF.

Donor	Fund/budget line	Date (est.)	Managed by	Budget size	Governing rules
EC	Food Security Thematic Programme (LRRD component)	2006 (for initial period of 2007-2013)	AIDCO	The budget for the 2007-2010 period is EUR 267.48 million	Cannot finance non-ODA activities.
Germany	Development-oriented emergency and transitional aid budget line	2005	Federal Ministry for Economic Co-operation and Development		Usually finances activities for six months to one year up to three to five years. This time frame can be extended if necessary to prepare ground for development co-operation. Funding is allocated annually but government is planning to move toward multi-annual funding. This budget line can also operate in parallel with development funding. In Afghanistan, it has a strong capacity building component and will operate for up to ten years. Cannot fund non-ODA activities
Netherlands	Stabilisation Fund	2004	Commission with staff from different departments of Ministry of Foreign Affairs and Ministry of Defence. But only Peacebuilding and Stability unit and Security Policy department (MFA) have budgetary control	EUR 90 million (ODA and non-ODA)	Finances activities within the security, statebuilding and development priorities set out in *e.g.* rule of law, security of citizens, SSR, DDR, small arms control, demining, and training of police. Activities are categorised as ODA or non-ODA only afterwards. Can finance ODA-eligible activities through development instruments as well but Stabilisation Fund key instrument to financially enable the government to do what is required in fragile states. Not formal limit on project size but try to ensure programmes do not take up a large chunk of budget. Emphasis on quick decision to partner. Minimum decision time is one week though disbursement can take time.

Donor	Fund/budget line	Date (est.)	Managed by	Budget size	Governing rules
Norway	Transition Budget Line	2002	Minister of International Development	2004 NOK 450 million (about USD 65 million).	
UK	Stabilisation Aid Fund	2007	Stabilisation Unit (comprising Ministry of Defence, DFID, and Foreign and Commonwealth Office staff members)	GBP 73 million in 2008-2009 according to Hansard.[1] Original budget of GBP 269 million.[2]	Can fund non-ODA-eligible activities
UK	Conflict Prevention Pool	Current: 2008; original 2001	Run jointly by the FCO, Ministry of Defence and DFID. In DFID, CHASE (Global Pool) and Africa Conflict and Humanitarian Unit (Africa Pool)	GBP 112 million in 2008-2009	Can fund non-ODA-eligible activities

Notes: 1. Taken from *www.publications.parliament.uk/pa/cm200809/cmhansrd/cm090223/text/90223w0010.htm*.

2. Taken from *www.stabilisationunit.gov.uk/index.php?option=com_content&view=article&id=54:about-the-stabilisation-unit&catid=36:about&Itemid=60*.

Annex D

Country case studies

Afghanistan

Table D.1 provides a summary of the pooled funds in Afghanistan. Donor meetings held in Brussels and Tokyo in early 2002 endorsed the concept of the Afghanistan Reconstruction Trust Fund (ARTF) to take over from the Afghani Interim Authority Fund (AIAF) in providing budgetary support to the Afghan Administration. The World Bank Board approved the ARTF on 27 March 2002. The Grant Agreement was signed in May, and the Fund began operating in late May 2002. At the same time, UNDP established the Law and Order Trust Fund for Afghanistan (LOTFA) because the World Bank cannot finance law enforcement-related activities.

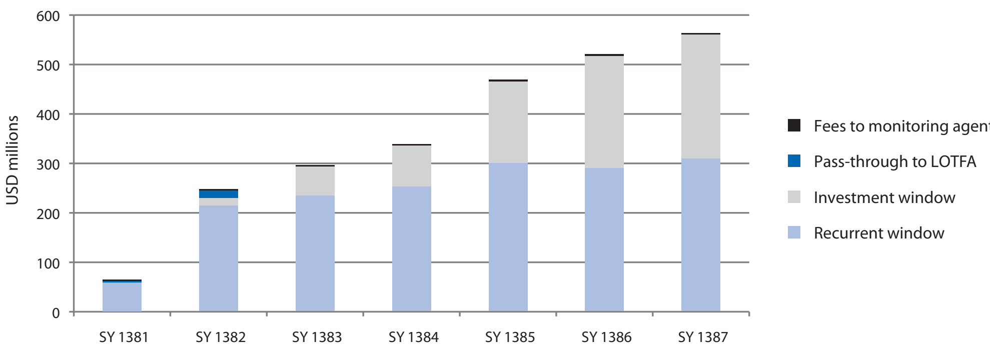
Table D.1. **Pooled funding instruments in Afghanistan**

Name	Start date	End date	Objectives	Administrator	Comments
Afghan Interim Authority Fund	January 2002	July 2002	To support the Interim Authority during its 6-month tenure. To establish the credibility and legitimacy of the Interim Authority by ensuring that it could pay civil servants and begin to provide basic social services to Afghan citizens.	UNDP	UNDP initially faced various challenges with disbursement and accountability because of the lack of financial infrastructure and the absence of a payroll process. These led to concerns among several donors and the European Commission's EUR 20 million contribution was conditional on the introduction of effective monetary controls by the Interim Authority. UNDP worked closely with the IMF and DA Afghanistan Bank to introduce the mechanisms necessary to reassure donors.

Table D.1. **Pooled funding Instruments in Afghanistan** *(continued)*

Name	Start date	End date	Objectives	Administrator	Comments
Afghanistan Reconstruction Trust Fund	May 2002	ARTF was due to cease operating two years after the election of a permanent government or by June 30, 2006, whichever came first. Its operation has been extended to June 2020.	(i) Promote transparency and accountability of reconstruction assistance (ii) Help reinforce the national budget as the vehicle for promoting alignment of the reconstruction program with national objectives (iii) Reduce the burden on limited government capacity for the first few years of reengagement, while promoting capacity building over time (iv) Help fund the essential recurrent budgetary expenditures required for the government to function effectively (v) Provide a convenient mechanism for donors to fund priority investments.	World Bank Governed by a management committee consisting of UNDP, UNAMA, the Asian Development Bank and the Islamic Development Bank.[1] The inclusion of leading multilateral actors varies from standard Bank practice of assuming full managerial responsibility.	In early 2004, the Bank established an ARTF management team in Kabul to ease bottlenecks with disbursements. The Bank has also put in place a financial management and disbursement team, to oversee both regular World Bank IDA credits and the ARTF. A 2005 independent review found the appointment of an independent monitoring agent (MA) for the Fund positive. The MA monitors, supports and reports on reimbursement claims to the Recurrent Window against eligibility criteria and fiduciary standards (Scanteam, 2005).
Law and Order Trust Fund for Afghanistan	May 2002		(i) Nationwide payment of police staff remuneration (ii) Acquisition of non-lethal equipment (iii) Rehabilitation of police facilities (iv) Gender Mainstreaming (v) Institutional development.	UNDP MDTF	Donor contributions to date total USD 197 965 728

Figure D.1. **ARTF disbursements SY1381-1387**



Source: ARTF Administrator's Financial Report, 2009.

As of April 2009[2], the ARTF had paid-in contributions of USD 3.04 billion. Figure D.1 shows disbursements from the ARTF from SY1381-1387 (SY1387 ran from 21 March 2008-20 March 2009). This highlights the fact that the ARTF's initial emphasis was on covering recurrent expenditures and that significant disbursement under the investment window did not begin until the third year of the fund's operation. The ARTF disbursed about USD 40 million in SY 1383 (March 2004-March 2005) but Scanteam estimated that more than USD 3 billion went into various investment activities during this period (Scanteam, 2005). The ARTF thus provided a little over 1% of total investment funds at first. But SY1387 funding through the ARTF's investment window totalled just over USD 800 million by March 2009.

The ARTF's role in the national budget has been far more important since, even in SY1382, it contributed over 47% of the government's operating budget. Though this decreased over time to 35% in SY 1385 and to 29% in SY1386, the fund has been significant from a budget viewpoint (Scanteam 2008).

In 2005, both the government and World Bank felt that assistance provided outside the budget was non-transparent (donors provided little information on what is being funded); did not address priority needs or duplicated government programmes; weakened the government's accountability to its people for service delivery; failed to take into account recurrent expenditure needs (such as hospital staff or highway maintenance); and was slower and more expensive to implement. However, a 2008 study found that donor financing is moving towards more discretionary financing, towards projects and programs as the Afghanistan National Development Strategy (ANDS) is being fine-tuned to become a satisfactory programming instrument. The ANDS and the Afghanistan Compact provide a government-led mutual commitment to improve effectiveness and results from government and donor funding.

The ARTF has a Steering Committee (informally referred to as the Donors' Meeting). This was supposed to comprise Management Committee members, all donors that contribute at least USD 5 million a year and two smaller donors (on a rotating basis). In practice, it has been open to all fund contributors. The government, represented by its Ministry of Finance, is an observer on the Management Committee and the Donors' Meeting and has been an active participant in the discussions. It has used the meetings to present policies and priorities for future ARTF funding. This has facilitated donor co-ordination by ensuring that:

- All ARTF financing is on-budget.
- That all funding partners are invited to participate in ARTF meetings.
- Government representatives are invited to meetings for open discussions.
- The public has full information of its activities and funding through the open-access website.

Nevertheless, in both the 2005 and the 2008 evaluations, donors expressed some frustration at a lack of policy debates linked to funding decisions. But this would require more and higher-level time commitments from donors whereas, according to the 2008 evaluation, the low level of donor involvement in the ARTF was troubling. Donors and others also agreed that the national authorities should manage co-ordination and that the ARTF should not promote or develop its own general policy role or forum.

The PCNA undertaken in January 2002 estimated a "base case" requirement (as opposed to a high and low case) for capital investments and technical assistance and recurrent costs as shown in table D.2. The table uses DAC data on aid disbursements (also used for figure D.1) to show the total amount of aid provided in the first year (2002), in 2.5 years' time and in five years against the total PCNA requirements. It is not possible to determine the extent to which development funding from DAC donors was spent on the needs covered by the PCNA but the overall amounts were much lower than stated requirements in the early years of the new administration.

Table D.2. **Aid requirements for Afghanistan (USD million)**

Sector	1 year	2.5 years	5 years	10 years
Development (including security)	1 000	3 110	7 110	11 530
Recurrent costs	700	1 800	3 100	3 100
Total requirements	**1 700**	**4 910**	**10 210**	**14 630**
Total DAC development aid	**688**	**2 803**	**8 865.5**	

Source: Multi-agency report, 2002.

At the Tokyo pledging conference in January 2002, donors pledged approximately USD 1.9 billion to be spent in 2002. When Afghan authorities and international donors met in Kabul in October 2002 for the Implementation Group, donors reported that they had committed USD 1.8 billion to specific agencies, funds or projects and that almost USD 1.4 billion had actually been disbursed to these agencies, funds and projects.[3] However, as highlighted by Table D.1, this is not reflected in DAC data on disbursements.

Burundi

Table D.3 summarises two instruments for pooled funding to Burundi. In addition, it has received funding through the World Bank's Multi-country Demobilisation and Reintegration Programme (MDRP).

Figure D.2 maps humanitarian and development aid flows to Burundi against key historical events. Both dropped sharply in 1996, when Pierre Buyoya took power in a coup d'état. With the Arusha peace agreement in 2000, development assistance began to increase. Humanitarian aid peaked in the election year 2005 while development aid has continued to grow very sharply 2003. Burundi has not had a full-scale PCNA but the government presented a Priority Action Programme (PAP) to a donor roundtable on 24-25 May 2007. At the meeting, donors made the following commitments:[4]

- Belgium: EUR 100 million for the PAP and EUR 4 million for budgetary support
- Germany: EUR 60 million
- Netherlands: EUR 22 million a year for three years
- Norway: EUR 10 million plus EUR 327 million for the PAP
- USA: USD 28.5 million a year in 2007-2008

Figure D.3 shows that when challenged by a lack of government capacity, donors have tended to provide assistance as humanitarian aid. This is why Burundi is in the unusual position of having received both budget support (over which the government has full discretion) and humanitarian aid (which does not count as country programmable aid) between 2002 and 2007. However, humanitarian aid decreased substantially as a share of ODA between 2006 and 2007 while other forms of ODA increased significantly.

Table D.3. **Pooled funding instruments in Burundi**

Name	Start date	End date	Objectives	Administrator	Comments
Le Fonds Fiduciaire du Programme d'Urgence pour le Burundi (Burundi Emergency Programme Trust Fund)	2006	2009	(i) Strengthening the capacity of development co-ordination (ii) Improving the living conditions of communities (iii) Restoring productive capacity and access, particularly for victims, to income and means of production for a return to normal living conditions (iv) Promoting peaceful co-existence and national reconciliation	UNDP Open Trust Fund	The Fund was established for 12 months but operated for 36 months, due to difficulties with disbursement. Total Budget: USD 17.1 million Donors: UK USD 10.9 million; Belgium USD 3.9 million; Norway: USD 2.2 million; Morocco: USD 0.1 million
Peacebuilding Fund	December 2006	Ongoing	(i) Good governance (ii) Strengthening of the rule of law in security forces (iii) Strengthening of justice, promotion of human rights, reconciliation and the fight against impunity (iv) Land issues, notably in the context of reintegration of the affected populations (UN Peacebuilding Support Office 2007)	UNDP MDTF	The Peacebuilding Fund provided USD 35 million in funding.
Great Lakes' Multi-country Demobilisation and Reintegration Programme (MDRP)	2002	June 2009	26,279 demobilised to date (includes 3 261 child soldiers and 511 female ex-combatants); 23 018 former Gardiens de la Paix and militia members have received reinsertion allowances. ES/CNDRR continues to be prepared for any demobilisation of FNL-PALIPEHUTU combatants. • 14 813 adult ex-combatants received reintegration assistance, as did all demobilised children. The PNDDR has demobilised 3 498 disabled ex-combatants.	World Bank	Financing: Total of USD 77.87 million: IDA grants of USD 36.07 million (73% disbursed) and MDTF grants of USD 41.8 million (58.1% disbursed). Disbursements as of 31 July 2008: National Programme: USD 24 154 616 Special Project (Burundi-UNICEF): USD 3 474 016

Figure D.2. **Humanitarian and development aid to Burundi**

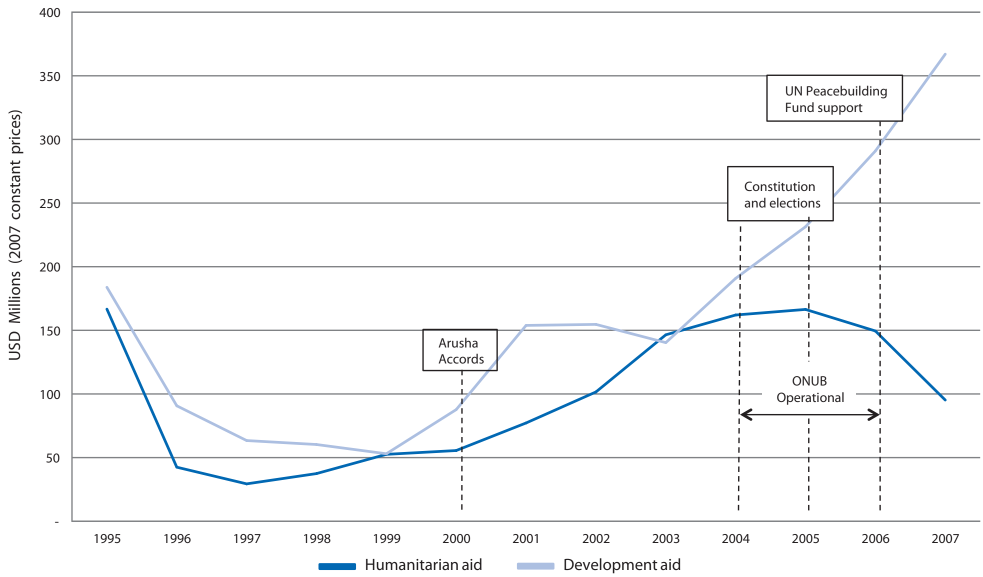
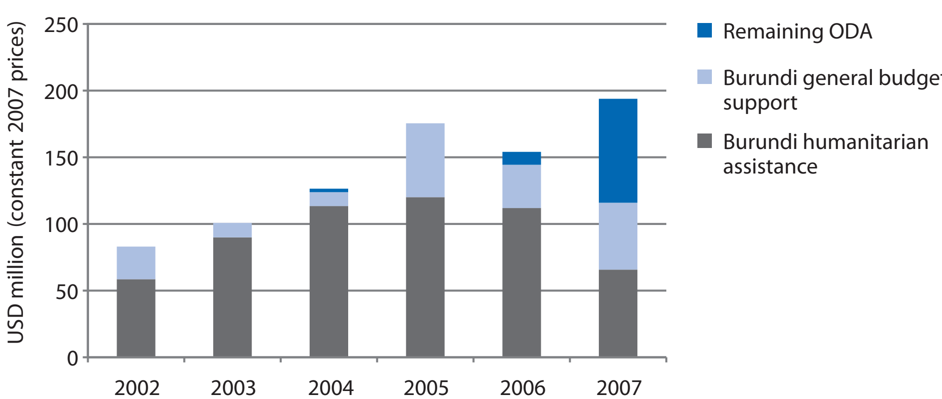


Figure D.3. **Humanitarian assistance, general budget support and ODA to Burundi 2002-2007**



Source: DAC 2a disbursements.

Central African Republic (CAR)

In 2005, the UN Emergency Relief Co-ordinator described the Central African Republic (CAR) as the "world's most forgotten crisis". Since then, a number of actors have taken steps to raise awareness of humanitarian and development needs in the country.[5] This includes the French government, which facilitated a donor meeting in Paris in July 2005 to discuss needs in CAR. At the meeting, CAR was referred to as a post-conflict country, perhaps because the security situation had stabilised since the 2003 coup. However, since 2005, violence has continued, particularly in the North and, in 2008, the number of IDPs in this area tripled to 280 000[6] and there have been further displacements in 2009.

The CAR has had three sources of pooled funding: a country-level humanitarian fund, contributions from the Peacebuilding Fund and the regional MDRP. Table D.4 provides a brief overview of these instruments.

Figure D.4 shows that humanitarian aid to the CAR was at a very low level until the UN introduced Consolidated Appeals in 2003. After this, humanitarian aid rose slightly but not significantly. The figure shows that, with the appointment of a dynamic RC/HC who has championed the CAR's cause and also established an instrument – the ERF/CHF – to enable donors to channel funds, humanitarian funding increased sharply (from USD 38 million in 2006, when the HC was appointed, to USD 91 million in 2007 and then to USD 118 million in 2008). Of this, only around USD 6 million a year flowed through the ERF in 2007 and 2008 but there is agreement that donor confidence in the RC/HC led to the funding increases. By contrast, development aid (figure D.4) has been very erratic, thereby contradicting donor commitments to predictable funding but highlighting, perhaps, the difficulty of providing development assistance in a volatile environment.

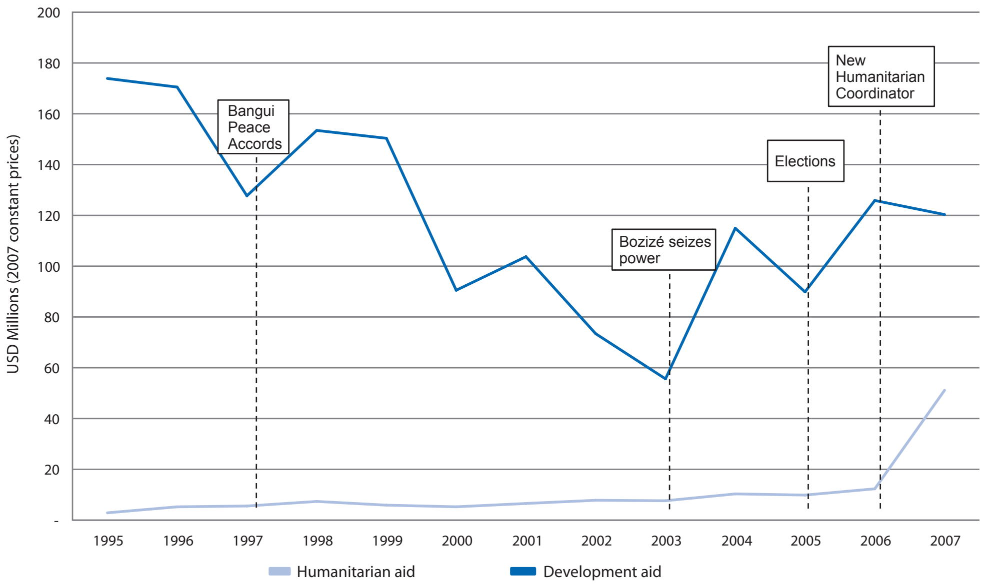
Figure D.5 is based on FTS data rather than the DAC data used above. It shows total humanitarian funding to the CAR from 2003, when the UN began to issue a Consolidated Appeal. It shows the amount requested in the CAP as well as funding to activities inside and outside the CAP. From 2003-2005, donors funded only 35-38% of the activities in the Appeal. That almost doubled to 63% in 2006 and, by 2008, donors funded 90% of the Appeal. This is despite the fact that that amount requested in the CAP rose sharply from USD 38 million in 2006 to USD 91.4 million in 2007 and then to USD 118.6 million in 2008 before decreasing to USD 97 million in 2009.

Although one of the aims of the CERF is to ensure funding to underfunded emergencies like the CAR, CERF funding to CAR has been only a small proportion of funding to the CAP. As funding for the CAP has increased, the CERF's share has fallen from 23% of total CAP funding in 2006 to 10% in 2007 and then to 3% in 2008. CERF contributions would appear even smaller as a share of total humanitarian funding to the CAR.

Table D.4. **Pooled funding instruments in Central African Republic**

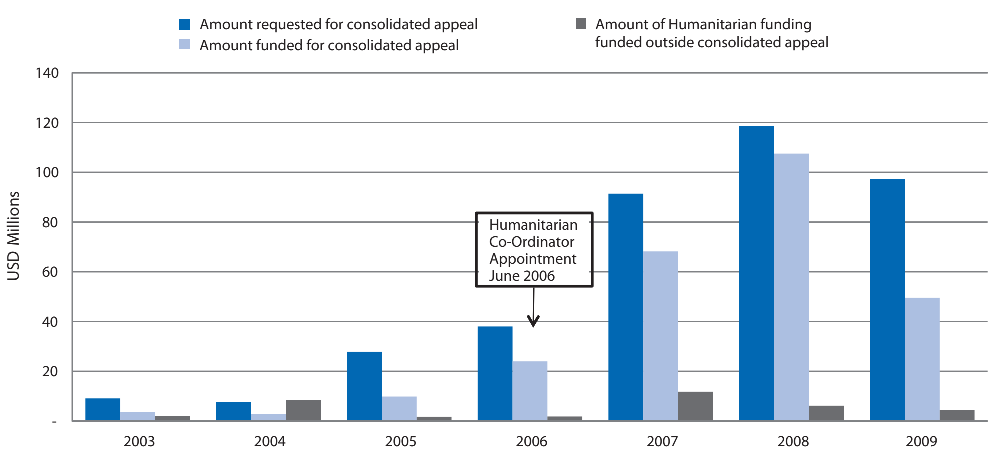
Name	Start date	End date	Objectives	Administrator	Comments
Emergency Response Fund	2007	July 2008	To enable NGOs and UN agencies to get funding quickly to cover gaps or begin operations.	Managed by HC with OCHA as financial administrator.	Focused almost exclusively on humanitarian needs in North of country. Received USD 5.7 million from five donors – Ireland, the Netherlands, Norway, Sweden and the UK.
Common Humanitarian Fund	July 2008		(i) To enable NGOs and UN agencies to get funding quickly for humanitarian and early recovery programmes that are based on prioritised needs. (ii) To enable aid agencies to cover gaps or to begin operations.	Managed by HC with UNDP as financial administrator.	Received USD 7 million from 4 of the 5 ERF donors (Norway has not contributed to the CHF). To date, the fund has allocated approximately USD 5.5 million.[7]
Peacebuilding Fund	June 2008		Security Sector Reform – USD 4 million Promotion of good governance and the rule of law – USD 3.4 million. Revitalisation of communities affected by the conflict including IDPs- USD 2.6 million.	UNDP MDTF	USD 10 million allocated under Window I. In September 2007, the PBF allocated USD 801 975 under Window III for inclusive political dialogue.
Multi-country Demobilisation and Reintegration Programme (MDRP	2002	June 2009	Activities: 7 565 ex-combatants demobilised and provided with reintegration assistance. Small-infrastructure rehabilitation to communities of return.	World Bank	Financing: UNDP Special Project of USD 9.8 million (100% disbursed).

Figure D.4. **Humanitarian and development aid to Central African Republic (ODA data)**



Source: OECD DAC 2a disbursements.

Figure D.5. **Funding to Central African Republic 2003-09 (using FST data)**



Source: FTS. Figures for 2009 are as of 6 July 2009.

Democratic Republic of Congo (DRC)

As in the CAR, with the exception of the MDRP, the main pooled financing instruments in the DRC have been humanitarian. The country has had small-scale Rapid Response Funds since 2000. In 2006, it became one of the two pilot countries for a Common Humanitarian Fund, known as the Pooled Fund. A 2007 evaluation of the Pooled Fund found that it has been used to support early recovery/transition activities, reflecting a pragmatic definition of what constitutes humanitarian action.[8] In the DRC, the Humanitarian Action Plan includes explicit transition objectives and the HC has provided funding to Western provinces where indicators can be as poor as in the conflict-affected East, due to the isolation of communities and extremely limited services for health or other government provision.[9] Some donors and agencies are uncomfortable with the HC's use of a broad definition of humanitarian aid, arguing that, given the limited resources available to humanitarian action, they should focus on emergency, life-saving needs. However, other donors, like DFID and Sida, have flexible definitions of humanitarian aid and are more supportive of this approach.

Figure D.6 shows that humanitarian aid to the DRC has risen steadily since 2000. Despite the signing of a peace agreement in 2002 and elections in 2006, humanitarian aid has continued to rise because of ongoing emergency needs in the conflict-affected East. This shows that transition situations are not about either humanitarian or development aid but about achieving a sensible mix between the two.

Development assistance to the DRC peaked in 2002 (which coincided with a large amount of debt relief though debt relief is excluded from the data used here). The other peak, in 2005, could be attributed to election funding. One donor interviewee argued that, although donors agreed that the post-election period would be very important for development action, they could not agree on what was needed. Local leaders were too focused on fighting the elections to provide the necessary leadership on priorities and objectives. No other entity took a leadership role and there was no pooled mechanism to bring donors together. As a result, the international community missed an opportunity to deliver on the expectations of the local population in the immediate aftermath of the elections.

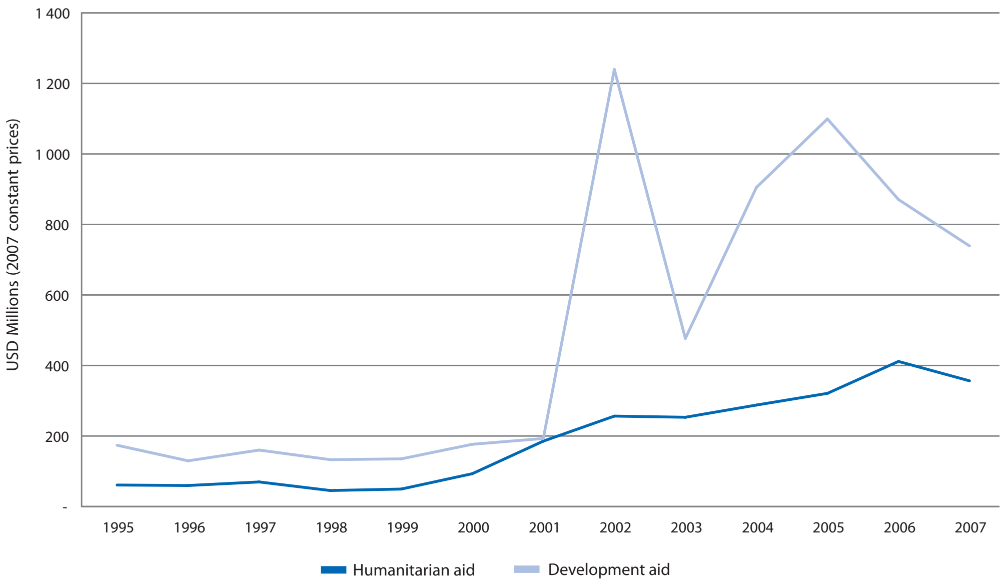
Based on FTS data, Figure D.7 shows that, with the appointment of a respected and experienced HC, total humanitarian funding rose by USD 60 million between 2004 and 2005 and by another USD 80 million between 2005 and 2006 when the Pooled Fund was set up. Funding has continued to grow since then, totalling USD 655.7 million in 2008.

The DRC has been the largest recipient of CERF funding every year since the CERF was established but this has been a small proportion of

Table D.5. **Pooled funding instruments in Democratic Republic of the Congo**

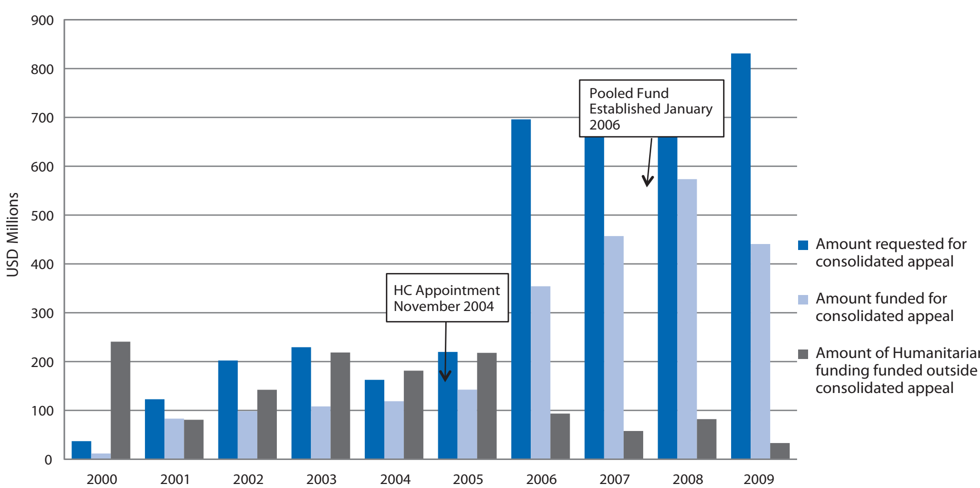
Name	Start date	End date	Objectives	Administrator	Comments
Pooled Fund	January 2006		(i) To serve as a vehicle for funding a strategic plan for co-ordinated humanitarian response (i.e. the Humanitarian Action Plan). (ii) To ensure funding is strategically targeted to priority needs. (iii) To reinforce humanitarian co-ordination mechanisms.	UNDP MDTF. The HC is ultimately responsible for managing the fund. A joint OCHA-UNDP Pooled Fund Unit supports him with day-to-day management.	The fund has a decentralised allocation process through provincial level Clusters (sector-based co-ordination mechanism). From 2005-2008, it received USD 357 million in donor contributions.
Multi-country Demobilisation and Reintegration Programme	2002	June 2009	Activities: 102 148 adults demobilised; outstanding caseload of 60-70 000 pending. Reinsertion payments underway for 102 013 beneficiaries. Reintegration support for 56 297 contracted, with over 47 000 beneficiaries engaged in activities. 30 219 children released from armed groups	World Bank	Financing: Total of USD 210.74 million: IDA grant of USD 110.74 million (86.9% disbursed,); MDTF grant of USD 100 million (90.5% disbursed). Additional financing: USD 50 million grant (disbursement due to start in September 2008). Disbursements: National programme: USD 90 550 443 Special projects (all): USD 33 305 763

Figure D.6. **Humanitarian and development aid to Democratic Republic of Congo (ODA data)**



Source: OECD DAC 2a disbursements.

Figure D.7. **Funding to the Democratic Republic of Congo 2000-09 (FST Data)**



Source: FTS. 2009 data as of 6 July 2009.

humanitarian funding to the country. In 2006, the DRC received USD 38 million from the CERF. This increased to USD 52.5 million in 2007 before decreasing to USD 41 million in 2008. As a share of funding to the DRC Humanitarian Action Plan (HAP), the CERF has gone from 8.5% in 2006 to 10% in 2007 and down to 6% in 2008.

Southern Sudan

Table D.6 summarises the pooled funding instruments that channel aid to Southern Sudan.

In addition to these pooled mechanisms, the EC has run a couple of special programmes for Southern Sudan. These are summarised below:

Humanitarian Plus II Programme (HPP II): Because of EC restrictions on development funding for Sudan between 1990 and 2005, ECHO was the main channel for resources. In anticipation of a transition from war, the Commission used earmarked funds to create the Humanitarian Plus Programme (2004-7) to increase its engagement in the country. HPP II (EUR 12 million) had 3 components: i) large-scale sectoral activities to be implemented by INGOs and UN agencies; ii) micro projects to be implemented by Sudanese NGOs; and iii) a Workshops and Training component. HPP II gave preference to interventions that took an integrated approach in addressing community-wide, social sector problems. It adopted the EC's *Linking* Relief, Rehabilitation and Development (LRRD) approach in setting out to "facilitate a smoother transition between ECHO-type interventions and post-conflict development." The programme is another example of flexible funding for basic services in Southern Sudan but with little contribution to longer-term statebuilding goals (other than the EC's country strategy, the programme is not obliged to fit into any framework or engage through government, though it does work with government. Stakeholders have expressed disappointment that participating NGOs did not internalise the linkage*s* model and suggested that they did not shift well from a humanitarian to a recovery mindset.

Recovery and Rehabilitation Programme (RRP): The RRP represents one of the few programmes in Southern Sudan with a specific livelihood recovery focus. It was intended to provide "quick start" rural development over a four-year period, using a multi-disciplinary approach that included support to basic services. When reviewed in 2007, the mechanism had been slow to deliver. The first year was spent in engaging with programme realities, including compliance with EC regulations, the appropriateness of which has been questionable in the Sudan context. The RRP intended to co-ordinate with state authorities and had specific goals to work with local government agents in the counties. However, the local government was slow to establish itself, causing delays in implementation. Consequently, the programme struggled to manage the trade off between capacity building objectives and contributing to the urgent filling of service delivery and livelihood recovery shortfalls. The EC committed EUR 49.8 million to the programme, of which it had deposited EUR 19 million by 2007. According to an EU report, the RRP had disbursed EUR 15 million by April 2007 (EUR 13 million according to the RRP report).

Mapping aid flows

The findings of the Joint Assessment Mission (JAM) to assess post-conflict needs were published in March 2005. Table D.7 summarises the costing (in USD millions) for phase I, which was from 2005-2007. It does not cover phase II (2008-2011) as this was preliminary.

Table D.7. **Costings for the Sudan Joint Assessment Mission (USD millions)**

Area	2005	2006	2007	Phase I Total
Southern Sudan	608	1 290	1 655	3 553
Sudan (National government, Three Areas and Southern Sudan)	1 066	2 473	3 208	6 746

One of the concerns about needs assessments is the accuracy of their cost estimates. Therefore, it should be pointed out that the JAM estimates are in line with MDG investment needs recently presented by the UN Millennium Project for Uganda, Tanzania, Ghana, Cambodia, and Bangladesh, which amounted to about USD 70-80 per capita in 2006 (Sachs *et al.*, 2005). MDG-related costs were remarkably similar across the five countries, mainly because many unit costs are similar across countries with different GDP per capita, and because there is a trade-off between capital and recurrent MDG-related costs, especially for infrastructure.

Development aid to Sudan has continued to rise sharply since 2004, reaching just over USD 856 million in 2007. Despite this, the figures appear to fall far short of both the needs calculated in the JAM and the pledges at the Oslo conference – a total of USD 2.2 billion from 2005-2007 compared with USD 6.7 billion for Phase I of the JAM and USD 4.5 billion pledged at Oslo. By comparison, humanitarian aid to Sudan from 2005-2007 totalled USD 3.7 billion.

In response to the JAM, at the Oslo donor conference, donors pledged a total of USD 4.5 billion to Sudan for Phase I (2005-2007). Figure D.8 provides an overview of aid flows to Sudan, based on DAC data. Unfortunately,

Table D.6. **Pooled funding instruments in Sudan**

Name	Start date	End date	Objectives	Administrator	Comments
Common Humanitarian Fund (CHF)	2006[10]		To support the timely allocation and disbursement of donor resources to the most critical humanitarian needs of Sudan under the direction of the Humanitarian Coordinator.[11]	Managed by the HC with UNDP MDTF as financial administrator	As of April 2009,[12] the Fund had received USD 563 million in donor contributions.
Multi-Donor Trust Fund for Southern Sudan (MDTF-SS)	2005[13]		(i) Establishing an effective core of public sector administration, including core capacity to plan and finance GOSS programs with key accountability mechanisms in place; (ii) Preparing selected investments to consolidate the peace and generate social capital through access to basic services with rapid scale-up of education programs; (iii) Putting priority sector programs in place, including basic infrastructure (roads, electricity, water) education, and health; (iv) Supporting preparation of programs, including agriculture and private sector development to facilitate the transition from subsistence-based livelihoods to a development-oriented economy; (v) Harmonising development assistance.	World Bank	As of February 2009,[14] the Fund had received USD 432 million. The government was expected to contribute USD 2 for every USD 1 provided by donors but this proved problematic due to difficulties with oil revenues. This Oversight Committee comprises representatives of the World Bank, the UN, GoSS (with the GoNU as observer), the two largest contributing donors, and a rotating representative of other donors. The OC is chaired by the Ministry of Finance and co-chaired by the Joint Donor Office as the largest donor.
Basic Services Fund (BSF) for Southern Sudan	October 2005	August 2010 (prev. Jan 2009)	(i) To provide primary health care to improve the health status of the population (ii) To provide equitable access to basic education (iii) To increase access to safe water and sanitation.[15]	Mott MacDonald[16]	Expected final total (*i.e.* commitments): USD 67.75 million (GBP 46.62 million[17]).

Table D.6. **Pooled funding instruments in Sudan** *(continued)*

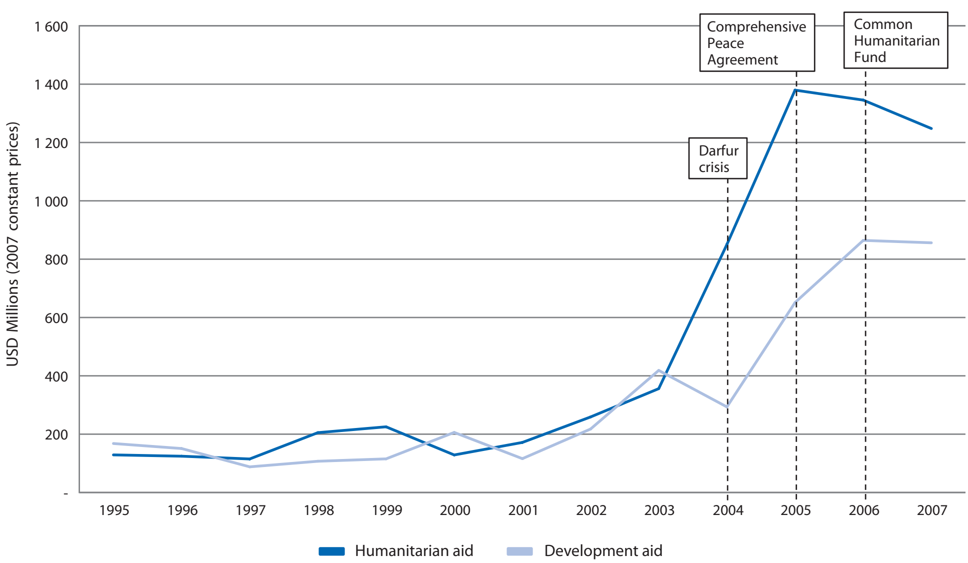
Name	Start date	End date	Objectives	Administrator	Comments
Sudan Recovery Fund for Southern Sudan (SRF-SS)	May 2008[18]		(i) To facilitate a transition from humanitarian to recovery assistance through wide ranging support that offers quick recovery impacts and demonstrates peace dividends (ii) To bolster the capacity of the GoSS and partners, and actively encourage the participation and empowerment of communities affected by conflict and poverty.[19]	UNDP MDTF	As of April 2009[20] the fund had received USD 28 740 500.
Capacity Building Trust Fund (CBTF)	2004[21]		To pool donor support for the recurrent costs and capacity-building elements involved in the formation and initial operations of the new public administration system in Southern Sudan.[22]	UNICEF/ KPMG (Nairobi)	USD 19 million.[23]
Disarmament, Demobilisation and Reintegration (DDR) in Southern Sudan			The UN DDR Unit is tasked with providing technical support to the northern and southern DDR commissions. The support includes capacity building for the Commissions, programme development and co-ordination at the field level.	Administrated and implemented by a joint UN DDR Unit, composed of United Nations Department for Peacekeeping Operations, UNDPKO (UNMIS), UNDP and UNICEF	The DDR Programme is funded by the UNMIS DDR fund, voluntary contributions from donors through UNDP and GoSS and GoNU.

Table D.6. **Pooled funding instruments in Sudan** *(continued)*

Name	Start date	End date	Objectives	Administrator	Comments
Strategic Partnership Arrangement (SPA):	2005	2008	DFID, the Netherlands and Denmark entered into co-financing strategic partnership with UNDP focusing on governance, rule of law and post conflict recovery.	UNDP	This programme is a promising way for donors to i) engage strategically with a key UN agency, and ii) enhance co-ordination on key thematic areas. Given the central importance of governance. building during the interim peace period, the programme could provide impetus to civil society development and the decentralisation process as critical dimensions of stability, the roll out of basic services, and recovery in general. Unfortunately, due to the challenges that UNDP faced in establishing itself in Southern Sudan, the SPA has not reached its full potential as a programme. The initial project document identified funding pledges of USD 68 million. Donors have provided around USD 54 million, at the rate of about USD 23 million annually.

it was not possible to get a sub-national breakdown. However, the very high volume of humanitarian aid will be largely for Darfur. In 2005, prior to the establishment of the CHF, four CHF donors (the Netherlands, Norway, Sweden and the UK) asked the HC to provide advice on how to allocate a total of USD 109 million to projects in the CAP/Work Plan. This was a way of piloting the CHF. 2005 saw a significant increase in humanitarian aid over 2004 levels that may be attributable to the introduction of the Work Plan (a version of the CAP) and the CHF. Even though the CHF channels a small proportion of the humanitarian aid flowing to Sudan (around 9% in 2008 but up to 15% in previous years), it is likely to have led to increased funding because it enables donors to channel far more funds than they can administer directly.

Figure D.8. **Humanitarian and development aid to Sudan**



Source: OECD DAC 2a disbursements.

Timor-Leste

Table D.8 summarises the pooled funds in Timor-Leste. The World Bank's Trust Fund for East Timor (TFET) was intended to complement the UN's Consolidated Fund for East Timor (CFET), with a clear division of roles – the CFET focused on recurrent expenditures, civil service and capacity building and the TFET was designed to finance investment expenditures and economic development projects. TFET activities were integrated into, and aligned with, the country's National Development Plan (developed after Independence) and Sector Investment Programmes (SIPs). Nevertheless, almost half of international reconstruction funding during 2000-03 went to development projects outside the TFET, with donors and aid agencies using their own policies and procedures (EC, 2004).

While the TFET was a multi-donor fund for supporting programme activities, the CSP and the TSP have been multi-donor frameworks for pooled budget support funding. The purpose of the TSP was to provide bridging finance to the government until petroleum revenues become available. The change in name from TSP to CSP reflected, in part, the feeling of the Timorese government that it was moving out of the transition phase. But the events of April-May 2006 – the breakdown of governance – proved otherwise.

Mapping aid flows

The World Bank estimated external financing needs for Timor-Leste as follows:

Table D.9. **External financing needs for Timor-Leste (USD million)**

Organisation	2000	2000-2002
World Bank	0	204.61
UNTAET	15	41.06
UN	0	85.97
Total	15	331.64

Source: World Bank, 1999, and Development Initiatives Analysis, 2010.

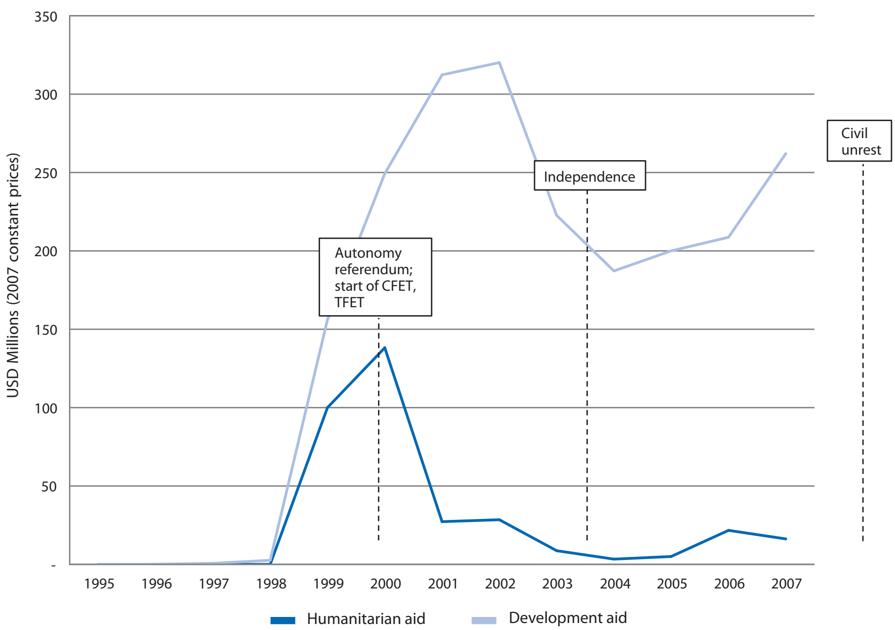
At the Tokyo donor conference in December 1999, donors pledged USD 370 million for the recurrent budget and for development and reconstruction efforts from 2000-2002. This exceeds the needs identified by the Bank. Of this, USD 215 million was to be channelled through the TFET and CFET.

Table D.8. **Pooled funding instruments in Timor-Leste**

Name	Start date	End date	Objectives	Administrator	Comments
Consolidated Fund for East Timor (CFET)	1999	2002	Finance recurrent expenditures, civil service and capacity building of the nascent administration, e.g. rehabilitation of administrative buildings, civil service capacity building and reconstruction in the justice sector.	UNTAET	The CFET was integrated into the annual budget at independence.
Trust Fund for East Timor (TFET)	December 1999	Originally 2002 but extended to February 2007[24]	To support reconstruction and development activities, focusing on: physical rehabilitation of social and economic infrastructure; sectoral policy development; Recovery of the private sector.	World Bank; Asian Development Bank	As of February 28, 2006, donors had contributed USD 178.16 million to TFET.[25]
Transitional Support Program (TSP) and the Consolidated Support Program (CSP)	2003 financial year	2007 financial year	TSP budget support was to help the government address fiscal gaps; mobilise donor funds; ensure maintenance of public services and continued operation of fiduciary systems; strengthen capacity to manage future revenue streams. When the CSP was implemented, Timor-Leste was already generating substantial petroleum revenues but the government and donors noted the continuing importance of policy dialogue, and building capacity to establish, implement and monitor priorities.	World Bank	TSP (2003-5) changed according to annual adjustments to funding conditionality. The same applied to CSP.

Figure D.9 shows that humanitarian aid peaked in 2000 and then dropped very sharply. There was a comparatively small increase in 2006, in response to the outbreak of violence. Development aid rose very sharply till 2002, before falling and then rising again. It increased substantially (by USD 73 million) between 2006 and 2007. According to OECD DAC data, donors appear to have exceeded the requirement for external funding and more than fulfilled their pledges since development aid from 2000-2002 totalled USD 881 million. However, as noted before, this does not provide an indication of whether the money was spent on appropriate transition activities and in line with government priorities. The EC evaluation finding that extensive funding flowed outside the TFET does raise questions.

Figure D.9. **Humanitarian and development aid to Timor-Leste**



Source: OECD DAC 2a disbursements.

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Conflict and Fragility

Transition Financing

BUILDING A BETTER RESPONSE

More than one-third of Official Development Assistance is spent annually on fragile and conflict-affected countries. Nonetheless, aid does not always flow promptly and effectively to where it is most needed, especially in countries recovering from conflict. The Accra Agenda for Action, recent peer reviews by the OECD Development Assistance Committee (OECD DAC) and the UN Secretary-General's report "Peacebuilding in the Immediate Aftermath of Conflict" agree: international engagement is less than optimal, especially in guiding and implementing transition financing processes.

While many determining forces in fragile and conflict-affected countries are outside donor control, decisions about which activities to finance and how to finance them influence these countries' path out of conflict. This is because financing is about much more than the flow of resources: it affects behaviour, aid architecture, power and influence, priorities, and capacity development. And because it signals approval or disapproval, there is no neutral choice: a financing decision has consequences that go far beyond the timescale and scope of the funded activity.

This report will help OECD DAC members and partners to map out more effective, rapid and flexible transition financing. This includes improving current policies and practices in financial flows, implementing procedural and cultural changes in donor administrations, and maximising use of the instruments available for in-country transition financing. The report also addresses improving the operational effectiveness of pooled funding instruments, clarifying the link between funding instruments and national ownership, and adopting a new approach to identify and prioritise specific transition needs.

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