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Financing for Peacebuilding

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This paper explores issues related to financing for peacebuilding – or transition financing – to inform the intellectual framework of the 2015 Review of the Peacebuilding Architecture. The paper seeks to inform and stimulate discussion, rather than provide answers.

I. Why focus on the issue of transition financing?

In the wake of 9/11, fragile and conflict-affected states (FCAS) have become a preoccupation of the international community, resulting in a significant increase of official development assistance (ODA) over the last decade. Accompanying this influx of money has been a steep learning curve as to what works and what doesn't in effectively supporting the transition out of conflict and fragility. It is now recognized that most of the forces shaping events in FCAS are outside of the control of the international community. However, the one element that is within the control of the donors is their financing.

As stated in the OECD's 2010 report Transition Financing – Building a better response: "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."[i] The report goes on to state that: "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."[ii]

That the OECD – a rarely revolutionary body – would need to make this point, demonstrates the widespread recognition that 'standard' aid modalities are not fit for purpose for transition situations, and that more effective, rapid and flexible financing to conflict-affected countries is required. Yet, despite years of best practices and lessons learned, the decade old Paris Declaration, and the agreement of the 2011 New Deal for Engagement in Fragile States, donors still are not getting it right. Why? How we can improve this?

And what role can the UN Peacebuilding Architecture and in particular, the Peacebuilding Fund, play in this regard?

II. What we know

Donors, implementing partners and partner countries alike have acknowledged that a 'non-traditional' approach is required during transition, engaging the full range of actors in humanitarian, diplomatic, security and development operations.

The Transition Financing Guidance calls for a pragmatic approach to generating results in transition contexts, and greater simplicity in planning and accountability frameworks, procedures and instruments. It underlines the need for realistic assumptions about who can achieve what andwhen (e.g. which actors can achieve which objectives over which timeframes), while underlining that engagement must be country-specific and locally driven. It calls for an early and flexible release of development funds, and states that there is a need for more serious collaboration, joint analysis and willingness to be held collectively accountable to agreed objectives.[iii] These points have been incorporated in the New Deal, through the element "TRUST": Transparency, Risk-sharing, Use and strengthening of country systems, Strengthening capacities, and Timely and predictable aid.[iv]

This demonstrates a common set of beliefs as to what is required for effective and efficient engagement in FCAS. Support should focus on priorities that are jointly agreed by national and international actors. Priorities should be linked to a strategy to guide their funding. All engagement in transition settings is political. Context remains king – actors must understand incentive structures, power relations and drivers of conflict and transition. And while the objective is for a host nation to lead its own planning and development processes, the reality is that many governments lack the capacity to act as legitimate and accountable states vis-à-vis their citizens, perhaps demanding a longer-term commitment from the international actors to support development and build capacities.

Hence, effectively supporting transitions demands a willingness to seriously assess risk in relation to opportunities – and a recognition that the risks of non-engagement in these contexts are often more significant.

None of these ideas are new. But when we look at the recent track record of international engagement in support of transition, the results are, at best, mixed.

III. Obstacles to effective and efficient transition financing

In 2012, the OECD identified four critical obstacles as blocking the effective use of aid in transition contexts (see Box 1). These still hold true today.[v] One reason is that funding is not driven by principles, but by donors' political agendas and the pressure to be accountable to parliaments and citizens rather than to the needs and transition priorities in the partner country. As a result, the New Deal principles have, on the whole, not been implemented. Donors feel pressure to show quick results, which

Box 1. Key obstacles to effective use of aid in transition contexts

FRAGMENTED AID ARCHITECTURE AND OVERLAPPING GUIDING PRINCIPLES. The Paris Declaration on Aid Effectiveness assumes a level of capacity and institutional complexity that may simply be unrealistic in most transition contexts. As a result, development funding is slow to materialise before national capacities and plans have been developed. This means that humanitarian assistance is stretched to the brink and relied upon to fund a broader set of transition priorities far beyond its mandate and expertise. Responsibilities are also spread across multiple institutional mandates and budget lines, thus complicating efforts to work together across communities and to draw on the strengths of these different mandates.

RISK-AVERSE BEHAVIOUR ON THE PART OF DONORS AND IMPLEMENTING PARTNERS. Donor approaches focus on risk avoidance rather than context-specific risk management. Accountability and reporting requirements that are used during transition have often been designed for more stable environments. Risk assessment frameworks tend to be bureaucratic and to focus on addressing donor institutions' fiduciary and reputational risks rather than the risks of state failure and a return to conflict.

LACK OF PRIORITISATION IN PLANS AND STRATEGIES. Development plans and strategies are grounded in the recognition of the massive needs that are present during transition, but often fail to prioritise and sequence activities. This has resulted in overambitious plans that make unrealistic assumptions about absorptive capacities and what can be delivered within short timeframes. The result is long delays and limited impact.

INCOHERENCE ACROSS INSTRUMENTS. Donors [and implementing partners] struggle to understand how different aid instruments can be used in parallel to support rapid and sustainable delivery. Their aid instrument designs are often based on specific institutional mandates and operating procedures rather than on effective delivery approaches. This has resulted in both duplication and a fragmentation of efforts, preventing strategic linking of different instruments to a coherent delivery strategy.

are more visible, and in the short-term, easier to achieve in the more technical and less political areas of engagement. This is illustrated by the fact that ODA spending related to the New Deal Peacebuilding and Statebuilding Goals (PSGs) 1, 2 and 3[vi] in fragile countries made up on average less than 10 per cent of total estimated development assistance related to recovery from 2007-2011.[vii] Trends in fragile states where peace and security needs are the highest show no signs of shifting towards investments in security, rule of law and governance. Rather, ODA distribution across sectors in fragile states has stayed pretty much the same over the last decade, with the economic infrastructure and services sector attracting the largest share of ODA and the government and civil society sector receiving the second highest share. Humanitarian aid and health follow.[viii]

The pressure to demonstrate results and meet accountability requirements is making both donors and their implementing partners more risk-averse. A 2011 OECD study of Aid risks in fragile and transitional contexts observed that risk-averse behaviour manifests itself in many ways: conservative selection of programme approaches (a mistrust of the unconventional or untested); a tendency to work in what are considered safe areas where results and full accountability can be ensured; and a tendency to discourage devolution of control and local initiative. The study concludes that if donors are genuinely concerned with outcomes rather than just outputs, this trend needs to be reversed. **To be more effective donors need to allow their implementing partners greater flexibility.**[ix]

In fragile settings, these partners are most often multilateral organisations. According to the OECD data, in fragile states, 50% of ODA is channelled through multilateral organisations, compared to 37% in other developing countries. In 2011, 83% of Development Assistance Committee (DAC) members' non-core aid to multilateral organisations was earmarked for conflict-affected low-income countries.[x]

The risk-aversion also means that there is little room for the funding of slow, experimental, 'out-of-the-box', or politically useful but developmentally uncertain, type of activities where results, and hence "value-for-money" may not be as clear upfront. This links to the question of what constitutes a result in supporting transition and peacebuilding processes. From a peacebuilding perspective, in many cases the process of getting to an outcome may be as important as the outcome itself – for example, if the process contributes to trust building and dialogue between stakeholders. And against the absolute lack of certainty of a right path for peacebuilding, experimentation and innovation are critical.

A final issue to list here is that while donors place a lot of emphasis on the need for coordination and coherence in transition and peacebuilding processes, in practice they pursue distinct agendas that reflect divergent interests. Pooled funds – and specifically country-led pooled funding mechanisms – are expected to play a key role in the architectural framework that is to support the full range of international engagement in a fragile setting. However, pooled financing mechanisms for peacebuilding and recovery are not common in fragile countries, and are usually too small and too fragmented to act as centres of gravity for greater aid alignment and coordination for recovery. A recent UN study finds that the ratio of development-financed recovery pooled funds to bilateral assistance is 1:25, compared to 1:10 for humanitarian assistance.[xi]

IV. How to address the problem?

Recognising the limitations of reality – i.e., that donors' accountability processes cannot change – a practical solution should be sought in the expansion and full utilisation of tools and instruments available for in-country transition financing. On the one hand, this requires finding the right combination of aid instruments according to the national context and priorities. A mix of financing instruments and modalities is needed to respond to the continuum of needs in fragile states.[xii] Based on the ability of aid instruments to enhance harmonisation, support institutional transformation, allow for speed and flexibility, and enable risk management, a mix of instruments should be put together.[xiii] This varies not only across different instruments (e.g. humanitarian aid will score high on speed and flexibility, and low on harmonisation – as it generally works outside of country systems – whereas country-led pooled funds will score low on speed and flexibility, and high on harmonisation), but also across donors and implementing organisations. In terms of pooled funding for instance, World Bank managed funds usually focus primarily on infrastructure, economic development and public finance management, which all complement the work of the UN. Based on their respective focus, pooled financing mechanisms can easily join forces to support common transformative changes.[xiv] We should in other words aim to find an efficient division of labour across different transition financing mechanisms.

On the other hand, the solution is also about enhancing and further strengthening 'fit for purpose' instruments that have been specifically developed to support transitions. Bilateral donors like the UK, Denmark and the Netherlands have established standing funds that allow for flexibility and risk-taking, combining ODA and non-ODA resources (e.g. the Dutch Stability Fund). The EU and the World Bank have created similar funding options through the establishment of the Instrument for Stability (EU) and the State- and Peacebuilding Fund (WB). And within the UN system, the Peacebuilding Fund (PBF) would fall within this category.

All these funds can act as gap fillers in the sense that they can fund activities that are of key importance to a peacebuilding process but that do not easily attract 'regular' funding (e.g. dialogue or trust building activities, quick impact projects that can serve to create or maintain an opportunity in a political process, continued political economy analysis to understand the power dynamics at play in a specific context, etc.). They can also act as 'bridge' funds in the sense that they can come in early in a peacebuilding process (in many cases through fast track modalities) to kick-start activities while the other funds come in on the back of that. This can include the build-up of in-country peacebuilding capacity or the development of a joint peacebuilding strategy.

Furthermore, these funds can play a role in enhancing the coordination and coherence between the different (aid) instruments, if used strategically to bridge the gaps between them (e.g. the PBF could be used to bring UN missions and UNCTs together around common peace consolidation efforts[xv]). Finally, these funds generally have more room to manoeuvre in terms of risk-taking, which allows them to be innovative and able to seize political opportunities if and when they arise. Getting the balance right between risks and opportunities is a fundamental aspect of engaging effectively in fragile states.

Another key issue is to find better ways of dealing with risk. Effective aid in fragile contexts demands a significant degree of risk appetite – a willingness to consider risk in relation to opportunities — and a recognition that the risks of non-engagement in these contexts are often more significant.[xvi] The slow release of development finance for FCAS is related to the high level of risk in these contexts – in terms of programmatic and institutional risk, but also in terms of contextual risk. Although the risk management potential of pooled funds is seldom fully leveraged, they can spearhead joint risk assessments that can inform the formulation of fund risk management strategies, which set out a fund's risk profile including its risk tolerance, as well as common risk safeguards, mitigation measures and contingency plans.[xvii] Therefore, **a more differentiated approach to risk management is required, allowing fund managers to balance risks against opportunity costs.**[xviii]

Finally, there is a need to strengthen the wider development community's peacebuilding capacities. Recognising that the bulk of aid will remain channelled towards traditional development, there is a need to ensure adequate design and resources for activities that are conflict-sensitive and contribute to a wider peacebuilding strategy. This, again, requires a political approach as much as a technical approach, and the development of a peacebuilding lens, or framework, to ensure that this is applied.

V. Knowledge gaps

Four key knowledge gaps exist:

1. **EXPECTATION MANAGEMENT AND SETTING OF BOUNDARIES**
   Given that needs will always be greater than resources, engagement has to be prioritized. There is a need for more realistic expectations – amongst the donors and the national stakeholders alike – as to what can be done under a peacebuilding agenda. That leads us to the eternal question: What constitutes peacebuilding? And what constitutes a peace dividend? As the 2013 PBF Review [xix] recommended, greater clarity would be helpful in terms of what kinds and to what extent 'peace dividends' (social service delivery, livelihood support) and efforts to revitalize the economy can be financed by the PBF. To be effective, these areas generally require greater levels of funding than the PBF's 'catalytic' resources.[xx] Following the line of reasoning that all development aid that is provided to FCAS is in one way or another part of a peacebuilding agenda, then the question is: **Where lies the niche for 'fit for purpose' funds like the PBF? Would the PBF benefit from a 'sharper' focus, or would such a sharper focus undermine the flexibility of the Fund?**

   Related to this, it is widely acknowledged that pooled funding enables holistic, strategic engagement in transition environments, and significantly reduces transaction costs for donors and national stakeholders alike. However, there is a lack of realistic assumptions about how quickly funds can be made operational, how trade-offs between quick delivery and capacity development and inclusiveness/ownership should be handled, and how an excessive proliferation of instruments can be avoided. **Further insights into the optimal timeframes and mechanisms for setting up a pooled fund, and sequencing aid instruments across bilateral and multilateral actors are sorely needed.**

Another question is whether it would be useful to do a costing of peacebuilding as a whole, to enable a more effective division of labour across actors? And is it possible to get more insight into the funding gap that is so often referred to: how big is it really? And how can the PBF be catalytic (in financial terms) against this funding gap? A recent UN report argued that "[...] a greater understanding of the costs of peacebuilding areas would enable the PBF to play a catalytic and a partial scaling-up role in a way that is coordinated with other sources of funding."[xxi] Yet, taken into account that the PBF was initially designed to focus on the so-called 'aid orphans', this asks the question: **How can the PBF be catalytic when there is nothing to be catalytic to?** Does this call for a revision of the initial design of the PBF, and is the added value of the Fund in creating incentives for more coherent approaches to peacebuilding in crowded settings, where it can fill gaps and kick-start activities?

2. **CONTRIBUTION TO COHERENCE AND COORDINATION**
A recent UN report states that the PBF (with additional resources) is uniquely placed in terms of promoting coordination within the UN, as well as between the UN and other development partners, notably the World Bank. More specifically, it states that critical gaps in the financing sources and budgeting procedures of peacekeeping missions and UN country teams impede integration as well as the overall effectiveness of UN system peace consolidation efforts, particularly during mission start-up and draw down.[xxii] The PBF is perceived to be able to (partially) fill these gaps through its potential ability to address existing financing gaps and better align integrated planning, programming and finance. These assumptions need to be tested against field level experience. **What role can the PBF usefully play in mission contexts? And what does that mean for the scope of the Fund? When should the PBF come into such a setting (mission start-up or mission draw down)?**

Linked to this, in what ways can the PBF serve to jump-start country level (UNCT) pooled funds? The UN report states that the PBF's value added in such situations is to perform a quality-control function or at least help validate the peacebuilding (conflict sensitive) focus of the strategy while building momentum so that it can attract other donors. It suggests that the PBF could help jump-start the establishment of country funds and help scale-up a response in a rapid and timely manner.[xxiii] This needs to be further examined to understand, if this is how the PBF is to be catalytic, what steps does it need to take to perform in this role?

3. **RISK MANAGEMENT AND RISK MITIGATION**
Pooled funding mechanisms are perceived to enable donors and implementing agencies to adopt a collective approach to the risks inherent in transition situations and as such, to manage and mitigate these risks by sharing and pooling them. In practice these benefits seem to apply more clearly to the donors than to the fund managers and implementing agencies. There is no collective risk taking, even though this is required in transition situations. While most donors feel that pooled funds provide essential firewalls as they enable the sharing and pooling of both programme and institutional risks, fund managers and the implementing agencies feel that the donors transfer risks. Whenever problems arise, the fund manager or implementing agency is held publicly accountable (which in effect means that there is a high reputational risk for these agencies). To pool funds and pool risks, donors have to hand over a certain level of control to fund managers and implementing agencies. However, the willingness of donors to hand over control and the ability of the fund managers and implementing agencies to take on the control responsibility have proven difficult in practice. Furthermore, when decision-making within the fund structures lies with a less capacitated national actor, the risk of programme failure and related to that reputational damage for the fund manager increases.[xxiv]

There is a clear need for insights into how risk management plays out in PBF practice, and **how risk mitigation can be strengthened, while supporting adequate innovation and experimentation.**

4. CAPACITY BUILDING VERSUS FUND MANAGEMENT

As the manager of the PBF, the Peacebuilding Support Office does not develop projects itself. However, PBSO is responsible for ensuring that proposals adhere to the Fund's criteria. In practice that means that PBSO is often acting as a peacebuilding support outfit for the implementing agencies. Furthermore, PBF often works with in-country peacebuilding secretariats (serving to the fund's in-country steering group). The staff members of such secretariats very often require training and support from PBSO. All these activities can be seen as increasing peacebuilding capacity – both within the UN system and amongst national stakeholders – which could then serve as an outcome of the Fund. Yet, PBSO is in essence not set up to play this role. **How can PBSO balance these different requirements, and which other actors could potentially take over the peacebuilding support role at the country level?**

ENDNOTES

i Organisation for Economic Co-operation and Development (OECD) (2010), *Transition Financing – Building a better response*. Paris: OECD, p.23.

ii Ibid., p. 25.

iii OECD (2012), *International Support to Post-Conflict Transition: Rethinking Policy, Changing Practice.* Paris: OECD, pp.12-13.

iv See: http://www.newdeal4peace.org/

v OECD (2012), *Op.Cit*., pp.11-12.

vi PSG 1: Legitimate politics - Foster inclusive political settlements and conflict resolution; PSG 2: Security - Establish and strengthen people's security; PSG 3: Justice - Address injustices and increase people's access to justice. The other two PSGs are: PSG 4: Economic Foundations - Generate employment and improve livelihoods; PSG 5: Revenues & Services - Manage revenue and build capacity for accountable and fair service delivery.

vii United Nations (UN) (2014), *Financing integrated peace consolidation efforts – The role of financing instruments in enhancing UN integration and promoting peace consolidation in mission settings*. p.10.

viii OECD (2014), *Fragile States 2014: Domestic revenue mobilization in fragile states*. Paris: OECD, p.30.

ix OECD (2011), *Aid risks in fragile and transitional contexts – Improving donor behaviour* (fact sheet based on OECD (2011), *Managing risks in fragile and transitional contexts – The price of success?* Paris: OECD)

x OECD (2014), Op.Cit., p.32.

xi Bayat-Renoux, Fiona, andYannick Glemarec (2014), *Financing recovery for resilience*, MPTF Office Issue Paper Series. UNDP, p.11.

xii UN (2014), Op.Cit,; p.13.

xiii OECD (2012), Op.Cit., p.14.

xiv UN (2014), Op.Cit., p.14.

xv UN (2014), Ibid., p.2.

xvi OECD (2011), *Aid risks in fragile and transitional contexts*. Op.Cit.

xvii Bayat-Renoux and Glemarec (2014), Op.Cit., p.14.

xviii OECD (2011), *Aid risks in fragile and transitional contexts*. Op.Cit.

xix Kluyskens, Jups, and Lance Clark (2014), *Review of the United Nations Peacebuilding Fund*.

xx UN (2014), Op.Cit., p.22.

xxi UN (2014), Op.Cit., p.23.

xxii UN (2014), Op.Cit., p.2.

xxiii UN (2014), Op.Cit., p.23.

xxiv Ball, Nicole, and Mariska van Beijnum (2010), *Pooled funding for transition at the country level*, p.vi.