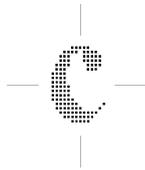


Non-paper on Pooled Funding Mechanisms in Post-Conflict Situations

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1. Introduction

1. On 8 July 2009, the Netherlands Ministry of Foreign Affairs – in close cooperation with the UN Development Operations Coordination Office (DOCO) and the UNDP Multi-Donor Trust Fund Office (MDTF Office) in its capacity as the principal fund administrator of ongoing UN pooled funding mechanisms – will host an informal high level meeting on MDTFs and other pooled funding mechanisms in post-conflict situations and UN ‘Delivering as One’ countries. The purpose of the meeting, that will be attended by representatives of donor governments, the OECD/DAC, key UN organisations playing an active role in most UN MDTFs and the World Bank, is **to share lessons learned and best practices in order to build a consensus and identify concrete steps that donor governments and international organisations can take to improve the functioning of pooled funding mechanisms in post-conflict situations and UN ‘Delivering as One’ countries.**

2. This non-paper aims to inform the meeting by focusing specifically on pooled funding mechanisms in post-conflict situations, with an emphasis on those mechanisms that have been/are administered by either the World Bank or the UN. Specific attention will be paid to the financing of transition activities in post-conflict situations, i.e. rehabilitation and recovery activities that take place in the transition phase from humanitarian assistance to longer-term development cooperation. As such, **this paper will answer four central questions:**

- 1) What is the rationale for using pooled funding mechanisms in post-conflict situations?
- 2) What are the main lessons learned with regard to the implementation and use of pooled funding mechanisms in post-conflict situations?
- 3) Which pooled funding mechanisms are best suited to be used in what phase of the post-conflict reconstruction process, and who should be in the lead during these phases?
- 4) What measures can be taken to ensure a more effective, harmonious use of pooled funding mechanisms in post-conflict situations, specifically in relation to the financing of transition activities?

3. The paper builds on several recent contributions to the debate about the use of pooled funding mechanisms in post-conflict situations. First, the upcoming report by the UN Secretary General on peacebuilding in the immediate aftermath of conflict, which underlines the importance of pooled funding mechanisms in these situations. Second, the upcoming report to the OECD/DAC INCAF Financing and Aid Architecture Task Team on financing transition activities in post-conflict countries by Development Initiatives. Furthermore, the paper draws upon recent reviews of and progress reports on the functioning of various pooled funding mechanisms, such as the International Reconstruction Fund Facility Iraq (IRFFI), the Afghanistan Reconstruction Trust Fund (ARTF) and the Peacebuilding Fund (PBF).¹

2. Providing assistance in post-conflict situations

4. In understanding the rationale for pooled funding mechanisms in post-conflict situations, it is important to underline some of the peculiar characteristics of the period following the cessation of hostilities, i.e. the immediate aftermath of conflict. This period is

¹ Scanteam 2009 Stocktaking report of the IRFFI; Scanteam 2008 External review of the ARTF; Ball & Van Beijnum 2009 Review of Peacebuilding Fund.

characterised by a multitude of un-met needs that stretch from life-saving humanitarian needs (immediate provision of basic services to a needy population), to the need for stabilisation and rehabilitation (peace dividend), to the need to start rebuilding society (reconstruction of social and economic infrastructure) and state institutions (statebuilding). To provide an answer to these needs, it is essential for the international community to make a transition from the short-term focused humanitarian assistance that is traditionally provided whilst a conflict is ongoing, to longer-term focused recovery and (eventually) development assistance.

5. There are several basic distinctions between humanitarian assistance on the one hand and longer-term development cooperation on the other. Humanitarian assistance is aimed to provide relief to immediate, life-threatening needs, while taking into account the basic humanitarian principles of humanity, impartiality, neutrality and independence. Given the urgent nature of the needs, and given the principles of neutrality and impartiality, an important characteristic of humanitarian assistance is that it tends to be distributed outside of government institutions. Development cooperation on the other hand is aimed at poverty reduction and the establishment of longer-term, sustainable socio-economic prosperity, and builds on the principles of local ownership and harmonisation, which involves the active participation and development (capacity building) of partner governments. **In shifting from humanitarian assistance during a conflict, to rehabilitation and reconstruction in the immediate aftermath of conflict, to eventually longer-term development cooperation, the main distinguishing feature is a change in the level of engagement with the state** – from largely bypassing it in humanitarian assistance during the conflict phase to (eventually) supporting statebuilding in the aftermath of conflict.²

6. However, when dealing with countries in the immediate aftermath of conflict, the traditional perception that there is a pathway of progress out of conflict, and linked to that a continuum in phases of assistance – i.e. first humanitarian, then recovery and then development assistance - is not considered to be useful. It is more and more recognised that transition situations are shifting and volatile, and subject to setbacks.³ The different modes of assistance often coincide in such situations: countries are faced with pressing humanitarian needs, but also need to start the process of socio-economic and political reconstruction to create peace dividend, yet lack the government capacity to deal with either of these. Consequently, **assistance in these situations requires funding modalities that can deal flexibly with the multitude of needs existent in such situations**. As such there is a need for transition financing mechanisms, which aim to overcome the distinction between short-term humanitarian assistance instruments and longer-term development cooperation instruments to kick-start the vital processes for recovery.

7. **Transition financing is faced with many challenges that are presented by post-conflict situations**. Generally, the government capacity in such situations is weak, both with respect to political will and capacity to deliver, and there is a lack of agreement on which needs are priority needs (partly due to the multitude of needs). Donor coordination is often weak and the funding coming in (i.e. development funding) is generally not fast and flexible enough. It is for instance very likely that security-related activities need to be supported, but as most of these do not fit with the ODA definition it has proven very difficult to find funding for these activities, preventing a holistic approach to peacebuilding. The complex context of

² Development Initiatives 2009

³ Development Initiatives 2009

post-conflict situations has greater risks attached to it than ‘traditional’ development assistance in terms of efficiency and effectiveness. Many donors find it difficult to accept these risks, and the fact that delivering on the needs in such situations tends to be costly, given the need to be as accountable and transparent as possible towards their constituencies (see paragraph 8).⁴ It is in addressing these challenges that pooled funding mechanisms are perceived to play a crucial role.

3. Rationale for pooled funding mechanisms in post-conflict situations

8. The international community has increasingly been involved in a debate on the need for a better coordination and harmonisation of the various aid activities – both in ‘traditional’ development cooperation settings and in (post)conflict settings – to ensure maximum accountability, efficiency and transparency. In recent years, various donors have committed themselves to international initiatives and agreements that underline the importance of harmonising aid activities – e.g. the Paris Declaration, the Accra Agenda for Action and the OECD/DAC Principles for Good International Engagement in Fragile States. Central to these initiatives is an **increasing emphasis on aid harmonisation, donor alignment, mutual accountability, predictable and sustainable aid, and local ownership**. The donor initiatives tandem with an ongoing process to improve coordination and harmonisation in the multilateral system. The most notable example here is the UN ‘Delivering as One’ process, in which the UN is working to streamline its own operations.

9. Increasingly, the pooling of funds is seen as an important element in the efforts to harmonise aid activities, specifically in post-conflict situations. **Pooled funding mechanisms are considered to improve resource efficiency and effectiveness by reducing transaction costs and by managing the high-risk levels inherent to post-conflict situations**. From a donor perspective, pooled funding mechanisms reduce information, coordination, administrative and various access costs. Pooled funding mechanisms in other words lower transaction costs and the administrative burden will be decreased as a donor is dealing with one central fund rather than with a plethora of smaller funds and projects. Furthermore, as pooled funding mechanisms are to follow a coherent strategy coordinated between the national government and international actors, pooled funding mechanisms are perceived to enhance the impact of aid. Related to this, they strengthen the bargaining power of donors vis-à-vis partner governments as donors speak with one voice and form a united front – and thus making it harder to play one donor against another, which can be a realistic threat when dealing with newly established partner governments emerging out of conflict. Finally, pooled funding mechanisms reduce fiduciary and political risk exposure when donors need to interact with possibly corrupt and/or abusive parties to a post-conflict process.⁵

10. The governance structure of most pooled funding mechanisms is built on the concept of national ownership; i.e. the partner government is involved in identifying the main objectives and strategy for the fund, is involved in the decision-making process on the approval of activities to be funded, and in some cases is required to contribute financially to the fund as well. As such, **pooled funding mechanisms increase national ownership for partner governments, as well as political visibility**. Furthermore, pooled funding mechanisms are

⁴ Scanteam 2007 / Development Initiatives 2009

⁵ Scanteam 2007

perceived to increase and untie funding. The argument of lower transaction costs holds true for the partner government as well; specifically in the case of post-conflict governments, it is considered important to ease the administrative burden as much as possible, as those governments are most often dealing with a lack of capacity to begin with.

11. **There are sound reasons for asking the World Bank or the UN to administer pooled funds in post-conflict situations; both are considered to be able to work in such high-risk environments along the lines preferred by donors (i.e. increasing coordination, alignment and harmonisation, and ensuring a certain level of fiduciary standards required by donors in terms of accountability and transparency).** For the Bank, administering a pooled fund (build on a national strategy) is in line with its focus on strengthening governance and state institutions, and promoting sound public finance management and economic growth. For the UN, administering a pooled fund in a post-conflict situation is in line with its political and development mandates, its strong field presence and its role as a partner both to national governments and donors.

12. **For the World Bank and the UN there are also advantages to act as administrator of pooled funding mechanisms in post-conflict situations.** For the Bank, involvement in pooled funds provides a legitimate re-entry point into countries that have not been eligible for Bank (IDA) support for some time, providing an opportunity to help these countries address arrears and thus assist them in becoming eligible for IDA support in the longer term. For the UN, involvement in pooled funds contributes to the process of streamlining UN operations and strengthening the UN's position of lead coordinator in post-conflict situations.

13. Overall, in theory there are many advantages to pooling funds, as they can create a much needed flexibility to ensure effective, needs-based funding, in line with internationally agreed standards of good practice. In practice, this is not always the case, as will be discussed below.

14. An important caveat is that **any advantages of pooled funding are conditional upon the use of pooled funding mechanisms as the preferred channel for assistance, with the bulk of the funding running through them. Currently, many donors are still channelling funds outside pooled funding mechanisms.** The United States for instance, being the largest bilateral donor, are not participating in pooled funds. The European Commission, another large donor in post-conflict situations, on the other hand is to some extent, but is most often requiring compliance to its own fiduciary rules and regulations, therewith undermining the comparative advantage of lowering transaction costs. The lack of donor participation in pooled funds is partly due to constraints in terms of national rules and regulations (e.g. requirements for accountability), partly to unwillingness of certain donors to transfer power to joint mechanisms (as this may weaken their position to pursue their political agendas), partly to dissatisfaction of donors with results of pooled funding mechanisms to date. On this last point, it is disconcerting to see that donors tend to create new funding mechanisms when existing ones do not deliver as expected, rather than focusing on adjusting and improving the existing instruments (see box 1).

15. Of course it is not realistic to expect that all donor funding can be channelled through pooled funds. There is always a need for bilateral funding, for instance for diplomatic and political reasons (like the need to fund a donor country's own national NGOs). However, **there are clear advantages for funding to go, as much as possible, through multilateral**

channels in pooled mechanisms. In recognising these advantages, it is important for funding outside these channels to be as complementary and coherent as possible, aimed at niches not covered by the pooled funding mechanisms (rather than duplicating activities).

Box 1: Fund Implementation in Southern Sudan

In Southern Sudan, multiple pooled funds have been set up during the last couple of years. Initially, a development oriented World Bank administered Multi-Donor Trust Fund (MDTF) was set up in 2005, which suffered major setbacks and delays in setting up the fund due to lack of capacity in the Government of Southern Sudan, lack of World Bank field capacity, delays in coming to fiduciary management agreements between the Bank and bilateral donors, as well as in coming to a working agreement between the Bank and the UN (as implementing agencies). In response to these delays, the Sudan Common Humanitarian Fund (CHF) was established in 2006 to cover recurring humanitarian needs. In 2008, again responding to delays encountered by the MDTF and the lack of results achieved, the UN administered Sudan Recovery Fund (SRF) was set up to kick start the basic processes of recovery. In the meantime, several funds dealing with specific recovery issues have been established (e.g. the Basic Services Fund, the Capacity Building Trust Fund).

The example, which is generally accepted as being a worst-case scenario, underlines the volatility of the transition period, where humanitarian and recovery needs go hand in hand while peace is unstable. The 'reverse' implementation of pooled funds in Southern Sudan (first development oriented MDTF, then humanitarian oriented CHF, and then recovery oriented SRF) highlights the importance of an increased understanding of when to use what funds to ensure maximum effectiveness and efficiency.

4. Lessons learned throughout the years

Humanitarian assistance

16. The informal high level meeting on MDTFs and other pooled funding mechanisms in post-conflict situations and UN 'Delivering as One' countries that will take place in July 2008 will deal with transition financing and not with humanitarian assistance. However, the progress made and lessons learned with pooled funding for humanitarian assistance could be of value. For that purpose this paper will elaborate to some extent on humanitarian assistance as well.⁶ In line with the growing recognition of the potential benefits of pooled funding mechanisms and the importance of aid coordination and harmonisation, the use of pooled funding in post-conflict situations steadily increased over the last two decades. The 1990s saw an increase in intrastate conflict, or 'complex emergencies', which led to a deepening of humanitarian crises. This trend resulted in a **significant increase in expenditure on humanitarian assistance, both in absolute terms and as a proportion of total ODA**. It is estimated that between 1990 and 2007, global humanitarian assistance increased from US\$ 2 billion per year to US\$ 14 billion, including non-DAC donors and voluntary contributions to NGOs. Globally, humanitarian assistance as a percentage of total ODA increased from 3.5% in 1990 to 9% in 2006.⁷

17. **The increase in humanitarian expenditure in turn sparked a debate on how to effectively organise humanitarian assistance in order to ensure harmonisation, efficiency, accountability and transparency.** Amongst other things, this debate led to the endorsement of the Good Humanitarian Donorship Initiative (GHDI) in 2003, which is aimed

⁶ Furthermore, as in most immediate post-conflict situations the need for humanitarian assistance remains, the humanitarian funding instruments could be considered to be part of the array of post-conflict funding mechanisms.

⁷ Development Initiatives 2008 (Global Humanitarian Update 2007-2008) / Development Initiatives 2009 (Global Humanitarian Update 2008-2009 – forthcoming)

at: 1) the creation of greater coordination in donors' policies and approaches to decision-making and resource allocation; 2) more predictable, flexible and timely funding arrangements in response to crises; 3) a response to crises which is needs based; 4) the use of needs assessments that apply objective criteria and thereby ensure equitable funding to all crises, including so-called 'forgotten crises'.

18. **The humanitarian aid architecture is built around the UN**, where OCHA (previously DHA) plays the central role to lead and coordinate the response to humanitarian crises, headed by the Emergency Relief Coordinator (ERC).⁸ OCHA's mandate includes such tasks as: supporting the conduct of needs assessments, the preparation of CAPs (see below) and the coordination of humanitarian response, policy development, coordination on the field level and general advocacy. OCHA has a number of organisational and financial instruments at its disposal to ensure that it can perform these tasks effectively and efficiently.

19. In terms of organisational instruments, the main ones to list here are the Inter-Agency Standing Committee (IASC) and the Consolidated Appeals Process (CAP). The IASC, which is chaired by OCHA, comprises of all relevant UN operational organisations, the ICRC, the IFRC and NGO consortia, and operates as the primary mechanism for inter-agency coordination in humanitarian assistance. The CAP is a tool to prepare and coordinate the funding appeals of various agencies. As such, it has become the humanitarian sector's main tool for coordination, strategic planning and programming. The CAP is led by OCHA.

20. In 2005, following a review of the humanitarian response system, several reforms were introduced. The most notable of these is the creation of the cluster lead approach as a way of addressing gaps and strengthening the effectiveness of the system. Within each of the clusters, which are thematically defined⁹, there is one organisation that is in charge of the coordination between the various actors involved: the cluster lead. Interestingly, one of the clusters specifically addresses issues concerning 'early recovery' (UNDP is Lead Agency).

21. In terms of financial instruments, two pooled funding instruments are of interest here. First, the **Central Emergency Response Fund (CERF)**. The CERF was established in December 2005 to upgrade the Central Emergency Revolving Fund. **The fund was established to provide an initial injection of resources to kick-start the response to a rapid-onset emergency and to ensure funding to under-funded emergencies, thereby smoothing out donor biases.** As the fund is a standing, non-earmarked fund, it is possible to have a more balanced – and less political – choice of countries in need.

22. The initial revolving fund was based on government 'loans', which required donor pledges for reimbursement before the release of the funds. The current CERF still consists of this government loan but in addition entails a donation component, to which donors make unearmarked contributions. In its current form, the fund was expanded from US\$ 50 million to US\$ 500 million in view of the need to facilitate a timely response in relation to demonstrated needs and to allow access to funds within 72 to 96 hours. **The CERF consists of a grant facility (up to US\$ 450 million, depending on the contributions received) allowing the ERC to ensure coverage of life-saving programmes when funds are not**

⁸ UN General Assembly Resolution 46/182

⁹ The clusters are: Agriculture, Camp coordination management, Early Recovery, Education, Emergency Shelter, Emergency Telecom, Health, Logistics, Nutrition, Protection of IDPs and others affected by disaster, Water/sanitation hygiene.

available from other sources. The grant facility can allocate funds to UN operational agencies to address needs based on priorities established under the leadership of the Humanitarian/Resident Coordinator (H/RC) in the field. **The CERF furthermore consists of a loan facility (US\$ 50 million) which is used to provide loans to UN agencies for emergency programmes based the indication that donor funding is forthcoming** (loans must be reimbursed within one year). As such, the facility is primarily used as a cash-flow mechanism allowing UN agencies to access funds rapidly while they are waiting for donor pledges to be transferred.¹⁰

23. Recent reviews of the CERF¹¹ paint a mixed picture in terms of results:

- 1) The fund has been successful in raising money and in attracting donors (the fund has over 100 bilateral and private donors), but it should be noted that the **actual support base for the fund is relatively small**, with 80-85% of its donations coming from merely seven donors.¹²
- 2) The fund has strengthened the capacity of RCs/HCs to interact with host governments. However, the increase in the size of the fund needs to be combined with improvements in the capacity at field to deliver assistance and to manage the fund. There is a **lack of adequate emergency capacity in operational agencies**, and the fact that NGOs have no direct access to the fund is found to slow down the implementation process.
- 3) The **capacity of the CERF Secretariat and OCHA support teams needs to be strengthened** to ensure a timely review of applications and high-quality decisions. Furthermore, the criteria for project approval need to be further refined, there needs to be a better assessment beforehand of the implementing agency's capacity to deliver assistance, and the use of needs assessments needs to be improved.
- 4) The **process of disbursing funds from UN agencies to implementing partners needs to speed up**. Lack of capacity in support offices causes delays in disbursement, as does the issue of adhering to the UN rules and regulations on financial accountability.
- 5) The **multiple lines of accountability for the CERF need to be clarified (in consultation with the UN Controller and the operational agencies) to specify the roles and responsibilities of each actor**. The ERC needs to ensure that the implementing agencies have appropriate monitoring and reporting systems in place, and have the staff capacity to actually conduct monitoring and evaluation.

24. The second financial instrument worth mentioning here is the **Common Humanitarian Fund (CHF)**. Whereas the CERF is a central standing fund, the CHF is a country-level pooled fund. The CHF, first issued in 2005-06 for Sudan and the Democratic Republic of Congo, **aims to provide early and predictable funding and to support the timely allocation and disbursement of donor resources to the most critical humanitarian needs under the direction of the HC**. CHFs are designed to give the HC greater ability to target funds to the most critical needs, encourage donor contributions and allow rapid response to unforeseen needs. The HC manages the funds with support from OCHA and UNDP. OCHA

¹⁰ For more information: <http://ochaonline.un.org/cerf/WhatistheCERF/tabid/3534/language/en-US/Default.aspx>

¹¹ E.g. CERF 2-year evaluation, Oxfam 2007 report, Save the Children UK June 2007 report

¹² These are: the United Kingdom, the Netherlands, Sweden, Norway, Canada, Spain and Ireland.

serves as the CHF technical unit and is responsible for managing the allocation process, whereas UNDP is the administrative agent managing the disbursement of funds to recipient organisations (MDTF Office).

25. Recent reviews of the CHF¹³ note several recurring, main issues with regard to the operation of the fund:

- 1) There is a **need for more regular and more flexible donor contributions** to the fund. The funding must become more predictable, e.g. through the standardisation of the time of donating funds.
- 2) **Monitoring and evaluation mechanisms should be improved and harmonised.** E.g. OCHA and UNDP were found to use different mechanisms, which decreases the effectiveness of CHFs.
- 3) The respective tasks of OCHA and UNDP should be clarified, especially in terms of the roles that both organisations play in the early recovery/transition phase. Also, there is a **need for greater clarity on the mandate of CHFs themselves, with a clearer specification of the criteria of what transition activities they can support.**
- 4) There is **too little local ownership and NGO participation** in the CHF organisation, which lowers the impact of the needs-based approach.
- 5) **Allocation procedures need to be sped up**, as they now sometimes still take 3-4 months.

From humanitarian assistance to recovery/rehabilitation – transition gap?

26. The increase in humanitarian expenditures over the last two decades stated above has resulted in a **growing reluctance to stretch the limits of what is to be covered by humanitarian funding.** The initial growth in expenditures resulted in a broadening of the humanitarian scope to what is called ‘humanitarian aid plus’ (which included recovery and rehabilitation activities). Recent years have shown an increase in those arguing that humanitarian assistance should return to its traditional core business, i.e. responding to immediate threats and covering only live-saving activities, as the limited funds available should not be stretched too thin over the growing level of needs. Specifically in a post-conflict situation, requirements for support rise sharply with the need to not only respond to humanitarian needs, but also to support the establishment of state structures, to finance peacebuilding efforts and to assist populations and areas that may have been inaccessible during the conflict.¹⁴ It is argued that these needs ought to be covered out of the ‘traditional’ development assistance budgets, as these are focused on longer-term involvement (which is obviously needed when talking about supporting the establishment of state structures for instance).

27. However, **development assistance is found to be not well-suited to finance transition activities as it is not flexible enough and bound too closely to the idea of providing assistance through a partner government,** transferring responsibilities to build

¹³ E.g. Center on International Cooperation/ODI, 2006 ‘Common Funds for Humanitarian Action in Sudan and the Democratic Republic of Congo: Monitoring and Evaluation Study, December 2006; Development Initiatives et al, 2007 ‘Evaluation of Common/Pooled Humanitarian Funds in DRC and Sudan’, December 2007; USFDA, 2008 ‘International Humanitarian Financing: Review and comparative assessment of instruments’, July 2008.

¹⁴ Development Initiatives 2009

local ownership and capacity. In most (immediate) post-conflict situations, it is simply too soon to transfer these responsibilities as the needs are too grave and urgent to leave to a government that lacks capacity to address them effectively. **As a result, donors tend to use humanitarian aid to assist chronic crises** even though they do not allow humanitarian agencies to conduct recovery type activities with their funding.¹⁵

28. To add to the difficulties of financing transition, **within the current aid architecture humanitarian and development assistance are not only governed by different rules and regulations, they are often managed by different parts of donor agencies or different organisations** – overall, not corresponding to reality on the ground, and thereby creating a ‘gap’ in terms of responding to the needs in post-conflict situations.¹⁶

29. Taking into account the challenges provided by post-conflict situations, the issue seems to be more about how to provide appropriate long-term, but flexible support to situations of chronic crisis where government counterparts are weak or illegitimate. A recent report drafted for the OECD/DAC Task Team on Financing and Aid Architecture states that **the focus of the international discussions should shift towards harnessing instruments and capacities to meet the needs of the country, rather than defining the needs in artificial categories**; this would make the concept of a transition ‘gap’ redundant.¹⁷

30. In terms of providing solutions to the difficulties encountered in financing post-conflict transition processes, there are broadly two options. The first would be to change the rules that govern development assistance, in order to allow humanitarian assistance to return to the core of its activities. The second would be to develop pooled funding mechanisms that enable donors to overcome the problems that are created by these rules. Recently, efforts have been made to move forward along the lines of the second option. Two specific instruments will be discussed here: the UN Peacebuilding Fund and Multi-Donor Trust Funds.

Peacebuilding Fund

31. The Peacebuilding Fund (PBF) was established by the UN secretary-General (UNSG) in 2006 to **support interventions of direct and immediate relevance to the peacebuilding process and contribute towards addressing critical gaps in that process, in particular in areas for which no other funding mechanism is available**. As such, the PBF was perceived to fill the transition financing gap. The PBF has a two-tier decision-making structure. The first tier involves a central allocation of funding at a global level by the UNSG. The second tier in PBF decision-making occurs at the country level (decisions on priorities, project allocation, etc). The PBF is managed on behalf of the UNSG by the UN Peacebuilding Support Office (PBSO), which is situated in the UN Secretariat, while the UNDP MDTF Office acts as the fund administrator. Only UN agencies can act as recipient agencies to the fund.

32. The PBF is a multi-year standing fund, supported entirely by voluntary contributions. Up to March 2009, the fund had received US\$ 305.9 million in commitments from 45 donors. The fund has been allocated to 12 recipient countries, with 58% of the total funding being

¹⁵ In 2003 and 2004, long-term humanitarian assistance accounted for more than 75% of the total, falling to around 50% in the last three years. This long-term humanitarian assistance is concentrated on a small number of major sustained crises (Sudan, Iraq, Ethiopia, DRC and Afghanistan). Source: Development Initiatives 2009.

¹⁶ Development Initiatives 2009

¹⁷ Development Initiatives 2009

allocated to the first two countries declared eligible for funding (Burundi and Sierra Leone). As most PBF funded activities fall within the mandate of UNDP, it has been the main recipient agency, receiving 73.4% of the total allocations up to January 2009.¹⁸

33. A recent review of the PBF¹⁹ identifies the main challenges facing the PBF to the effective and efficient achievement of its objectives:

- 1) There is **no clear, common and consistent definition of peacebuilding**. This leads to a lack of clarity on what can be expected from a modest size fund and on the **PBF's comparative advantage as opposed to other funds** active in the transition phase, which in turn results in unrealistic expectations as to what the PBF can actually deliver.
- 2) The **tendency amongst donors to see the PBF as an early recovery fund is not realistic given the size of the fund and its global scope**. Those actively working with the fund at field level tend to see peacebuilding as a process of reconciliation and rehabilitation that takes place next to the socio-economic recovery process. This peacebuilding process cannot be implemented in the immediate aftermath of conflict, as people's first concerns are reconstruction of basic means for survival – they are not yet ready to engage in processes of reconciliation.
- 3) Related to the lack of a clear definition of peacebuilding, the **identification of the most critical peacebuilding priorities and the selection of projects and partners to address the most critical peacebuilding needs has been problematic**.
- 4) The PBF is faced with **conflicting objectives and faulty assumptions**. On the one hand, the fund governance structures are aimed at capacity building (by definition a long-term process), while on the other it is supposed to provide quick disbursements and short-term results (the standard time-frame for projects is twelve months). The fund is meant to be active in immediate post-conflict situations, but in practice, the bulk of the fund has been channelled towards post-post conflict situations (like Burundi and Nepal).
- 5) The PBF is faced with **inadequate management capacity** in terms of numbers of staff allocated to the PBSO, as well as in terms of strategic guidance. Furthermore, there is a **lack of capacity at field level to support the local governance structures** in its decision-making processes (technical support). This has resulted, amongst other things, in a lack of understanding of the roles and responsibilities of key PBF stakeholders.
- 6) The PBF is confronted with a **slow pace of project implementation**, due to capacity issues within recipient agencies and/or implementing partners, UN procurements processes that are not well suited for post-conflict situations, and political delays.

Multi-Donor Trust Funds

34. Recognising the importance of aid coordination and harmonisation, while at the same time acknowledging the shortage in pooled funding mechanisms for (immediate) post-conflict situations, the international community started to create Multi-Donor Trust Funds (MDTFs)

¹⁸ Ball & Van Beijnum 2009

¹⁹ Ball & Van Beijnum 2009

to focus on transition and recovery activities. These funds were based on earlier MDTF models used in 'traditional' development situations, which were mostly administrated by the World Bank. According to several reviews²⁰, **the first batch of MDTFs used in post-conflict situations showed mixed results: overall, implementation of the funds was too slow and they were too inflexible in answering immediate needs**, thereby diminishing the impact of potential results in the transition period (e.g. peace dividend, growing confidence in local government, the successful delivery of basic services as well as meeting basic needs). Several reasons have been identified for this perceived lack of success:

- 1) There is a **lack of continuous donor contributions**. Donors often make one-off contributions and pledges do not always lead to actual contributions, which affects the predictability of funding and the possibility to plan effectively.
- 2) **Donors prefer to earmark donations, which negatively affects the flexibility of the funds as well the level of ownership by a partner government**. It also goes against the general philosophy of PFMs that funding should be unearmarked in order to maximise flexibility.
- 3) There is a **lack of coordination and coherence between the rules and regulations on donor contributions**, which results in different reporting requirements and timelines, effectively increasing the transaction costs and undermining the flexibility of the funds. The importance of alignment of donor rules and regulations is also stressed in the UNSG report on Peacebuilding in the immediate aftermath of conflict.
- 4) Furthermore, there is a **lack of donor participation and involvement in the day-to-day management of the funds**, which has resulted in unrealistic expectations from the donor side on what can be achieved (expectation management). Donors often lack the capacity to engage actively in MDTFs.
- 5) There is a **lack of administrative and technical support to the funds**, specifically to the funds Steering Committees, which has resulted in an overemphasis on the project and programme selection and a neglect of administrative and technical prerequisites to start implementing projects and programmes, causing delays in shifting from the programme development phase to actual programme implementation.
- 6) There is a **lack of field capacity of the Fund Manager**; this has been particularly the case in instances where an MDTF was administered by the World Bank, but also holds true for MDTFs administered by UNDP (see Box II).
- 7) The MDTFs have used **fiduciary standards for fund management that are not applicable to post-conflict situations** (too high and complex for such situations) resulting in serious delays in implementation (e.g. procurement rules and regulations). Some of these high standards were intrinsic to the rules and regulations of the Fund Managers; some were explicitly designed in response to the requests of donors to limit the fiduciary risks to a minimum. The high fiduciary standards and complex administrative procedures of particularly the World Bank have resulted in time consuming processes, and have in some cases only added to the administrative burden of the partner government, rather than easing this burden.

²⁰ Scanteam, 2008 'Afghanistan Reconstruction Trust Fund: external evaluation; UN MDTF-office, 2008 'Seventh Six-month Progress Report of IRFFI', Scanteam, 2009 'Stocktaking of the IRFFI, January 2009.

- 8) There is a **lack of formal contributions/input by civil society in fund management structures**; most MDTFs lack a formal representation of civil society in the fund administration.

Box II: Main distinctions and lessons learned on World Bank and UN administrated MDTFs

World Bank

- Best suited for longer-term engagement and capacity building through government supported projects (on-budget support);
- Allows donors to specify thematic preference; no earmarking at project level;
- Often takes longer to establish ground presence; should increase focus on qualified field-level experts;
- Need for increasing flexibility on the use of fiduciary/accountability standards;
- Should create one-stop-shop for its MDTF activities to increase transparency and accountability.

UN

- Best suited for shorter-term, recovery activities;
- Should increase focus on the integration of various UN activities in post-conflict situations;
- Should engage more systematically in local capacity building;
- Should continue to develop its rapid-deployment capacities, often transition from fund establishment to operationalisation takes too long.

35. Based on the experiences gained in the first round of MDTFs in post-conflict situations, and taking into account the main critique that the MDTFs were not able to respond quickly enough to immediate, short-term needs, the World Bank and UNDP established a two-window MDTF in Iraq: the International Reconstruction Fund Facility for Iraq (IRFFI). **In the IRFFI, both organisations administer one fund window, thereby using the comparative advantages of each organisation (i.e. UN for short-term, quick impact projects, and WB for longer-term capacity building in government structures – see Box II above).** The case of Iraq was the first instance where the UN and World Bank operated simultaneously within one fund structure. Previously, in the case of Afghanistan, both organisations had also already administered an MDTF but there UNDP administrated a short-term fund dealing with recurrent government expenditures – the Afghan Interim Authority Fund (AIAF), until the World Bank had set up its long-term fund – the Afghanistan Reconstruction Trust Fund (ARTF). The ARTF now consists of a recurrent window and an investment window. Proposals are being made to slowly phase out the recurrent window in the expectation that the Government of Afghanistan will be able to cover these costs itself. Both configurations show promise for future funds: by establishing a two-window structure with a short-term facility and a long-term facility, one could effectively use the expertise of both organisations.

36. However, for this to work several important lessons from the AIAF/ARTF and IRFFI will have to be taken into account. Most importantly, recent reviews of these funds²¹ argue that despite improvements²² there still is **too little harmonisation of the respective roles that each organisation should play within a jointly administered MDTF. It is not always clear what the mandate of each organisation is within the joint operation**, thus making it difficult to establish the comparative advantage of each organisation and to assess the effectiveness of the partnership. For example, a stocktaking report of the IRFFI states that

²¹ See footnote 20.

²² E.g. the recent Financial Framework Agreement between UN and the World Bank.

there was too little cooperation both on the management and field levels between the two parties, preventing the effective definition of current needs. Therefore, the report recommends a joint review of both organisations to evaluate the existence of current legal, administrative and financial bottlenecks that prevent the optimal cooperation between both parties.²³ Progress has been made in this respect, e.g. with the recent joint declaration on post-crisis assessments and recovery planning (September 2008) in which the UN Development Group and the World Bank, together with the European Commission, declare to mobilise their institutions and resources to harmonise and coordinate post-crisis response frameworks by establishing a common platform for action.²⁴

Other Pooled Funding Mechanisms

37. **In reaction to the fact that several pooled funds did not deliver results quickly enough – the most pressing example being the MDTF in Southern Sudan – donors and agencies have established numerous smaller, thematic funds.** The bulk of these funds are decentralised, most often single agency funds. To stick to the example of Southern Sudan, here different forms of pooled funds have mushroomed (as illustrated in Box I above): e.g. the Capacity Building Trust Fund (multi-donor, single agency – UNICEF), the UNDP Strategic Partnership Agreement (multi-donor, single agency – UNDP), the Basic Services Fund (started as bilateral fund initiated by the UK, now multi-donor and administered by private company), and most recently the Sudan Recovery Fund for Southern Sudan (multi-donor, single agency – UNDP).

38. The existence of these smaller, decentralised, single agency funds undermines the importance of pooled funding in lowering the transaction costs, as it increases the administrative burden for partner governments. Rather than identifying ways to adjust existing mechanisms to deliver the needed results, new mechanisms were designed and implemented, often with mixed results. Nonetheless, these smaller funds can play an important role in the process of post-conflict reconstruction by contributing to the overall intervention in a country. However, it is important to make sure that they are connected to the main funding mechanisms (preferably formally linked, so they can fall under the same governance structures) and that they add to what the main funding mechanisms are aiming to do (i.e. find a niche, as was recommended in the case of the PBF and its support to reconciliation processes²⁵).

39. Another trend that should be taken into account is the fact that **in recent years several funds have been administrated by private companies.** The above mentioned Basic Services Fund (BSF) in Southern Sudan is an example. The BSF was established by DFID to support the delivery of basic services through NGOs (education, health and water and sanitation services). The fund is administrated by Euroconsult Mott MacDonald (management consultancy), and currently supported not only by the UK, but also by Canada, the Netherlands and Norway. In terms of results, there are indications that the BSF has delivered services rapidly and effectively and has assisted NGO partners in beginning the transition from relief to development. NGOs are keen that the fund be expanded and strengthened,

²³ Scanteam, IRFFI report 2009

²⁴ UNDG, 25 September 2008, Joint Declaration on Post-Crisis Assessments and Recovery Planning – EC / UNDG / WB)

²⁵ Ball & Van Beijnum 2009

given the delayed implementation of basic service activities to be funded under the MDTF, and their own difficulties in accessing funds through this mechanism.²⁶

40. Another example is the Temporary Interim Mechanism (TIM) in the Occupied Palestinian Territories, which was established by the European Commission to provide basic services and facilitate needs-based assistance. The TIM, which was administered by PricewaterhouseCoopers, aimed to help cover running costs, consumables and equipment for hospitals and schools. The TIM's follow-up, the Pegase fund, was also administered by a private auditing and advisory company (Ernst & Young). Reportedly, **the overall donor experience with such private administrators is positive, even though they are slightly more expensive than multilateral fund administrators.** This is partly because they have been flexible and efficient in carrying out their tasks, and partly because these private actors do not carry political baggage.

5. Sequencing of pooled funding mechanisms in post-conflict situations

41. It is important to stress that, given all the knowledge, experience and lessons learned available in terms of the functioning of pooled funding mechanisms in post-conflict situations, **there is no need to create new mechanisms: existing instruments can potentially cover the needs present in those kind of situations,** as long as certain issues are taken into account. The continuing international discussion on pooled funding mechanisms should focus on these issues (see section 6). Taking the existing mechanisms as a starting point, one can already see a 'natural' sequencing in the instruments.

42. **During a conflict, assistance should continue to be provided through humanitarian channels. These channels and the related funding mechanisms should be flexible enough to continue supporting life-saving activities (in terms of basic service delivery) in the immediate aftermath of conflict.** As such, the funds should also cover the very first stages of recovery (i.e. early recovery); a process that mostly already starts before the official ending of a conflict (in the so-called 'pockets of peace'). OCHA should be in the lead for this process.

43. **Simultaneously, in the immediate aftermath of conflict, a joint integrated needs assessment should be carried out by a cross-section Country Team in order to identify which needs can be covered by a two-window MDTF, and which needs have to be covered by separate thematic funds.** This needs assessment should be updated on a regular basis, and should include an assessment of the fungibility of the different funding facilities. In order to perform this task, it is important to invest in building field capacity as soon as possible, making sure that staff is present with knowledge and experience in humanitarian assistance as well as longer-term development cooperation. Both UN and World Bank should have a surge capacity ready to support Country Teams if necessary, and donors should be willing to invest more in these technical support costs in the early stages of a post-conflict intervention.²⁷

44. **Based upon the outcomes of the needs assessment, a joint strategy should be developed, identifying the main priorities for the peacebuilding and reconstruction**

²⁶ Fenton 2008

²⁷ The concept of having a cross-section Country Team, as well as the importance of joint needs assessments and strategies, is underlined by the upcoming UNSG report on Peacebuilding in the immediate aftermath of conflict.

process. Both the conduct of the needs assessment and the development of the joint strategy should be led by the UN as the organisation that will have been present in the field throughout the conflict. In coming up with the joint strategy, one could think of ways to **make a distinction between a short-term and a long-term strategy.** The short-term strategy would not necessarily have to include complete participation and buy-in from the partner government, if it is faced with a lack of capacity. The short-term strategy should identify indicators to shift towards the longer-term strategy.

45. **Building on the strategy, an MDTF could be set up with both a short-term and a long-term facility.** The short-term facility would be focused on basic service delivery and quick impact projects, and should be led by the UN.²⁸ The set up of this facility could go reasonably fast, as the UN can build on existing structures at field level and existing agreements with donors and implementing agencies. The long-term facility should be set up simultaneously, although the actual development of the programme and its structures will take longer to develop. The first phase of this process is to focus first and foremost on building capacity and setting up fund structures (secretariat, steering committee, etc). If and when certain preconditions have been met, the second window kicks in. This process should be led by the World Bank, but will involve the UN closely.

46. Further based upon the needs assessment carried out by the Country Team, **smaller thematic funds could be established to fill niches left by the MDTF.** These should however preferably be linked to the MDTF governance structure.

6. Key issues for improving pooled funding mechanisms in post-conflict situations

47. Based on the experiences and lessons learned of the various funds that have been discussed, it is clear that the lack of flexibility and the delay in implementation are perceived as the main obstacles in the functioning of pooled funding mechanisms in post-conflict situations. Related to this, **certain key issues can be identified at donor level:**

- 1) Many donors are still channelling funds to post-conflict situations outside of the pooled funding mechanisms discussed. The advantages of pooled funding mechanisms only apply when donors use them as the preferred channel for funding. **Donors need to identify the bottlenecks to contribute to a pooled fund,** and should discuss amongst themselves how to deal with these bottlenecks.
- 2) Donor contributions to pooled funds are often irregular, unpredictable and earmarked, undermining the necessary flexibility of pooled funding mechanisms. **Donors should improve the predictability of their donations, as well as refrain from earmarking.** This means that solutions need to be found to address the issue of visibility, which is often needed due to political pressure. Donors and agencies need to enter into a discussion how to deal with this issue. One could for instance think about proportioning contributions to a pooled fund (e.g. if a donor contributes 25% of a

²⁸ In theory, it makes sense for UNDP to be the lead agency in this process, as UNDP is the UN Lead Agency for Early Recovery and as UNDP's mandate is consistent with the activities that normally would need to be carried out in this phase, i.e. governance, security sector reform, judicial reform, etc. However, in practice, UNDP is not always seen as the natural lead (neither by donors, nor by other UN agencies). Agreement amongst all UN agencies would be required for UNDP to play this role effectively. It would also require UNDP to make some substantial adjustments in its institutional and operational set-up (see paragraph 48, bullet 7).

- fund, and that fund gives US\$ 10 million to a crisis, the donor can claim that 25% of that US\$ 10 million is the donor's contribution).
- 3) **Donor expectations in terms of results of pooled funding mechanisms in post-conflict situations are often unrealistic** (mostly in terms of how fast certain results can be achieved), creating donor scepticism. Donors should be willing to take more risks and lower their expectations: pooled funding mechanisms in post-conflict situations are not 'business as usual' but involve higher levels of uncertainty. Related to this, **donors need to be willing to accept higher risks by agreeing to fiduciary standards that are applicable to post-conflict contexts.**²⁹
 - 4) Donors are focusing too much on project implementation and achieving results as quickly as possible. Taking into account the challenges presented by a post-conflict context, **donors need to accept higher overhead costs in terms of technical support and secretariats to coordinate the transition process** (conduct analysis, update needs assessments, training of staff at field level, etc).
 - 5) Donor rules and regulations are still too fragmented. This is most clearly the case in terms of reporting and accountability: **donors need to accept universal reporting and accountability lines** in order to decrease the administrative burden on fund administrators and implementing agencies.
48. At the **level of fund management, the following key issues emerge:**
- 1) There is an **overall lack of capacity in terms of fund management, at headquarters level but most importantly at field level, in terms of numbers of staff as well as in terms of knowledge and experience.** There is a clear need for technical support to fund management, already in the early stages of setting up fund structures. Fund administrators need to make sure that capacity is available (e.g. surge capacity for early stages).
 - 2) **Donors need to be more actively engaged in fund management,** as this will increase the success of pooled funding mechanisms and will also lead to more realistic donor expectations.
 - 3) Generally, **pooled funding mechanisms lack formal, systematic involvement of NGOs and civil society actors.** However, NGOs are often one of the main implementing parties and important 'players' in the field, specifically when the partner government is lacking capacity to deliver basic services. It is advisable to encourage more structural involvement of NGOs in fund oversight/advisory bodies.
 - 4) There is an **overall lack of clarity on roles and responsibilities of pooled funding mechanism stakeholders** (fund managers, implementing agencies, steering committees, etc.). This lack of clarity on who is responsible for what often delays the disbursement and implementation of funds.
 - 5) Most existing fund structures are not flexible enough to respond adequately to shifting circumstances in dynamic post-conflict situations. Strategies are based on assessments conducted well before the fund came into being, and priorities and objectives have not

²⁹ This is also one of the key issues raised in the UNSG report on Peacebuilding in the immediate aftermath of conflict.

- been adjusted since then. **Regular updating of needs assessments is of vital importance, resulting in an emphasis on monitoring and evaluation; i.e. feeding back lessons learned into fund structures in a timely manner.** This not only requires the existence of adjusted monitoring and evaluation mechanisms and trained staff to conduct monitoring and evaluation; it also requires a built-in flexibility to adjust the fund's objectives if circumstances demand so. **Pooled funding mechanisms should therefore work with shorter time-frames for the early stages, building in an incremental approach with different stages. Depending on the stage, leadership should shift accordingly.**
- 6) **The rules and regulations for engagement in post-conflict situations (fiduciary standards) of the fund managers need to be adjusted to include a higher level of risk-taking.** This requires donors to accept that higher level of risk, as was stated before.
 - 7) Given the importance of the overall leadership of the UN in the post-conflict reconstruction process, **there needs to be a mandated leading organisation within the UN structure that takes responsibility for coordinating international engagement in transition phases** (as is the case in the humanitarian phase with OCHA in the lead). UNDP (given its role as UN Lead Agency for Early Recovery) could be this lead agency. However, **if UNDP is to play this role, UNDP needs to be supported in making several adjustments in transforming from an organisation mainly focused on 'traditional' development cooperation into an organisation that can also provide effective assistance to post-conflict countries in transition from conflict to development.** This requires capacity building both at headquarters and at field level, both in terms of numbers and in terms of qualities – i.e. knowledge of/experience with (post)conflict situations. Furthermore, the rules and regulations for engagement in post-conflict situations need to be adjusted – e.g. in terms of procurement and execution modalities. Also, UNDP needs to clarify being lead coordinating agency and one of the main implementing agencies at the same time, in order to deal with the general perception that the agency is wearing multiple hats at field level. By establishing the so-called 'functional firewall' (a management accountability system identifying impartial fiduciary management rules and procedures for the RC), the UN has tried to address this issue. However, reportedly not all donors feel that the conflict of interest issue has been addressed adequately. Finally, UNDP should continue to work on identifying a functional working relation with the World Bank and with OCHA.
49. Overall, **what seems to be lacking is not so much a mechanism that can cover the immediate post-conflict needs (early recovery), but rather it seems to be an issue of an overall lack of funds (i.e. money).** To improve the flexibility of the international community to respond to those early recovery needs, one could think about reserving part of the contributions into a 'standing fund' that can be used to cover immediate needs (like the CERF in the humanitarian phase). This would also increase the predictability of funding. Some donors feel that the PBF should play this role. However, if the PBF were to play such a role, the size of the fund would have to be increased substantially and the objectives of the fund would have to be adjusted accordingly. The current link to the Peacebuilding Commission agenda, the spreading of the funds over countries that are in a post-post conflict phase rather

than an immediate aftermath of peace, the objective to contribute to capacity building and the prerequisite for the fund to be catalytic make it impossible for the PBF to act as a 'gap' filler.

7. Suggestions for follow-up

50. In order to take the international debate on pooled funding mechanisms in post-conflict situations forward, the following suggestions for follow-up are presented:

- 1) Working on Principles for Transition Financing within the OECD/DAC (following on the on-going work in the Financing and Aid Architecture Task Team);
- 2) Building a donor collective to support pooled funding mechanisms in post-conflict situations (e.g. within the EU context, both dialogue with those donor countries not contributing to pooled funding mechanisms, and dialogue with the European Commission);
- 3) Creating a task team consisting of representatives of entities with experience and record in administering MDTFs such as the UNDP MDTF Office, the World Bank and donors to see how existing mechanisms can be adjusted to address current bottlenecks and cover needs in the transition phase, and how donor requirements (as well as potentially rules and regulations) need to be adjusted;
- 4) Support to the UN to be able to identify an agency to take the lead role in the transition phase, as well as providing this agency with sufficient mandate to play this role.

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