DAC Guidelines and Reference Series
International Support to Post-Conflict Transition

Chapter 3

Getting the mix of aid instruments right

No single aid instrument can cover all the priorities of transition. A mix of different aid instruments will allow coherent and effective aid to support shared priorities, plus rapid and flexible delivery. Chapter 3 provides guidance to ensure that aid instruments contribute to the critical objectives of harmonisation, institutional transformation, speed and flexibility, and risk management. The mix should be decided based on the need to provide both rapid and sustained delivery, and should in particular focus on country-specific instruments and pooled funds that allow for a gradual increase in the use of country systems.

Why is a mix of aid instruments required?

No single aid instrument[1] can cover all the priorities of transition. A mix of different aid instruments will allow coherent and effective aid to support shared priorities, plus rapid and flexible delivery. The ultimate aim should be to support institutional transformation and a transition towards the use of a country's own systems for aid delivery.[2] Different aid instruments have different mandates, strengths and weaknesses that can be drawn on. In particular, humanitarian, security and development instruments are very different in the way they are able to link with national actors and make use of country systems, and the specific conditions under which such linking will take place.

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

An effective mix will enable rapid release of development assistance while promoting coherence with other funding flows (humanitarian, stabilisation, etc.). This calls for the use of a "portfolio" approach that can allow different instruments and their respective mandates to deliver different transition objectives. Pooled funds and other dual-objective aid instruments[3] will be particularly important for this, as will more effective and specialised use of global funds and budget lines for transition.

What categories of aid and associated instruments are available?

Key categories of aid and associated instruments include humanitarian aid, programme and project approaches, peace and security instruments, pooled funds and budget support. What follows is an overview of their value and use for transition countries.

Humanitarian aid

The complexity of providing aid in conflict-affected and transition situations is well-recognised and documented. In the humanitarian realm the cluster lead approach[4] has provided accountability and predictability, strengthened flexibility and effectiveness, and addressed the complexity of providing needs-based humanitarian aid. Pooled funding instruments have demonstrated that they can provide more predictable, flexible and timely funding in response to crises, most notably through the Central Emergency Response Fund (CERF) and through country-specific Emergency Response Funds (ERFs) and Common Humanitarian Funds (CHFs). The CERF, a global, non-earmarked fund, provides an initial injection of resources to kick-start response to rapid-onset emergencies and to ensure resources for under-funded emergency responses. The CHFs and ERFs, as country pooled funds, provide more rapid and predictable funding for critical humanitarian needs, under the direction of the field-level Humanitarian Co-ordinator (HC). CHFs and ERFs are designed to give the HC greater ability to target funds to the most critical needs, provide up-front funding, encourage donor contributions and allow rapid response to unforeseen needs.

Programme and project approaches

A programme-based approach provides co-ordinated support for a locally owned programme of development, such as a national development strategy, a sector programme, a thematic programme or the programme of a specific organisation. Project approaches focus on more narrowly-defined and specific activities (OECD, 2006). Many donors prefer to get involved in transition countries through projects, programmes and technical assistance given the immense lack of capacity, risks, and especially the fluid political and institutional situation. These approaches often aim to support specific activities that require rapid and effective delivery, while building capacity. Smaller projects can be used to encourage innovation and rapid delivery. Programme support can have advantages in transition periods, as it is often very staff-intensive and can develop capacity through on-the-job training. Nonetheless, such approaches are sometimes seen to be outside the broader policy and institutional environment and directly reaching non-state actors. Projects and programmes vary infinitely in design and degrees of alignment to country systems. Projects can be delivered directly to and through country systems, but as with other modes of delivery, their impact will depend on the quality of these country systems.

Peace and security instruments

Acknowledging the obstacles that have been created by the ODA criteria,[5] and by internal donor policies and financial controls, a growing number of donors have created specialised budget lines and instruments for supporting peace and security initiatives.[6] The bulk of these budget lines can combine ODA and non-ODA funding, increasing the applicability of funding to transition situations and generating more holistic programming support. These budget lines nonetheless still account for a very small percentage of the total funding allocated to transition situations.

Pooled funds

Country pooled funds, used both by humanitarian and development actors, are becoming an important channel for assistance to transition situations. Pooled funds, such as Multi-Donor Trust Funds (MDTFs) and joint programmes, vary largely in the way they are established, ranging from jointly managed pools that implement through country systems to externally managed and implemented funds. They offer a number of advantages. For example, they promote a more programmatic approach to service delivery, and can increase national ownership and political visibility, while at the same time giving international actors political leverage in discussions with partner governments (van Beijnum and Kaput, 2009). They also spread donors' exposure to political and reputational risk by sharing the burdens of control and oversight (OECD, 2011a).

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

However, the implementation of country pooled funds raises many critical challenges. These include assigning responsibility and management, the time involved in setting up these instruments, and expectations about what can be delivered within specific timeframes (Ball and van Beijnum, 2010; World Bank, 2010b). Unrealistic expectations about how quickly pools can start to work and what they can deliver — which largely depend on fund managers' procedures and local implementation capacity — have contributed to the fragmentation of different funding instruments (as was the case in Southern Sudan; OECD, 2010b). Several reviews have been undertaken to address these challenges and ensure that pools live up to their potential. Some key conclusions are outlined in Box 3.1.

Pooled funds have also struggled to attract enough donors to enable economies of scale. Some donors are unable or unwilling to contribute, or are limited by national rules and regulations (*e.g.* for accountability and appropriation). Others are unwilling to transfer power to joint mechanisms, are dissatisfied with the results of pooled funding mechanisms to date, or perceive more direct instruments to be more appropriate.

Box 3.1 **Using pooled funds in transition situations: Secrets of success**

Pooled funds or trust funds involve multiple donors who contribute to a set of common objectives and to activities approved by a joint governing mechanism. They aim to improve co-ordination, risk management, speed and flexibility and can take many forms (*e.g.* global or in-country funds); standing funds or funds that are developed in response to a specific situation; funds that channel only ODA funding; and funds that channel both ODA and non-ODA funding. The extent to which these funds are able to deliver during transition will largely depend on the governance structure and the rules and regulations that guide the funds. A joint study by the UN Development Group (UNDG) and the UN Executive Committee on Humanitarian Affairs (ECHA) categorises pooled funds into three groups based on the degree to which they contribute to government ownership, and their speed and flexibility:

i) Funds that allow for quick disbursement and rapid impact, and that use non-inclusive governance structures, existing capacities and presence on the ground (*e.g.* Common Humanitarian Funds, Afghan Interim Authority Fund).

ii) Funds that emphasise sustainable results and use inclusive governance structures to support ownership and capacity building (currently the bulk of the in-country multi-donor trust funds, *e.g.* the MDTF for Southern Sudan, Afghanistan Reconstruction Trust Fund, International Reconstruction Fund Facility for Iraq, Sudan Recovery Fund). Ideally they are linked to government structures/systems to ensure more rapid movement towards using the budget as the key tool for prioritisation (*e.g.* Liberia GEMAP, see Box 3.3; Afghanistan MDTF).

iii) Funds that combine different approaches with different time horizons but deliver results under one fund structure (*e.g.* a fast-track modality based on top-down, non-inclusive decision-making, developed simultaneously with or before a central development facility). Examples include the Humanitarian Response Fund, and the Standby Recovery Financing Facility and the United Nations Peacebuilding Fund's Immediate Response Facility (IRF) and Peacebuilding Recovery Facility (PRF).

The study also identified five preconditions for pooled funds to strengthen aid effectiveness during transition:

i) Appropriate leadership by key actors involved in the pool (both at the policy/strategic and the technical levels).

ii) Targeted funding available for capacity development activities that can enable local participation, strengthen ownership and enable local service provision.

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Box 3.1 **Using pooled funds in transition situations** *(continued)*

iii) Harmonised strategies, procedures and management arrangements across different pooled funds to prevent fragmentation.

iv) Constructive donor engagement in steering committees, both on strategic/policy issues and fund oversight to strengthen risk management.

v) Realistic assumptions about the time needed to establish pooled funds.

Effective fund management will also depend on adequate human and financial resources, an adequate understanding of the context in which the fund will be operating, and clarity over fund procedures and the roles and responsibilities of key stakeholders.

Source: Ball, N. and M. van Beijnum (2010), *Pooled Funding for Transition at the Country Level*, UNDG/ECHA Task Team on Financing for Transition, UN Development Group, New York, *www.undg.org/docs/11628/Review_of_Pooled_Funding_for_Transition_Final.pdf*.

Budget support

It is generally (although not always explicitly) agreed that general budget support is the preferred way to ensure that partner governments are in charge of their own development process. Budget support has had some success, particularly in two kinds of transition contexts: *i)* in the early stages of state formation, where budget support is given *via* pooled funds (*e.g.* Afghanistan, Timor-Leste); and *ii)* in more established post-conflict countries with new regimes, where budget support is given directly to government (*e.g.* Rwanda, Sierra Leone) (World Bank, 2010a). These experiences show that:

- Budget support can rapidly address immediate financing needs to prevent government collapse and help maintain basic state functions. Fragile states often have severe domestic resource constraints and struggle to pay for basic state functions, clear external and domestic arrears and resume debt service. This, in turn, often undermines security, state services (non-payment of wages for civil servants), and related social services, and increases the risk of instability. There is, therefore, a serious need to fund recurrent costs to maintain stability. Giving budget support opens up an opportunity to engage in dialogue on an overall stabilisation and reform strategy rather than a project-by-project approach.

- Budget support can help governments to implement policy and institutional transformations that can break cycles of fragility and violence. The 2011 *World Development Report* argues that, in addition to avoiding the negative effects of parallel systems, giving aid through the budget can support institutional mechanisms of political decision making about priorities and trade-offs, can leverage the development of public financial management and accountability systems, and can create a tool for co-ordinating international assistance (World Bank, 2011).

However, recent work has also highlighted the challenges associated with this type of support during transition (OECD, 2011a; IDPS, 2011c), and it is clear that budget support may not always be an appropriate instrument to address transition challenges. For example, it may be premature to use budget support when formal authority is still vested in a transitional body — such as a UN mandate or a national unity government — which may not be able to make long-term commitments. Budget support may also be inappropriate where budget institutions cannot provide sufficient assurance that they can use the resources appropriately and where adequate measures to mitigate fiduciary risk cannot be put in place. Budget support is also inappropriate where current leaders lack legitimacy or are not committed to redressing fragility, and where there is no commitment to use public resources for development benefits.

Where budget support is not appropriate, there are some innovative instruments and approaches that can help the move from external delivery towards the use of country systems. Recent work by the International Dialogue on Peacebuilding and Statebuilding, the World Bank and the African Development Bank has provided a better understanding of the challenges and opportunities of gradually moving aid "on-budget" (Box 3.2). This work has highlighted that because of its cross-cutting nature, "budget aid" should be at the core of an effective mix of instruments to promote institutional transformation and strengthen the transition towards greater state capacity and legitimacy. It also points to the potential for using budget support through multilateral organisations to spearhead alignment with national budgets and planning processes.

Guiding principles for choosing the right mix[7]

In this section we assess the various aid instruments against their ability to achieve the objectives of co-ordination and harmonisation, institutional transformation, speed and flexibility, and their scope for risk management (Table 3.1). The choice of aid instruments during transition should be grounded in the aid effectiveness agenda (Box 1.2), which aims to deliver rapid and sustainable results. The choice should also reflect the legal requirements that guide bilateral donor funding decisions and allocations, as well as their abil-

Box 3.2 **Understanding budget aid**

The concept of budget aid differs from budget support. It includes *i)* policy-based instruments (lending or grants delivered through budget support operations or BSOs); and *ii)* the use of other sources of financing to the budget, such as multi-donor trust funds (MDTFs). The release of funds linked to policy-based BSOs is usually triggered by the partner government fulfilling certain conditions. The amount of aid provided can vary with the recipient's ability to meet these requirements. MDTFs can finance discrete projects and also provide resources to the budget. For instance, they can be used to reimburse recurrent expenditures on a regular basis, subject to specific fiduciary arrangements (*e.g.* verification of payment) signed between the government and the manager of the trust fund. At times, BSOs are channelled through MDTFs and not directly to the central bank and treasury. The combined use of these instruments and sources of financing – that is, budget aid – can simultaneously:

- **Support macro-budgetary stability.** Due to their macro-economic vulnerability and inability to raise revenues from regular taxes, many fragile states struggle to pay for basic state functions, clear external and domestic arrears and resume debt service. Unlike well-performing, general budget support countries, where the development goal is often more about scaling up, countries in transition require a reasonably stable flow of resources to the budget to allow the government to continue salary and credit payments.
- **Support and strengthen state capacity.** Bypassing the government through alternative delivery mechanisms weakens state capacity. Ultimately, capacity is most effectively built through gradual "learning by doing". International assistance provided mostly through budget aid can allow newly formed governments to gradually take on their most important functions: setting priorities, making hard choices, and managing expenditures.
- **Increase predictability of funding.** Providing programmatic budget support in advance may help tie budget aid into a broader and more coherent programme of assistance. It can also help recipient countries' governments develop a medium-term reform plan. While varying country performance may affect the ability to provide predictable resources through performance-based lending, different instruments and sources of financing can be deployed to support and complement the budget and allow the state to fulfil its essential functions. Support to recurrent costs through MDTFs, for instance, could complement more traditional means of aid delivery and could help avoid threats to state stability if policy reversals delay budget support.

Source: World Bank (2010a), *Providing Budget Aid in Situations of Fragility: A World Bank-African Development Bank Common Approach Paper*, The World Bank, Washington DC ity to deliver on agreed priorities. A balance must be struck between the need to continue channelling lifesaving humanitarian assistance to deliver basic services with the need for significant levels of development funding to kick-start the recovery process. Finally, the mix should combine and complement country-specific aid instruments with resources from global specialised funds and budget lines.

Co-ordination and harmonisation

Co-ordination among donors and between donors and partner governments strengthens coherence, can increase effectiveness, support national and local ownership and improve accountability. Individual aid instruments can either contribute to or challenge co-ordination depending on how their governance and management arrangements are designed (Table 3.1). As highlighted in Chapter 2, successful operational co-ordination relies on better planning and prioritisation; if this is the case then the use of aid instruments will also be better co-ordinated, and more nationally and locally owned, more accountable, and more effective. Critical to this will be the quality of national and international leadership and management capacity in-country, as much as the confidence built with the population.

Institutional transformation

Strong country systems ensure sustainable development efforts, but a gradual approach is required to overcome problems associated with weak capacity and lack of legitimacy. This does not mean bypassing government institutions altogether – instead it means sequencing national engagement by focussing first on strategic leadership, then introducing priorities, policy direction, consultations with civil society and, over time, direct management of implementation (IDPS, 2007; g7+, 2010). Instruments should be chosen based on their ability to support institutional transformation, allow country actors to provide strategic oversight and lead in key areas from the outset, and expand responsibilities as capacity increases. This is particularly important for aligning the different objectives that guide humanitarian and development actors. A gradual handover of service delivery from humanitarian actors is necessary as priorities evolve, development programmes become operational, and national institutions take on co-ordination and implementation. Nonetheless, the focus on institutions should not come at the expense of rapid delivery, and development actors should build on humanitarian presence, capacities and knowledge as they scale up. Box 3.3 shows how aid instruments were used in Liberia to speed up the transition towards using country systems by using external oversight and accountability.

Table 3.1 **Effectiveness criteria for choosing aid instruments during transition***

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

*The ratings in this table are indicative only and will vary according to the situation in specific countries.

Speed and flexibility

Speed and flexibility are central elements of effective engagement in unstable transition situations. It is, however, important to understand the meaning of "speed" and how much of it is reasonable to expect in transition situations. Acting fast may increase the risk of unwanted outcomes, but, as highlighted in Chapter 1, these risks should be weighed against the opportunities to deliver and show peace dividends rapidly in essential areas. Nonetheless, statebuilding and peacebuilding are long and non-linear processes (OECD, 2010b; World Bank, 2011), and attempts to move too rapidly with larger reform agendas in unstable environments can easily undermine the statebuilding process. It is thus essential to set realistic expectations about speed for different types of activities: for establishing effective funding instruments, dispersing funds, and securing outcomes. Ideally, the mix of funding should

Box 3.3 **Dual accountability: GEMAP in Liberia**

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

The unique feature of GEMAP (and also the most controversial) was the placement of international financial controllers in key state-owned enterprises, and experts in the Ministry of Finance, Bureau of Budget and Treasury. These experts were granted co-signing authority on spending and were therefore managerial rather than advisory in capacity, as distinct from other public sector support programmes. It was widely claimed that having co-signatory authority on all financial transactions at key revenue generating government institutions was central to building accountability in the Liberian civil service. However, the downside of this outsourcing of authority was the lack of capacity transfer, which meant that sustainability was not ensured once the international controllers had left. A more specific focus on building capacities, while establishing sound principles for financial management, would have enabled a more rapid and successful handover of authority to the Government of Liberia.

Source: USAID Liberia (United States Agency for International Development) (2009), *Governance and Economic Management Assistance Program*, USAID, Monrovia, *http://liberia.usaid.gov/sites/default/files/Liberia_Briefer_GEMAP.pdf.*

involve a degree of sequencing and multi-year funding, even for humanitarian-type funding, to bridge the need for rapid engagement with the start-up time required for development instruments.[8] The use of such bridging mechanisms to allow for the arrival of development investments was invaluable in Afghanistan, where the Interim Authority Fund was used as a rapid response tool (Box 3.4).

Rapid response mechanisms can provide peace dividends in contexts where development resources are expected to be slow to emerge. Key elements of successful rapid response initiatives include: *i)* removing adminis-

Box 3.4 **Case study: Sequencing aid in Afghanistan**

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

In its six months of existence, the AIAF re-established salary payrolls for all 32 provinces of Afghanistan, installed salary payment control systems, trained finance staff — including in ICT-related skills — and completed emergency repairs in 30 ministerial offices of the Afghan Interim Authority. The AIAF further supported the commissions created under the Bonn Agreement, including fully funding the Emergency *Loya Jirga* – the traditional grand council that endorsed the Transitional Administration led by the president. In accordance with the exit strategy devised for the AIAF when it was established, the fund ceased operations after the successful conclusion of the Emergency *Loya Jirga* and the installation of the Transitional Administration.

Budgetary support for the Transitional Administration was taken over by the Afghanistan Reconstruction Trust Fund (ARTF) jointly set up and managed by the World Bank, the Asian Development Bank, the Islamic Development Bank, the United Nations Assistance Mission in Afghanistan (UNAMA) and UNDP. In addition to financing infrastructure projects and the country's recurrent budget deficit, one aspect of the ARTF was to establish financial management and fiduciary standards and help the finance ministry and national audit office to meet them. By way of demonstration, the ARTF's standards have influenced how the government conducts the control and audit function for regular public expenditure. Thus the ARTF is an important platform for capacity development in Afghanistan.

Source: OECD (2010b), *Transition Financing: Building A Better Response*, OECD, Paris; Brinkerhoff, D.W. (2007), *Governance in Post-Conflict Societies: Rebuilding Fragile States*, Routledge, London.

trative blockages in institutions that administer and manage funds and instruments; *ii)* ensuring that these institutions secure appropriate personnel and expertise in a timely manner; *iii)* recognising that the operation of funds and instruments will require serious and prolonged commitment and predictable funding; and *iv)* ensuring that unearmarked funding is made available in a timely manner or that agencies can make commitments against pledges to initiate operations.

Scope for risk management

As outlined in Chapter 1, appropriate and context-specific risk management is critical for effective engagement. Each instrument should spell out the main risks and risk mitigation strategies that will be applied. The mix of instruments should be based on a shared and prioritised approach that effectively pools risk, thus mitigating the risk of strategic failure. This allows donors to employ a portfolio approach to risk management; *i.e.* to use a range of instruments with different levels of risk and return. This makes it easier to accept one high-risk, innovative instrument as part of an aid portfolio that otherwise consists of fairly low-risk standardised instruments (OECD, 2011a). A targeted approach to contextual risks allows for more flexibility to shift between different instruments in response to changes in the context, thus avoiding the use of the "on-off switch" (World Bank, 2011).

Recommendations: Putting together an effective financing strategy

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

*i) Define the right mix through a financing strategy**

- Understand how different aid instruments (*i.e.* country-specific *versus* global) can support the transition towards the use of country systems.
- Rely primarily on country-specific funding arrangements to finance transition priorities.
- Ask each instrument administrator to spell out how or whether its instrument will enable a shift towards the use of country systems, the risk mitigation strategies that they plan to apply and the level of flexibility that would be allowed.

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* Using the criteria in Table 3.1

- Identify capacity development objectives in each instrument to help in the shift towards the use of country systems.

ii) Sequence the mix of instruments in a way that enables rapid support to critical priorities while phasing in development objectives

- *Leverage and strengthen the ability of existing humanitarian instruments to scale-up delivery of immediate support and services.* Multi-annual funding during transition will allow humanitarian actors to adapt their programmes to the evolving context and pick up on opportunities as they arise, and importantly to scale up delivery of social services through existing delivery channels.
- *Kick-start delivery through fast track modalities* in global funds (*e.g.* the UN Peacebuilding Fund) to provide immediate support from development budgets. Set up interim modalities that can provide bridge funding until more permanent country-specific funding instruments can be established. Draw on the IMF Rapid Credit Facility to finance recurrent costs to avoid government collapse, while the World Bank should be requested to draw on its own funding to initiate institutional support.
- *Support gradual handover of recovery activities from humanitarian to development mechanisms to ensure maximum involvement of national actors.* Humanitarian engagement should be scaled down and handed over as soon as possible, in particular in service delivery sectors that will require rapid national engagement (*e.g.* health, education). This handover will require better communication between the different communities, even in areas where handover might not be possible or warranted. Sequencing handover is possible, with humanitarian co-ordination continuing at the provincial level with local authority leadership, and feeding into national cluster meetings. Local institutions should help to develop policies and deliver services to increase their legitimacy.
- *Introduce the establishment of pooled funds at the appropriate moment.* Rapid results are best delivered through funds that allow for external implementation and management, while mechanisms that support sustainable development should only be established once they can show a clear link to national priorities and budgets and be used to strengthen country systems. Interim or dual-window approaches can be helpful to facilitate transition from external delivery.

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

iii) Favour the use of country pooled funds

- *Make country pooled funds the centrepiece of a financing strategy to deliver on transition priorities*. Donors should consider increasing support through, or aligning with, country pooled funds. Smaller donors should in particular be willing to contribute to these funds, recognising the high costs of co-ordinating and managing such contributions. Larger donors should at least align with the strategic priorities addressed by the pool. The establishment of pooled funds should be premised on achieving a "critical mass" of donors.
- *Strengthen donor ability to fund country pooled funds* via *development budgets*. Donors should be allowed to report development funding provided to country pooled funds as multi-bi rather than as bilateral contributions, as such funds would be channelled through multilateral organisations.
- *Improve the effectiveness of pooled funds*. Be realistic about the time involved in establishing pooled funds (Ball and van Beijnum, 2010; World Bank, 2010b). The United Nations and World Bank should develop and communicate their experiences on what time is realistic, and outline areas where response time can be improved. The United Nations should consider harmonising its rate of overheads at 7%, as currently charged in UN-administered MDTFs (UN Senior Advisory Group, 2011). Donors should discuss improvements to pledging and disbursement timeframes, and should allow for higher contingencies in interim funds as a way of increasing flexibility to address fast-changing transition objectives.
- *Use joint oversight mechanisms to link country pooled funds with national budgets*. Jointly managed pooled funds should favour the use of joint oversight mechanisms to shortcut delivery through country systems. Establishing such mechanisms will require up-front invest-

ment to strengthen country fiduciary and financial management systems, and fund administrators should find ways to make such investments in the absence of firm financing commitments.

iv) Clarify the roles of multilateral organisations and funding sources in the transition and invest in their capacity and systems to provide more co-ordinated support.

- *Amend multilateral procedures, especially human resources and financial allocation models, to allow for rapid deployment during transition* (UN Senior Advisory Group, 2011). The UN should allocate core resources (from assessed contributions, core agency funding and the Resident Co-ordinator Strengthening Initiative) to enable Deputy Special Representatives of the UN Secretary-General (DSRSGs) and Resident Co-ordinators (RCs) to rapidly engage critical staff/capacities and to further match the pool of potential UN leaders to transition challenges. The World Bank should increase flexibility in staffing regulations and allocate its own resources for immediate support to core state functions. Donors should provide access to rapid financing and guarantees to allow implementing agencies to make multi-annual commitments, similar to fast track procedures already operated by agencies such as the World Food Programme and UNDP. They should also facilitate hiring of critical programme staff during the design and approval phase.
- *Donors should invest in and strengthen the multilateral system's capacity to support effective planning and implementation.* Multilateral actors are expected to play key co-ordination and implementation roles during transition, but continued investments are required to strengthen systems and processes to this end. For instance, funding and support is required to strengthen the UN's ability, and the authority of the DSRSG/RC/HC, to support country team efforts to strengthen planning and coherence, to deploy capacity to enable core government functions, and to strengthen nationally led aid co-ordination.
- *Clarify and further specialise global pooled funds and link these to country-level funds and priorities.* There is a plethora of global funding sources available to support country priorities, ranging from assessed contributions and core funding for international organisations, to thematic and specialised global pooled funds (Table 3.2). Given the different institutional and operational mandates and procedures that guide these instruments, it has proven problematic to muster global resources to support country-specific priorities. There is a need to

encourage further specialisation among the different global funds and to clarify how they could meet country priorities and relate to country pooled funds. A dialogue is required between donors and fund managers to better understand the roles and responsibilities of different global pooled funds and to agree on a more efficient division of labour and specialisation. Table 3.2 suggests how the various global funding sources could be further specialised.

Table 3.2 **Options for a more efficient division of labour across different global transition funding mechanisms**

Funding mechanism	Options for priority tasks and responsibilities
Central Emergency Relief Fund (CERF)	• Continued delivery of life-saving activities
International Development Association	• World Bank re-engagement (staffing, etc.) • Project preparations (feasibility studies, etc.)
IMF Rapid Credit Facility	• Recurrent costs to keep government running • Funding to enable government to undertake initial prioritisation • Analysis of policy
Stability instruments	• Peace and security activities that require non-ODA funding (*e.g.* security sector reform; disarmament, demobilisation and reintegration activities) • Seed funding to continue mediation and political dialogue • Peace dividends in non-service delivery sectors
UN assessed contributions	• Limited project fund for UN mission chief • Civilian capacity funding
UN agency core funding	• Support immediate deployment of agency staff • Finance immediate engagement
UN Peacebuilding Fund	• Rapid support to political settlements, peace processes, and capacity development support for reconciliation and national conflict resolution mechanisms • Support to the establishment and capacity building of nationally owned co-ordination and prioritisation mechanisms • Immediate and catalytic support to statebuilding and re-establishment of essential administrative services, economic revitalisation and the provision of peace dividends until more formalised funding structured can be established
UNDP Thematic Fund	• Recovery start-up through early livelihoods initiatives • Initial capacity development for institutions and effective civilian leadership • Quick transition to national leadership of recovery efforts • National aid co-ordination mechanisms within government • Strategic crisis prevention and preparedness
World Bank State and Peacebuilding Fund	• Initial capacity development for institutional transformation in areas such as public financial management and economic management • Seed funding to allow government and World Bank engagement in planning process • Preparations for setting up longer-term funding mechanism (dual accountability) that links to budget

- *Improve the relationship between different multilateral agencies, in particular the UN and World Bank.* Much has been done to improve UN-World Bank relations, specifically on rules and regulations surrounding pooled funds, which resulted in a framework agreement and joint fiduciary principles. However, many of these agreements have been drawn up by fund managers — it would be worthwhile for donors and their multilateral implementing partners to jointly agree on key elements of a pooled fund and the key roles and responsibilities of actors involved. Increased efforts are required at both corporate and

Box 3.5 **Practical options to improve UN-World Bank relationships**

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

- Agree on appropriate division of labour based on the comparative advantages of different organisations.
- Streamline policies across various multilateral boards to promote coherence and consistency in messages.
- Implement the 2011 WDR recommendation on joint operations. To make change happen, the United Nations and World Bank should consider initiating joint programmes during transition and more regular staff exchanges when appropriate (World Bank, 2011).
- Improve field co-ordination through strengthened incentives for mission chiefs and senior officials. Heads of missions should be evaluated partially on their co-ordination capacities, including by regularly conducting 360° performance reviews of each other and participating in joint staff retreats.
- Include senior World Bank staff in Resident Co-ordinator rosters for transition contexts that might require more engagement through country systems.
- Initiate dialogue between donors and multilateral fund administrators to agree: *i)* level of risk acceptance for multilateral implementation; *ii)* requirements for more effective risk pooling; and *iii)* default positions for design of country pools based on realistic assumptions about delivery.
- Reform and streamline procurement policies to enable more rapid engagement and use of emergency procedures, including a commitment to scale up local procurement.

field levels to implement agreements, change behaviour, streamline rules and procedures for staff deployment, and to fit legal and procurement rules and regulations to transition challenges. Progress is also needed to establish joint reporting requirements and results frameworks, as well as common standards that can facilitate more flexibility. Some options are set out in Box 3.5.

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

Notes

1. The term "*aid instrument*" in this guidance refers to specific instruments for channelling and delivering *financial support*. The OECD statebuilding guidance (OECD, 2011b) provides more details on other aid modalities, including the use of technical assistance.

2. For a more detailed discussion of options for using country systems, see (OECD, 2009a).

3. Dual-objective aid instruments blend the objectives of delivering services (which may require "capacity substitution" in the short term) with the objective of capacity development and improving country systems. Examples include the use of Multi-Donor Trust Funds with a pooled technical assistance element, capacity development facilities (CDFs) or development-oriented emergency aid.

4. The 2005 humanitarian reform, within which the cluster approach is a major component, sought to improve the effectiveness and timeliness of humanitarian response by ensuring greater predictability, accountability and partnership. The cluster approach was introduced as one of three pillars of the reform. This approach calls for sectoral co-ordination and designated lead organisations. Eleven thematic or services areas were identified (agriculture; camp co-ordination/management; early recovery; education; emergency shelter; emergency telecommunications; health; logistics; nutrition; protection; and water, sanitation and hygiene), and each cluster has a designated lead or co-lead (*e.g.* the World Food Programme was designated as the lead agency of the logistics cluster and is therefore responsible for co-ordinating logistics support for the humanitarian community). Procedures are in place for designating country-level cluster leads, though the principle is to have the government take the lead wherever possible (WFP, 2011).

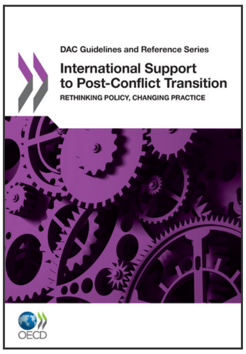
5. For a detailed discussion of the ODA criteria, see OECD (2008b).

6. Examples include the Stability Fund in the Netherlands, the Stability Instrument of the European Commission, the U.S. Transition Initiatives budget, the UN Peacebuilding Fund, the World Bank State and Peacebuilding Fund, the

Canadian Global Peace and Security Fund (GPSF) and the Danish Stability Fund.

7. Section based on Ball and van Beijnum, 2010.

8. These recommendations are also echoed in the 2011 independent review of civilian capacities (UN Senior Advisory Group, 2011), which calls for more rapid actions by agencies in the aftermath of conflict, and a focus on enabling state institutions to perform quickly.



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