

# **FINANCING MECHANISMS FOR POST-CONFLICT RECONSTRUCTION**

Nicole Ball

Center for International Policy, Washington DC

For the Conflict Research Unit of the Clingendael Institute

Netherlands Institute of International Relations

'Clingendael'

Conflict Research Unit

October 2007



Desktop publishing: *Fadime Koç*

Netherlands Institute of

International Relations

'Clingendael'

Clingendael 7

2597 VH The Hague

P.O. Box 93080

2509 AB The Hague

Phonenumber: #31-70-3245384

Telefax: #31-70-3282002

Email: [cru-info@clingendael.nl](mailto:cru-info@clingendael.nl)

Website: <http://www.clingendael.nl/cru>

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# INTRODUCTION

1. The Minister for Development Cooperation of the Netherlands, Minister Koenders, has requested a strategy paper presenting an overview of different mechanisms available for the financing of post-conflict reconstruction, and assessing the pros and cons of these different mechanisms as well as their (possible) complementarities. This report is based on a desk study (document review plus telephone and email interviews) that was conducted over a short time period and should be seen as the first step in a process of determining which financing mechanism the Netherlands should employ in post-conflict recovery efforts.
2. The report begins by examining the strengths and weaknesses of the most frequently used mechanisms. It examines the appropriateness of different financing mechanisms in the context of good donor practice in engaging with fragile states. It concludes by offering some suggestions on how bilateral donors can create conditions for successful in financing post-conflict reconstruction.

## I. FINANCING MECHANISMS: STRENGTHS AND WEAKNESSES

3. It is widely understood that the path from violent conflict to sustained recovery is neither easy nor straight. There are numerous needs that have to be addressed in the course of recovery but the prioritization of needs and the sequencing of activities to address them varies from country to country and, at time, even from region to region within the same country. In order to most effectively and efficiently meet these different needs, bilateral donors such as the Netherlands make use of a variety of funding mechanisms. These mechanisms can be classified under four headings:

- Direct execution, by own staff or, increasingly, through contractors (including NGOs);
- Pooled funding mechanisms, including the UN's Common Humanitarian Funds, Multi-Donor Trust Funds (MDTFs), and agency-specific trust funds;
- Co-financing;
- Channel funding (UN agencies and International NGOs, or INGOs).

Table 1 summarizes the strengths and weaknesses of the major mechanisms used in each of these categories. The categories are listed in descending order of the control they allow donors to exercise over the use of the resources they provide.

4. It is difficult to offer hard-and-fast conclusions about the appropriateness of specific financing mechanisms or how best to combine the various financing mechanisms available to bilateral donors because individual country circumstances vary considerably. Nonetheless, lessons have been learned over the years about the best way to engage with fragile states (of which conflict-affected countries are one sub-set). These lessons, as expressed in the [\*Principles for Good International Engagement in Fragile States & Situations\*](#) (summarized in Annex 1), offer a useful starting point for determining which financing mechanisms can best promote post-conflict recovery.

| Table 1. Major Financing Mechanisms for Post-Conflict Recovery      |   |   |   |
|---|---|---|---|
|   | Strengths   | Weaknesses  | Comments  |
| <b>Direct donor execution</b>                                       |   |   |   |
|   | Maximum control over programming to ensure appropriate design features and maximize outcomes.   | Heavy requirements for donor staff inputs, particularly in country in terms of monitoring design and implementation and running political interference  | Netherlands ceased direct execution in 1980s due to concerns about lack of local ownership. With redistribution of MFA staff may be possible to implement nationally owned, directly executed activities.   |
| <b>Pooled financing</b>   |   |   |   |
| UNDG MDTFs, administered through UNDP Multi-Donor Trust Fund Office | Ability to put functioning MDTF in place rapidly. Ability to operate when no effective government in place and in early post-conflict situations. Ability to rapidly transfer resources to UN agencies, which maximizes effectiveness in meeting early recovery, needs. Ability to support transfer of recurrent expenditures for interim governments. Can easily transfer money to World Bank as pass-through agent in context of joint programme.   | Inadequate support for building local capacity. Has been slow to turn over management of activities to governments. Management structures often not sufficient inclusive of non-UN agencies, leading to conflicts of interest. Earmarking allowed for sectors, clusters, agencies and outcomes. No earmarking for projects. Projects must be approved by MDTF Steering Committee and/or national authorities. Potential for conflict of interest and by-passing national priorities.  | Some means of facilitating engagement of NGOs (international and local) in Trust Fund activities is essential. UNDP has created an MDTF office to support UNDG trust funds. UNDG/UNDP have little incentive to try to force a switch to a largely non-earmarked system, as this would decrease income. Earmarking especially important for small UN agencies. However, UNDP's MDTF Office believes that negative effects of earmarking can be at least partially overcome by linking donor funding to a well-prioritized national recovery strategy. UNDP has established procedures intended to create firewall between UNDP's roll as Administrative Agent on behalf of UN agencies and UNDP's role as Participating UN Organization. |
| World Bank MDTF   | Ability to support development of an effective state over medium- and long-term. Have helped countries make transition from donor-managed assistance to increasingly greater government role in managing aid policies and decisions and integration of aid into the state budget. Bank administered trust funds tend to perform better when assistance is delivered as budget support than projects. Aceh post-tsunami MDTF demonstrates that it is possible for WB administered MDTFs in emergency situations to channel resources to local level, reducing opportunities for corruption. MDTF administration Seen as a way of engaging the Bank earlier in post-conflict period, both by some donors and some recipient governments. For Bank offers entry points to countries it has not engaged with for some time. | Medium-term instrument. Needs to be complemented by quick disbursing money. Until recently Bank procedures not adequately adjusted to fragile states. With new policies and procedures aimed at streamlining the Bank's engagement in conflict affected countries (OP/BP 8.0), including fiduciary oversight, and providing more in country supervision by Bank staff, earlier and more rapid Bank engagement in peace processes is possible. Bank has not had framework agreements with UN agencies allowing rapid transfer to resources to UN agencies, slowing Bank MDTF disbursements. Bank and UN working on agreement. Bank does not allow earmarking but does allow preferences to be stated, which can limit national ownership although the Bank attempts to link preferences to nationally determined priorities. | New policies for post-conflict and emergency situations need to be implemented. There are positive signs but too early to tell how this will work. Framework agreement with UN on ability of UN agencies to use own financial management, audit, procurement procedures is essential, as is some means of facilitating engagement of NGOs (international and local) in MDTF management structure and activities. Responsibility for Bank trust fund activities are spread throughout the organization, making it difficult to access institutional memory, transmit good practices and so on. Need for single office to centralize MDTF operations.   |

|   | Strengths   | Weaknesses   | Comments  |
|---|---|--|---|
| UN Common Humanitarian Funds (CHF)      | Intended to promote coherence of donor approach, by linking projects approved to an agreed Work Plan and enabling Humanitarian Coordinator (HC) to fund gaps. UNDP highly effective at pass-through to UN agencies. UNDP MDTF Office has begun to pre-approve large NGOs and other agencies (such as IOM) to speed contracting with non-UN implementers. Could support early recovery activities. | Does not control adequate amount of resources to affect coherence of donor approach, although in DRC has attracted more funding than initially anticipated. Work Plans not adequately prioritized. Operating procedures of CHF promote conflict of interest since same agencies are developing proposals and vetting proposals. UNDP procedures re NGOs initially not adequately adjusted to fragile states although these reportedly revised following 2006 review of CHF pilots. | Two pilots under way since 2005. Review undertaken during 2006. M&E procedures in the process of being worked out at time of first review. Second review currently (October 2007) underway will be able to evaluate changes made following 2006 review. These include opening decision-making to non-UN actors and new partnership agreement for NGOs based on humanitarian procedures. Important that donors not contributing to CHF consult with HC before making allocation decisions. HC also needs political support of bilateral donors. DRC 2006 Action Plan based on 2-month, countrywide participatory needs assessment; discovered urgent needs previously overlooked. However, because time-consuming and labour-intensive, not repeated; instead Action Plan assumed same needs for 2007. |
| United Nations Peacebuilding Fund (PBF) | In principle, PBF is intended to leverage additional donor financing for peacebuilding and to provide quick money (Emergency Grants) for activities that will support the peace process, thereby creating an environment conducive to recovery.   | Inter-governmental body, comprised of diplomats not humanitarian, post-conflict recovery or development specialists. Provides 1-year grants, with possibility of extension. Requirement for integrated peacebuilding strategy may require unnecessary work in some countries, duplicate existing strategies, and be donor-driven rather than nationally owned. Funding must be channelled through a UN agency, increasing overhead costs.  | PBF was launched on 11 October 2006 and first grants to countries before the Peacebuilding Commission (Sierra Leone and Burundi) only began to be made in early 2007. First "Emergency Grant" to support the peace process in Burkina Faso approved August 2007. PBF still very much "work in progress."  |
| <b>Co-financing</b>                     |   |  |   |
| IDA post-conflict grants/non-accrual    | While most IDA grants rely on performance based allocations (PBA), post-conflict countries can benefit from exceptional financing arrangements, as well as pre-arrears clearance grants; eligibility for exceptional financing is 7 years, including a 3 year phase-out period to PBA criteria (soon to be doubled to 6 to avoid program disruptions, so total 10 years).                         | Inadequate transparency on application of post-conflict performance indicators, which determine eligibility for financing. Relatively small number of countries eligible for this financing.   |   |



| Co-financing   | Strengths   | Weaknesses  | Comments   |
|--|---|---|--|
| World Bank Post-Conflict Fund                                    | Grants focused on the restoration of the lives and livelihoods of war-affected populations. Efforts made to leverage resources through a variety of funding arrangements. Application/approval procedures less onerous than standard Bank procedures, enabling rapid approvals and a variety of partners. Grant recipients include national governments, institutions, NGOs, United Nations agencies, transitional authorities and other civil society institutions. Can engage in early recovery activities. | Resources available limited, constraining number of activities that can be undertaken. Demand for financing exceeds supply.   | Resources primarily from World Bank Development Grant Facility, with some donor co-financing, including both earmarked and unearmarked co-financing. Netherlands provided US \$ 2 million co-financing in 2001 to a project in Kosovo. LICUS and PCF managed by one Secretariat, maximizing opportunities for coherence, complementarity and learning. |
|  |   |   |  |
| World Bank LICUS Trust Fund                                      | Established to strengthen institutions, support early efforts at policy reform and build capacity for social service delivery in fragile states. Special IDA allocations for non-accrual countries, enabling early Bank engagement. Uses Post-Conflict Fund procedures. Potential to engage early in peace process.   | Size of allocations limited, constraining activities that can be undertaken.  | Resources primarily from World Bank reserve, with some co-financing from donors, including both earmarked and unearmarked co-financing. LICUS and PCF managed by one Secretariat, maximizing opportunities for coherence, complementarity and learning.  |
|  |   |   |  |
| UNDP/BCPR Thematic Trust Fund for Crisis Prevention and Recovery | Primary mechanism for allocating donor non-core contributions to UNDP's crisis work. Aligned with UNDP's Strategic Plan, BCPR's outcome areas as described in its five-year Strategy and with country requests. Can disburse very rapidly and engage early in peace process.  | Only for UNDP execution. Allows earmarking for BCPR's key thematic areas and specific countries. When funding earmarked to specific country, donor develops a project or programme in consultation with BCPR or UNDP Country Office. Earmarking can limit national ownership. | As of 2007, Fund restructured to accept unearmarked contributions, earmarked contributions benefiting individual programme countries, and earmarked contributions for the outcome areas of conflict, disaster, early recovery and gender equality.   |
| <b>Channel funding</b>   |   |   |  |
| United Nations agencies  | Rapid delivery and familiarity with conditions when previously present in country. Those with in country presence can engage early in peace process.  | By supporting own programme, can undercut funding of government priorities/national ownership. Can be slow to transfer responsibilities back to government. Frequent competition among members of UN family for resources.  | One UN approach could produce greater coherence within UN family, although not clear how this will apply to post-conflict states.  |
|  |   |   |  |
| United Nations Consolidated Appeals Process (CAP)                | Promotes more strategic and co-ordinated approach to financing humanitarian needs. Enhances ability of UN agencies to raise funding and to better gain access to and protect vulnerable populations.  | Can undercut funding of government priorities. CAP frequently not adequately prioritized. Insufficient sharing of data among agencies. Monitoring needs to be improved. Frequent competition among members of UN family for resources.  | Primarily experienced at delivering humanitarian assistance, although inclusion of early recovery activities recognized in Good Humanitarian Donorship principles.   |

| Channel funding          | Strengths  | Weaknesses  | Comments |
|--------------------------|--|---|----------|
| International NGOs       | Rapid delivery and familiarity with conditions when previously present in country. Those with in country presence can engage early in peace process. | By supporting own programme, can undercut funding of government priorities/national ownership. Can be slow to transfer responsibilities back to government. |          |
| Local NGOs/civil society | Local knowledge; potential for rapid implementation.   | May be captured by governments or unacceptable to governments; low capacity   |          |

5. In general, pooled funding mechanisms, particularly MDTFs, appear to be best suited to operating in post-conflict environments in a manner consistent with the fragile states principles. Used correctly pooled funding mechanisms can promote:

- National ownership of post-conflict recovery efforts;
- Mobilization of resources around a prioritized national recovery plan;
- Accountable use of resources delivered on budget;
- Broad national participation in recovery efforts through the inclusion of non-governmental/civil society actors;
- Predictability and flexibility of financing; and
- Donor coordination and reduced transaction costs for governments.

Pooled funding mechanisms also have benefits for donors such as enabling them to engage in countries with minimal presence and minimizing their fiduciary risk.<sup>1</sup>

6. In consequence, pooled funding mechanisms have become increasingly common in post-conflict environments. As experience with them has grown, it has become clear that the benefits that can be derived from pooling resources do not occur automatically. Problems in execution have arisen primarily because of: a) regulations and operational procedures of the two main pooled financing administrators, the World Bank and UNDP, b) unrealistic expectations on the part of donors, governments and Fund administrators about what pooled funding can, and cannot, deliver in specific timeframes, c) the exigencies of post-conflict environments, d) the failure of donors to provide adequate oversight and political support to pooled financing mechanisms; and e) the preference of

<sup>1</sup> See for example Scanteam/Norway, [Review of Post-Crisis Multi-Donor Trust Funds. Final Report, February 2007](#); Development Initiatives, *Review of Trust Fund Mechanisms for Transition Financing*, Phase 2 Report, 29 May 2006; Center on International Cooperation/New York University in collaboration with The Humanitarian Policy Group/Overseas Development Institute, *Common Funds for Humanitarian Action in Sudan and the Democratic Republic of Congo*, Monitoring and Evaluation Study, December 2006.

donors for allocating resources bilaterally outside trust funds and/or earmarking contributions to trust funds, encouraged by active solicitation of resources by UN agencies and international NGOs.<sup>2</sup>

7. In principle, optimal outcomes will be achieved by allocating resources through a single fund with a single administrator. In an ideal world, this would be a national fund, which would significantly maximize the opportunities for achieving the benefits summarized in paragraph 5. In practice, donors are often unwilling to give national governments in post-conflict environments significant responsibility for managing resources until their financial management systems have been strengthened and it is clear that they are able to manage such funds in an effective and accountable manner.

8. Additionally, it is difficult to create one internationally administered fund that has sufficient flexibility to address the range of conditions and needs existing in post-conflict environments. In part this is because the two main administrators of pooled funding mechanisms (the World Bank and the UN) have different, although largely complementary, capacities and are still working out the best ways of working together.

9. The World Bank has tended to be the preferred administrator of multi-donor trust funds to a large extent because of its ability to help governments address broad policy and economic development issues.<sup>3</sup> The Bank has been slow, however, in adjusting its normal procedures and regulations to post-conflict environments. This has hampered its ability to, for example, put MDTFs in place quickly enough to finance rapid improvements in service delivery or job creation in the immediate post-conflict period. Over the last year or two, the Bank has undertaken a number of policy and operational reforms to overcome the constraints on its capacity to operate effectively in post-conflict environments and to clarify and strengthen its working relations with the United Nations system (Box 1). That these changes have recently been accorded high priority is due in no small part to pressure from donors such as the Netherlands.

10. UN agencies have proven capacity to implement activities, including establishing trust funds, quite rapidly, and UNDP has established the [Multi-Donor Trust Fund Office](#) to facilitate the establishment and operation of MDTFs. At the same time the UN family has had difficulties in helping governments develop the capacity to lead recovery processes and lay the foundation for capable states. And although the UN system is reportedly moving away from direct execution toward national execution of UN-funded activities, funding from the Peacebuilding Fund and Common Humanitarian Funds are required to pass through UN agencies before being allocated to executing agencies, increasing the overheads on these resources. Additionally, despite ongoing efforts to implement the

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<sup>2</sup> World Bank MDTFs do not allow earmarking, but donors are allowed to express preferences, although efforts are generally made to limit the impact of preferences. See also the discussion in paragraph 24.

<sup>3</sup> Scanteam/Norway, [Review of Post-Crisis Multi-Donor Trust Funds, Final Report, February 2007](#), p. 107.

### Box 1. Strengthening World Bank Capacity to Support Post-Conflict Recovery

While the World Bank has been the donors' preferred administrator of multi-donor trust funds, Bank regulations and procedures have at times negatively affected the pace and scope of the work undertaken. In particular, the lack of institutional agreements governing the terms under which funds from Bank administered trust funds will be used and accounted for by UN agencies and non-governmental bodies has undermined the ability of Bank-administered trust funds to disburse rapidly. Additionally the pace of Bank work has suffered because the Bank works primarily through governmental channels but normal Bank procedures are too complex for fragile, post-conflict states. The in-country presence of experienced Bank staff has also been inadequate, particularly in the early stages of international engagement in post-conflict activities. The Bank has also been reluctant to engage with issues relating to the security sector.

The Bank has undertaken a number of reforms aimed at streamlining procedures and increasing the number of experienced staff in country. It is increasingly able to include the security and justice sector in work relating to its core competencies, especially public finance management, and to support integrated recovery programmes in areas outside its core competencies in partnership with other donors when requested by member governments. The Bank is also seeking to reach a formal agreement with UN agencies on the regulations governing financial management, procurement, audit, anti-corruption measures of money transferred from Bank administered trust funds to UN agencies. It is hoped that this agreement will be in place by the end of 2007 or early 2008. In addition, the Bank and the UN are developing a partnership note for crises and emergencies that may include:

Guiding principles for work in crises in emergency situations, such as a focus on strengthening the resilience of national institutions:

- Commitment to a common platform for conflict and post-disaster needs assessments and recover planning, leading to, among other things, country-specific division of labour;
- The fiduciary framework mentioned above, which will govern financing of UN funds and programs under specific emergency situations and provide guiding principles for collaboration in multi-donor trust funds; and
- A field-driven communications protocol to facilitate coordination of joint approaches in post-crisis environments.

Source: World Bank Operational Manual, Operational Policies, [OP 8.00](#), "Rapid Response to Crises and Emergencies," March 2007; World Bank Operational Manual, Bank Procedures, [BP 8.00](#), "Rapid Responses to Crises and Emergencies," March 2007; and World Bank, Operations Policy and Country Services, ["Toward a New Framework for Rapid Bank Response to Crises and Emergencies,"](#) January 12, 2007 (revised March 2007), International Development Association, [Operational Approaches and Financing in Fragile States](#), Washington, DC: Operational Policy and Country Services and Resource Mobilization Department, June 2007, p. 14.

recommendations of the UN High Level Panel on System-Wide Coherence, UN agencies remain intensely competitive.

11. The preference of bilateral donors to allocate the bulk of their funding outside pooled mechanisms has also prevented the creation of a single fund. Donors continue to use multiple channels for a variety of reasons, ranging from concerns about corruption in recipient countries to the ability to demonstrate that activities popular with their own publics or mandated by their legislatures are being funded. The result, as one recent review of MDTFs observed, is that these practices impose "considerable administrative costs on the recipient."<sup>4</sup> They also increase the risk that donor financing will not support national priorities, will undermine already extremely weak government capacity, and

<sup>4</sup> Scanteam/Norway, [Review of Post-Crisis Multi-Donor Trust Funds, Final Report, February 2007](#), p. 123.

lead to investments that are redundant and unsustainable. Some of these problems could be overcome if donors were to allocate resources against a single, prioritized, costed national programme. Donors have, however, frequently chosen to by-pass both governments and national recovery plans by funding UN agencies and INGOs with their own programmes and priorities and by earmarking trust fund contributions for non-priority activities.

12. These problems have been evident both in regard to financing overall recovery efforts and to financing discrete portions of recovery, such as disarmament, demobilization and reintegration (DDR). For example, a review of DDR financing conducted in 2005 found that donors were using a multiplicity of often not well-coordinated financing mechanisms to deliver money (Box 2) and concluded:

‘The international community should place a high priority on agreeing methods of centralizing DDR financing through multilateral funding mechanisms linked to a national plan, ideally implemented through national institutions. Such a financing system is likely to draw on three types of financial resources: 1) flexible, early money; 2) up-front money (assessed contributions and pre-committed multi-donor trust funds); and 3) voluntary money/co-financing. The success of such an integrated funding system relies heavily on the close collaboration among different focal points, bearing in mind that these focal points may be different in different DDR processes.’<sup>5</sup>

13. Experience to date suggests that in order to determine how best to combine financing mechanisms to maximize the achievement of optimal outcomes, it is important to ensure that:

- *Financing mechanisms are appropriate to country context/priority needs and a realistic assessment has been made of what financing mechanisms can and cannot achieve under prevailing conditions in a given timeframe;*
- *Financing mechanisms help to strengthen national ownership of recovery processes, in particular by fostering the capacity of national actors to engage effectively and accountably in recovery processes, including routing donor resources through the national budget wherever possible.*

14. ***Financing mechanisms are appropriate to country context/priority needs, and a realistic assessment has been made of what financing mechanisms can and cannot achieve under prevailing conditions in a given timeframe.*** Afghanistan and Southern Sudan offer two contrasting experiences in using MDTFs to meet both short- and medium-term needs. The World Bank-managed Afghanistan Reconstruction Trust Fund (ARTF), which was intended to support

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<sup>5</sup> Nicole Ball and Dylan Hendrickson, [Review of International Financing Arrangements for Disarmament, Demobilization and Reintegration](#), Phase 2 Report to Working Group 2 of the Stockholm Initiative on Disarmament, Demobilization and Reintegration, September 26, 2005, paragraph 171, p. 57.

medium-term capacity building and investment, was preceded by a short-term UNDP-managed trust fund, the Afghan Interim Authority Fund (AIAF), that came on line rapidly and was able to finance salaries at a time when the interim government was being put in place and had no resources of its own. Donors facilitated this outcome by providing unearmarked funds. The ARTF was established by the time the AIAF was due to close down.

**Box 2. Types of Financial Resources Available to DDR Programmes**

■ **Flexible, early money:**

- o Multilateral quick-disbursing funds (such as UNDP Trac 1.1.3, UNDP Conflict Prevention Thematic Trust Fund, World Bank Post-Conflict Fund)
- o Bilateral quick-disbursing funds
- o National government funds

■ **Up-front money**

- o UN mission budget
- o MDRP-type trust fund based on pre-commitments

■ **Voluntary money**

- o Bilateral contributions to MDTFs
- o Bilateral contributions to UN agencies
- o Contributions from UN agency/international NGO core funds
- o Projects funded directly by bilateral funds and executed by donor agencies, international and local NGOs, community-based organisations, consulting firms
- o National government contributions
- o World Bank contributions, including Project Preparation Funds
- o In-kind contributions from all sources

15. In Southern Sudan, although a short term MDTF managed by UNICEF was established, donors did not channel significant amounts of money through it because of its short mandate and perhaps also because the World Bank claimed that it could bring an MDTF online rapidly. Additionally, the UNICEF MDTF was not part of a clear, high priority transition plan, unlike the AIAF, reflecting the different geopolitical niches occupied by Afghanistan and Sudan. However, the World Bank-managed MDTF in Southern Sudan has experienced difficulties in delivering early money due primarily to the extreme weakness of Southern Sudanese counterparts, the Bank's own operational procedures (including the need to negotiate agreements with individual UN agencies), and the initial lack of experienced Bank staff based in Juba.

16. Box 3 summarizes several options that can be considered for sequencing financing in these environments so that early recovery needs can be met.

17. A critical environmental factor affecting the success of any aspect of post-conflict recovery, including decisions on financing mechanisms, is whether in fact the conflict has ended. One recent

### Box 3. Meeting Early Recovery Needs

One option would be to combine UN and World Bank administered MDTFs with clearly delineated responsibilities to avoid overlap and competition between the funds. As one recent evaluation of MDTFs concluded: "a) World Bank and UN MDTFs are both necessary in most transition situations b) they cannot be treated as successive stages but need to operate concurrently albeit with the UN MDTFs starting earlier and the World Bank MDTFs continuing until governments are in a position to accept General Budget Support (GBS) c) they need to work within a structure which maximises synergies and complementarities and encourages donors to see them as two arms of transition financing, rather than competing options." (Development Initiatives, [Review of Trust Fund Mechanisms for Transition Financing, Phase 2 Report](#), 29 May 2006, p. 6.)

An alternative approach, once the new World Bank procedures and the UN-World Bank framework agreement are in place (Box 1), would be for a World Bank administered MDTF to channel resources to UN agencies (as Partner Agencies) and other entities capable of responding rapidly in the initial phases of a recovery process. The Bank MDTF could progressively build up the government's capacity to lead the recovery process and reach agreement on a realistically prioritized national recovery strategy.

The very earliest recovery assistance could also be channelled through a Common Humanitarian Fund where one is already operational and donors are willing to allocate a significant amount of resources for early recovery through the CHF in order to discipline executing agencies and align with national priorities. It is important to recall that, like Post-Conflict Needs Assessments, CHF Work Plans/Action Plans have not been sufficiently prioritized and have tended to be supply- rather than demand-driven. (Stoddard, Abby, Dirk Solomons, Katherine Haver and Adele Harmer, *Common Funds for Humanitarian Action in Sudan and the Democratic Republic of Congo*, Monitoring and Evaluation Study, New York: Center on International Cooperation/New York University in collaboration with The Humanitarian Policy Group/Overseas Development Institute, December 2006, <http://www.cic.nyu.edu/>.)

If funding were channelled directly through UN agencies or INGOs, it would be important to ensure that these resources were used for priorities identified by national actors. All of these options need active donor participation and direction if the desired outcomes are to be achieved.

review of MDTFs concluded, "the single most important factor in determining the success of an MDTF is the security situation." This makes conflict assessments at the strategic and project levels an essential component of establishing and operating an MDTF, but such assessments are often not undertaken.<sup>6</sup> For example, the [International Reconstruction Fund Facility for Iraq](#) (IRFFI), which has both a UN and a World Bank window, is operating under conditions of conflict, not in a post-conflict environment. This has had a significant impact on the way in which the IRFFI operates and the effectiveness and impact of the activities it finances. When the IRFFI was established, however, it was assumed that "the security situation would normalize."<sup>7</sup>

18. While the security environment is particularly difficult in Iraq, many MDTFs in so-called "post-conflict countries" are in fact operating under conditions of semi-conflict. The possibility of working in semi-conflict conditions requires that MDTFs are sufficiently flexible to be able to channel resources through agencies experienced in working in such environments – such as some UN agencies or INGOs – or that donors contract directly with these bodies. It should not, however, prevent efforts to develop a nationally owned recovery plan against which donor resources can be allocated.

<sup>6</sup> Scanteam/Norway, [Review of Post-Crisis Multi-Donor Trust Funds, Final Report, February 2007](#), p. 87. As this review notes, it is difficult to assess the effectiveness and impact of activities financed by IFRRF given the security conditions in the country.

<sup>7</sup> Scanteam/Norway, [Review of Post-Crisis Multi-Donor Trust Funds, Volume II: Country Annexes](#), February 2007, Annex D: The Iraq Trust Funds, para. 19.

**19. *Financing mechanisms help to strengthen national ownership of recovery processes, in particular by fostering the capacity of national actors to engage effectively and accountably in recovery processes, including routing donor resources through the national budget wherever possible.*** National actors and institutions should assume the leadership of and political responsibility for post-conflict recovery. This means that national actors – including national governments and members of civil society – assume the responsibility for decisions about objectives, policies, strategies, program design, and implementation modalities. National ownership does not require management of resources but will be enhanced to the extent that resources are on budget. It also does not necessarily imply local capacity to implement activities, although national actors should be involved in deciding who will implement activities.

20. Experience indicates that although working with national actors and through national institutions (including those at community level) is initially slower than direct execution by international executing agencies, it yields greater benefits over time, produces more sustainable outcomes and has a better response from beneficiaries. In principle, all of the financing mechanisms in Table 1 should be able to support the development of national capacity to lead and engage in recovery activities. In practice, however, any financing that is not linked to a prioritized, costed national recovery programme and does not explicitly have as an objective the development of national capacity (governmental and non-governmental, national and local levels) will not maximize its capacity to strengthen national ownership. World Bank administered MDTFs are more likely to achieve these objectives than funding disbursed among a variety of UN agencies, NGOs and consulting firms or even a UN administered MDTF.

21. At the same time, any MDTF needs explicitly to incorporate design and operational features that promote national ownership. MDTFs should, for example, include representatives of national governments and civil society on management bodies, ensure that the national government receives any necessary assistance to develop a national recovery strategy in a participatory manner, and have sufficient flexibility to allocate resources to communities, community groups and other non-governmental actors, as well as to central government ministries. Neither the World Bank nor UNDP's procedures are particularly well adapted to working with non-governmental actors, local or international. Both organizations work extensively through governments.<sup>8</sup> This has limited the ability of non-governmental actors to participate as fully in post-conflict recovery as desirable.<sup>9</sup> It is

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<sup>8</sup> Scanteam/Norway, [Review of Post-Crisis Multi-Donor Trust Funds, Final Report, February 2007](#), p. 35. Some UN agencies are able to work more closely with non-governmental actors than others, particularly in terms of project execution.

<sup>9</sup> In Sudan, non-governmental organisations experienced significant difficulties in accessing funds from the UNDP-managed Common Humanitarian Fund (CHF). While CHFs are primarily intended to deliver humanitarian assistance, the [Principles and Good Practice of Humanitarian Donorship](#) includes early recovery. See Center on International Cooperation/New York University, ["Evaluation of the Common Funds in the Sudan,"](#) 7 November 2006, p. 4. According to this source, the experience of NGOs in Sudan was "an unmitigated disaster" (pp. 23-25). Similar problems have arisen in the DRC. The problems with



#### Box 4. Afghanistan Reconstruction Trust Fund Monitoring Agent

Although the World Bank was able to establish the ARTF quickly, it ran into problems during the first year of operation, some of which included the Monitoring Agent. According to a recent evaluation of MDTFs,

'...the Monitoring Agent was accused of not understanding its role well to begin with and the Bank did not have sufficient own capacity to clarify roles immediately, and the dialogue with some of the national authorities was not good enough for ensuring smooth functioning and disbursement of funds...'

'The Bank ended up establishing two teams that supported the implementation of the ARTF. The first was a management unit consisting of one international staff member with experience from financial management and supported by two local staff. The other was a more general financial disbursement unit including quite senior staff from Washington (some on a more permanent basis, others coming in on missions but quite frequently) that supported the Bank portfolio overall, but also the ARTF. This latter team worked particularly closely with Ministry of Finance staff to ensure that procurement and expenditure management routines were being followed, documentation of acceptable quality produced, etc. Once these two teams began functioning properly, the disbursement rates improved, as did overall financial control and reporting.'

Source: Scanteam/Norway, [Review of Post-Crisis Multi-Donor Trust Funds, Volume II: Country Annexes](#), February 2007, Annex H: *The Afghanistan Trust Funds*, especially paras. 33-34.

important that donors promote the inclusion of features that support participatory, nationally owned recovery in MDTFs. UNDP's MDTF Office has recently developed new procedures for the Common Humanitarian Fund, which can be used for early recovery, that are based on humanitarian procedures.

22. Donors have understandable concerns about the potential that exists for diversion of resources if financing is channelled through government budgets. There is, however, growing experience through World Bank managed MDTFs that the use of a monitoring agent can both reduce opportunities for diversion in the short term and help develop capacity for sound financial management in the medium term.<sup>10</sup> It is important, of course, that the monitoring agent is properly tasked and is equipped to carry out the task. While this function can be, and often is, contracted out to a consulting firm, the World Bank is learning that it may need to provide some of this support itself (Box 4).

23. Another means of combating corruption is to push resources to the lowest level possible. The Multi-Donor Fund for Aceh and Nias (MDF) has supported a housing programme that combines financing through the central government with local execution.<sup>11</sup> The Kecamatan Development Project, executed by the Ministry of Home Affairs, provides funding directly to communities. Three-

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NGOs derived in large part from UNDP's decision to use its normal Project Cooperation Agreement in emergency situations. See also Center on International Cooperation/New York University, "[Evaluation of the Pooled Fund in the Democratic Republic of the Congo](#)," 7 November 2006, pp. 2, 18-20 and Stoddard, Abby, Dirk Solomons, Katherine Haver and Adele Harmer, *Common Funds for Humanitarian Action in Sudan and the Democratic Republic of Congo*, Monitoring and Evaluation Study, New York: Center on International Cooperation/New York University in collaboration with The Humanitarian Policy Group/Overseas Development Institute, December 2006, <http://www.cic.nyu.edu/>.

<sup>10</sup> For example, see Gebreselassie Tesfamichael, Nicole Ball and Julie Nenon, "Peace in Sierra Leone: Evaluating the Disarmament, Demobilization, and Reintegration Process. The Final Evaluation of Disarmament, Demobilization and Reintegration Program and the Multi-Donor Trust Fund Supporting DDR," Washington, DC: Creative Associates, October 2004.

<sup>11</sup> While the MDF addresses recovery from natural disaster, the December 2004 earthquakes and tsunami, Aceh is also a conflict-affected region, making inclusiveness particularly important.

quarters of the project resources are transferred directly to sub-districts as block grants. According to the World Bank, the KDP “has a solid multi-layered control mechanism to prevent corruption throughout planning and implementation of village projects.” Watchdog NGOs have rated this programme highly in its ability to involve local actors and meet local needs (Annex 2).

24. Unfortunately, many donors finance outside MDTFs or encourage the establishment of MDTFs that allow earmarking. A recent evaluation of MDTFs estimated that 90 percent of the UN's IFRR window for Iraq is earmarked, while donors expressed sector preferences on approximately two-thirds of the funds they provided to the World Bank window.<sup>12</sup> Earmarking can reduce the ability of MDTFs to target national priorities, although the UNDP MDTF Office does not allow earmarking at the project level. Preferencing (a form of “soft earmarking”) can have a similar outcome, although the World Bank attempts to limit the negative consequences by specifying the scope of preferences. In the World Bank administered Afghanistan Reconstruction Trust Fund, for example, donors are not allowed to express preferences for more than 50 percent of their annual contribution. In addition, their preferences must be for a government priority, be included in the development budget, and have a financing gap.

**Checklist: Maximizing Outputs from Multiple Post -Conflict Financing Mechanisms**

- Conduct an assessment of country context (political, economic, social, security factors) prior to deciding which financing mechanism(s) to employ in order to assess Dutch priorities.
- Consider which financing mechanisms are best suited to promoting the desired outcomes in a given environment in a realistic timeframe.
- Determine which financing mechanisms are most likely to promote national ownership (government capacity to set policy and make decisions about funding priorities, participation of non-governmental actors).
- Determine which financing mechanisms are best suited to strengthening the capacity of national stakeholders to develop national policies/plans to guide funding and to manage financial resources accountably.
- Assess which funding mechanisms maximize the ability to channel external resources through the state budget with appropriate levels of oversight.
- Determine which financing mechanisms will minimize transaction costs (financial and human/institutional capacity) to the host government.

<sup>12</sup> Scanteam/Norway, [Review of Post-Crisis Multi-Donor Trust Funds, Volume II: Country Annexes](#), February 2007, Annex D: The Iraq Trust Funds, paras. 26-27.

## II. CREATING CONDITIONS FOR SUCCESS

25. Funding mechanisms do not operate in a vacuum. Their ability to promote post-conflict recovery depends in large part on their suitability to the conditions in which they are developed and implemented. While many of the conditions in post-conflict countries are not amenable to external influence, some are. In particular, bilateral donors such as the Netherlands have the ability to influence the environment in the following ways:

- *Donors should base their decisions on which mechanisms to use to finance recovery on what they want to achieve. This requires a clear strategy that has the flexibility to evolve over time. To increase the effectiveness and impact of donor funding, this strategy should support a nationally owned and led process that would begin as soon as possible aimed at developing a national recovery plan;*
- *Donors should align resource allocation to the national plan and seek implementation modalities that allow funds to flow through government budgets to the extent feasible. To achieve this objective, donors should channel as much money as possible through multilateral mechanisms, such as MDTFs, and avoid earmarking/preferencing that money. Donors should match fund administrator with what they want to achieve;*
- *Donors should be realistic about what any actor, national or international, can achieve in the prevailing environment. They should strike a balance between a) meeting immediate needs in order to deliver a peace dividend and b) developing the capacity of actors, official and non-governmental, at all levels to identify their own needs and decide how resources should be allocated among competing priorities;*
- *Donors should not expect that financing can be left on autopilot if desired outcomes are to be achieved;*
- *Donors should continue to press the UN and the World Bank to implement the reforms necessary to improve their ability to deliver effectively in post-conflict environments, including agreeing on ways to improve their partnership.*

26. ***Donors should base their decisions on which mechanisms to use to finance recovery on what they want to achieve. This requires a clear strategy that has the flexibility to evolve over time. To increase the effectiveness and impact of donor funding, this strategy should support a nationally owned and led process that would begin as soon as possible aimed at developing a national recovery plan.*** Because different financing mechanisms are best

suited to deliver certain objectives in particular environments and timeframes, the choice of which mechanism to use will be greatly facilitated by clarity on donor objectives. A focus on immediate recovery would argue in favour of a Common Humanitarian Fund, a UN administered MDTF, use of the World Bank's Post-Conflict Fund or its LICUS Trust Fund, UNDP's Thematic Trust Fund for Crisis Prevention and Recovery, or direct execution through INGOs, UN agencies (via the CAP) or possibly local NGOs/civil society groups. A focus on medium term recovery and capacity building would argue in favour of a World Bank administered MDTF (especially for development of national recovery strategy, strengthening state but also community-driven development initiatives), co-financing through IDA, or a UN administered MDTF (especially for projects). Ideally, the World Bank and/or UN administered MDTFs would allocate resources to executing bodies, including UN agencies and international and local NGOs, based on nationally approved and/or developed recovery plans.

27. Since most donors will want to support both immediate and medium-term activities, they should begin by addressing the highest priority needs identified in early needs assessments, such as the Post-Conflict Needs Assessments (PCNAs), which is increasingly the international community's tool of choice in the immediate aftermath of conflict. They should simultaneously help empower national actors to take responsibility for both determining national needs and how to meet them. This means that financing should be directed both at mechanisms capable of providing immediate recovery assistance and at those capable of meeting medium-term needs. Because World Bank MDTFs come on stream more slowly than UN administered MDTFs, the Bank should be asked to begin the process of setting up an MDTF as early in the recovery phase as possible.

28. Donor-supported joint assessments such as PCNAs can be a useful means of starting a process of identifying national priorities, particularly if they are broadly participatory, but they are only the start of such a process. Donors should make it clear to national authorities, MDTFs and external executing agencies that "national ownership" and "government ownership" are not synonymous, and that every effort should be made to include non-governmental actors in the process of identifying and meeting needs along with governmental actors. Funding should be directed preferentially to those executing agencies that align their activities with high priority objectives identified by national actors and have proven ability to support capacity building for national actors (central and local levels, governmental and non-governmental).

**29. Donors should align resource allocation to national recovery plans and promote implementation modalities that allow funds to flow through government budgets to the extent feasible. To achieve this objective, donors should channel as much money as possible through multilateral mechanisms, such as MDTFs, and avoid earmarking/preferencing that money. Donors should match fund administrator with what they want to achieve.**

30. There is growing evidence from studies of general budget support that providing resources on-budget can produce a range of benefits, including strengthening financial management capacity, improving allocative and operational efficiency of public expenditures, and increasing harmonization, alignment and coherence of external support.<sup>13</sup> While post-conflict states generally do not have the financial management capacity necessary to manage large amounts of general budget support, some of the same benefits appear to accrue from providing post-conflict recovery resources on-budget.<sup>14</sup>

31. Donors should therefore provide as much of their post-conflict financing on-budget as possible. They should ensure that a properly tasked and capable monitoring agent is in place and that the government receives adequate support from the monitoring agent or other donors such as the World Bank to promote good practice. The most effective vehicle for this is a World Bank administered MDTF with minimal preferencing and maximum alignment with a national recovery plan, existing or emerging.

32. At the same time, as the experience with the MDTFs for Southern Sudan and Aceh and Nias demonstrate, it is also important that there is adequate flexibility to finance off-budget if the need arises, for example if the government proves not to have the capacity to disburse resources in a timely manner. While this could be provided through most of the financing mechanisms in Table 1, the transaction costs for both donors and recipients will be minimized if such financing is also channelled through an MDTF. At present UN MDTFs are best suited to providing support off-budget, especially when channelled through UN agencies, although the Bank is improving its capacity in the regard.<sup>15</sup> The Bank is gaining considerable experience with Community Driven Development and approval of a framework agreement between World Bank and the UN that will enable UN agencies to gain Partner Agency status with Bank administered MDTFs quickly will also significantly enhance Bank capacity to channel resources flexibly.<sup>16</sup>

33. If donors are unable to channel resources through multilateral mechanisms, they should try to align their programming with a) the national recovery plan or b) in the absence of a national recovery plan, the programme of work of a costed, well-prioritized PCNA or of the MDTF.

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<sup>13</sup> Joint Evaluation of General Budget Support, [What Are the Effects of General Budget Support?](#) March 2007.

<sup>14</sup> A World Bank public finance management review of Afghanistan found that only one quarter of public finances were channelled through the government budget in 2005. The remainder were executed by implementing agencies contracted directly by the donors. The Bank concluded: "This constitutes a major challenge – for both Government and donors – in budget management." World Bank, [Afghanistan: Managing Public Finances for Development](#), p. 7, para. 1.25, 2006.

<sup>15</sup> For information on UN administered MDTFs see the [UN Development Group website on pooled funding mechanisms](#) under "Post-Crisis Transitions". The UN is also improving its capacity to channel resources to NGOs and other actors such as the International Organization for Migration.

<sup>16</sup> For example, see World Bank, Social Development Department, [Community-Driven Development in the Context of Conflict-Affected Countries: Challenges and Opportunities](#), Report No. 36425 – GLB, June 20, 2006 and the [World Bank Community-Driven Development website](#).

34. ***Donors should be realistic about what any actor, national or international, can achieve in the prevailing environment. They should strike a balance between a) meeting immediate needs in order to deliver a peace dividend and b) developing the capacity of actors, official and non-governmental, at all levels to identify their own needs and decide how resources should be allocated among competing priorities.*** Post-conflict recovery requires constant trade-offs. Achieving “quick wins” – generally decided on and delivered by external actors – to demonstrate the value of peace is important but it should not detract from the importance of local actors making their own decisions. This takes longer to achieve but in the end, the outcomes will be more sustainable.

35. Donors consistently underestimate the amount of time required to develop capacity in post-conflict situations and they are often unwilling to engage fully with key stakeholders, such as former members of the armed opposition or transitional governments. For example, the Results Focussed Transitional Framework for Liberia, published in February 2004, listed as priority outcomes by December 2005:

‘Revenue collection, budgeting, and financial management practices brought into line with current best practice; strengthened accounting systems and practices following establishment of a computerized financial management system. Internal financial control mechanisms established and implemented, and independent audit agency (General Auditing Office) made more effective. De-concentration of financial management to different spending centres within the NTGL [National Transitional Government of Liberia]’.<sup>17</sup>

In reality, financial management practices of the NTGL were so far from “current best practice” by mid 2005 that the donors decided to impose a [Governance and Economic Management Assistance Programme](#) (GEMAP) on the NTGL in an effort to stem the flow of state resources into private pockets. Prior to this, the donors had not given economic reforms a high priority, preferring to wait until elections were held and a new government was in place. This strategy proved to be highly counterproductive.

36. Donors also frequently underestimate the degree to which the politics of post-conflict environments affects the ability of national authorities and other key stakeholders to reach agreement on critical issues and thus the speed with which activities can be implemented. In some cases, as in Liberia with DDR and SSR, they simply do not want to be delayed while waiting for national stakeholders to reach agreement. This leads to a preference for financing mechanisms that can

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<sup>17</sup> National Transitional Government of Liberia, United Nations and World Bank, *Joint Needs Assessment*, February 2004, pp. 29-32.

implement rapidly and intolerance for “slow” disbursement. This does not, however, lead to the most sustainable outcomes.

37. ***Donors should not expect that financing can be left on autopilot if desired outcomes are to be achieved.*** One of the attractions of pooled funding and channel funding is that they shift part of the responsibility for managing programmes to other actors. It enables donors to support more activities in countries than they would if they had to manage these activities themselves. At the same time, donors frequently express dissatisfaction with the way in which their financing is used in post-conflict environments, particularly with the speed of disbursement through MDTFs or CHF.

38. Fund administrators have clearly over-promised and under-performed in some instances (as with UNDP disbursement to NGOs through the Sudan CHF in 2005/06 and with World Bank underestimation of the problems associated with disbursing through government in Southern Sudan). At the same time, evaluations have found that in these cases donors have not played as active and constructive a role as they could have on fund oversight bodies. In the case of the IRFFI in Iraq, for example,

‘...informants expressed concern that the Donor Committee has not realized its potential as a strategic body. The Committee has not met on a six month basis as originally anticipated. Indeed, the committee has not formally met since 2005, although there the two ITF’s provided a briefing in May 2006. It means that the Committee has not focused on guidance to IRFFI operations at a time when there has been a serious deterioration in the program environment, which has particular [sic] affected WB ITF disbursement. Donors have not conducted their own joint assessment of the situation. The burden of strategy and risk mitigating has been placed largely on the two Administrators’.<sup>18</sup>

39. Donors have also been reluctant to run political interference for MDTFs, apparently expecting the World Bank and UNDP to be able to play a diplomatic, as well as a fund management, role. Problems encountered by the World Bank administered Multi-Country Demobilization and Reintegration Programme (MDRP) in DRC highlight the inadequacy of this approach. Faced with government intransigence in implementing the DDR programme, MDRP and World Bank officials appear to have failed to alert donors in a timely manner to the blockages, but donors were also not monitoring the situation adequately and were slow to respond once alerted. Donors were extremely displeased with the slow rate of disbursement from the MDRP through the national DDR committee, and complained vociferously that the lack of progress in the DDR programme lay with the inability of the MDRP to ensure that all necessary facilities and programmes were in place. In reality, facilities and

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<sup>18</sup> Scanteam/Norway, [Review of Post-Crisis Multi-Donor Trust Funds, Volume II: Country Annexes](#), February 2007, Annex D: The Iraq Trust Funds, para. 103.

programmes were not in place in large part because it was in the interest of the government to prevent the MDRP from functioning effectively.<sup>19</sup> It is essential that donors provide the political support necessary for the effective functioning of financing mechanisms.

40. In order for donors to provide the appropriate oversight and support to those bodies managing the resources donors provide in post-conflict environments, it is essential to have a) a coherent donor government strategy defining donor government priorities in a given country that is agreed among all major donor ministries, b) adequate personnel on the ground, and c) support from staff in capitals as required.

41. ***Donors should continue to press the UN and the World Bank to implement the reforms necessary to improve their ability to deliver effectively in post-conflict environments, including agreeing on ways to improve their partnership.*** It is clear that pressure from major Bank shareholders has led the Bank to work very seriously with the UN to align standards and practices in crises and emergency situations. In addition to working out a framework agreement and a partnership agreement (Box 1), the Bank and the United Nations Development Group (UNDG) have been working to improve the quality of the PCNAs and the related Transitional Results Frameworks (TRFs).<sup>20</sup> The Bank should also be encouraged to establish a central office for MDTF management, similar to that established by UNDP to manage UNDG MDTFs and other joint UN funds.

42. Donors should also encourage the UN family to deepen its work on the [One UN approach](#), which would bring greater coherence to UN efforts at country level. Thus far, One UN pilots have not included any post-conflict countries, and it is not clear how the One UN approach would apply to post-conflict countries in the first few years following the end of conflict since its “One Programme” is focussed on the UN Development Assistance Framework, which is a longer term development strategy, not a transition or recovery strategy.

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<sup>19</sup> See for example Ball and Hendrickson, [Review of International Financing Arrangements for Disarmament, Demobilization and Reintegration](#), Phase 2 Report.

<sup>20</sup> A 2006 review of experience with PCNAs indicated that while they had been effective in mobilizing external resources and developing a shared analysis of needs, they lacked a number of key elements: a) strategic focus on peacebuilding, b) prioritization, c) focus on national institutional capacity building, and d) appropriate level of attention to reform and resource needs in political governance, rule of law and security institutions. International Development Association, [Operational Approaches and Financing in Fragile States](#), p 14.

For progress to date on revising the PCNA and TRF, see United Nations Development Group and World Bank, [Joint Guidance Note on Integrated Recovery Planning using Post-Conflict Needs Assessments and Transitional Results Frameworks](#), Working Draft for Circulation, September 2007.



# **ANNEX 1. PRINCIPLES FOR GOOD INTERNATIONAL ENGAGEMENT IN FRAGILE STATES AND SITUATIONS**

## **Preamble**

A durable exit from poverty and insecurity for the world's most fragile states will need to be driven by their own leadership and people. International actors can affect outcomes in fragile states in both positive and negative ways. International engagement will not by itself put an end to state fragility, but the adoption of the following shared Principles can help maximise the positive impact of engagement and minimise unintentional harm. The Principles are intended to help international actors foster constructive engagement between national and international stakeholders in countries with problems of weak governance and conflict, and during episodes of temporary fragility in the stronger performing countries. They are designed to support existing dialogue and coordination processes, not to generate new ones. In particular, they aim to complement the partnership commitments set out in the Paris Declaration on Aid Effectiveness. As experience deepens, the Principles will be reviewed periodically and adjusted as necessary.

The long-term vision for international engagement in fragile states is to help national reformers to build effective, legitimate, and resilient state institutions, capable of engaging productively with their people to promote sustained development. Realisation of this objective requires taking account of, and acting according to, the following Principles:

## **The Basics**

1. Take context as the starting point.
2. Do no harm.

## **The Role of the State & Peacebuilding**

3. Focus on state-building as the central objective.
4. Prioritise prevention
5. Recognise the links between political, security and development objectives.
6. Promote non-discrimination as a basis for inclusive and stable societies.

## **The Practicalities**

7. Align with local priorities in different ways in different contexts.
8. Agree on practical coordination mechanisms between international actors.
9. Act fast ... but stay engaged long enough to give success a chance.
10. Avoid pockets of exclusion.

*Source: Organisation for Economic Co-operation and Development, Development Assistance Committee, [Principles for Good International Engagement in Fragile States & Situations](#), April 2007.*

## ANNEX 2. MDF'S HOUSING PROGRAMME

In February 2006, Eye on Aceh and Aid Watch published an assessment of international tsunami assistance in Aceh, [A People's Agenda? Post-Tsunami Aid in Aceh](#). While painting an overall picture of unnecessary duplication of effort, inadequate consultation with local beneficiaries, and potential negative effects on Aceh's social and physical environment, the report identified a number of activities that ran counter to the general trend. One was the housing programme financed by the Multi-Donor Fund for Aceh and Nias.

'The MDTF's two-phase Settlement Rehabilitation and Reconstruction project is working together with the KDP and UPP [Urban Poverty Programme] to build and repair housing for hundreds of villages in Aceh and Nias...'

'Implementation of the Fund's housing programme is grounded in the same philosophy as the UPP and KDP mechanisms: the belief that community empowerment and education should be an integral part of a community infrastructure programme. The programme has recruited UPP facilitators, and expanded on the existing network of KDP staff, as well as recruiting and training new staff whose focus is solely on housing. Local housing committees of 10-15 people are being established in the target villages, as well as a local oversight Board of Trustees, all of whom are notarised. Via the local housing committees, the scheme gives cash grants of Rp 42 million (the BRR approved rate for a standard Type 36 house) to each beneficiary, whose responsibility it is to plan, design and implement the building of their own homes. The houses must meet earthquake proof, environmental, and other standards, including the possibility for future extension. Grants of Rp 15 million (\$1,615) are also available to those in the area who need money to repair their houses. The money is disbursed via a special account established by the housing committees. The Fund has also placed consultants in the field to assist with design and other technical matters, and to help ensure that pre-requisites of transparency, accountability, environmental standards and others are met. This is, according to the MDTF, 'the ultimate in community driven development.'

'In Gampong Baru, Banda Aceh, the community is very happy with their new situation, one resident explains: 'We've been promised houses by several NGOs. UPLINK came to do land mapping in April and promised 250 houses-no implementation. World Vision arrived here in September to build barracks, and they said they would follow that with 213 houses-no implementation. Perhaps that's lucky for us in some way. The UPP came last week and told

us we could have this new housing scheme. We can already see the results in that we have already set up housing committees and have begun to discuss budgets and building strategies; it's great.' For communities frustrated by empty promises, the MDTF housing scheme is the opportunity to take control of at least some part of their lives.'

'No scheme, however, is without potential problems. A number of interlocutors voiced concerns about the potential for corruption, in the form of giving 'coffee money,' to those whose task it is to approve each phase. As in all Trust Fund projects, strict anti-corruption mechanisms have been put in place in principle: the money for a new house is given in three tranches and for repairs in two tranches, and any non-fulfilment of requirements or hint of malpractice will result in the next tranche being withheld. The assessment of progress is conducted through a community adjudication committee that gives technical assistance to people to help design their own homes. Nevertheless, a local community group based in the same sub-district as the pilot project voiced concerns: 'The opportunity for some corruption in this MDTF mechanism is very high. For example, it would be easy to over-price materials, or over-charge for building contractors etc. That's the Acehnese way, but we don't call it corruption' (p. 33).'

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