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## **Effective Rapid Economic Assistance for States in Crisis (Presentation Outline)\***

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**\*Further Additions Forthcoming**

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## **What can be done to accelerate the international response?**

The starting point for this paper is the report of the UN Secretary General on ‘Peacebuilding in the immediate aftermath of conflict’, which was endorsed by the Security Council on 22<sup>nd</sup> of July this year (S/2009/304). While I will draw from what I learn while preparing that report, the views in this paper are solely my own, and do not represent an official position of the United Nations.

The report addressed the question raised by the Security Council in May 2008, ‘what can the international community, (but especially the UN), do to provide more effective support to countries emerging from conflict, to help countries recovery and avoid relapse back into conflict in future. The paper concluded that we have effectively replaced the concept of sequential interventions (peace making , then peacekeeping, then recovery and development) with a more holistic response, bringing all of these aspects to bear in an integrated response. However our institutions and ways of working have not yet adapted enough to quickly and effectively implement such a holistic approach, although some progress has been made.

**The essence of implementing such an approach faster and more effectively is to be ready before hand with international agreements on how we should act together to support a common strategy, and to have the human and financial capacity pre-positioned to do so.**

We need to have:

- Agreement that all key elements of international intervention and support are needed, (political, military, humanitarian and development ) and on how to plan them together;
- Agreement that building critical national capacity has to start even before the peace agreement, even if it can only be limited at first;
- Agreements on who will lead the international response overall, and in each sector, and how to hold them accountable;
- Have rosters of such leaders, and of ‘leadership support staff’ who can help them, as well as pre-agreed ways of deploying them fast and funding them;
- Have rosters of experienced technical staff in all the commonly needed skill areas, with special focus on find people from the region affected.
- Agreed methods of doing needs assessment (both initial rough assessment, and more detailed) , and working closely with national actors to prepare results based, prioritized, planning frameworks (like the UN-WB-EU PCNA), and staff who know how to do this available for immediate deployment;
- Agreements on how we will work together at country level both within the UN, and within the wider International community), each entity bringing their expertise, but working without duplication;
- Have pre-positioned funds available at the global level for immediate allocation to country level, and modified rules for funding that allow for higher degree of risk;
- And have the ability to establish country specific funding instruments very quickly.

The SG’s report goes into depth on all of these points, and develop’s an “**Agenda for Action**” for the UN System, while calling on member states to consider how they can best support the approach presented in the report. There is now an implementation process underway in the UN, and a progress report will be shared with the Security Council and PBC next July.

**For today's discussion, I have been asked to focus on issues related to funding fast and sustainable recovery.**

**Why do donors fund development efforts?** From a practitioners view point, it would appear to be a combination of altruism (and historical linkages) with prevention of insecurity (conflict and crime), and, wanting access to natural resources, and/or political/commercial influence. Altruism is also balanced by the need of donors to maintain public support at home through tight financial control and 'value for money'.

This results in the **pattern that we see**, where countries which do not have rich natural resources, significant consumer markets, strong historical ties with former colonial powers, or effective governance/justice systems, struggle to get funding. Desire to control international security is sometimes the only funding motive left. Empirical data supports this view, and indicates that bi-lateral and regional (EU) assistance is more influenced by the non-altruistic motives (Collier). Multi-lateral aid is more evenly spread, and thus multi-lateral (UN and WB) aid is proportionally more significant in "fragile" states. However, aid from those sources is normally less than 50% of overall development funding, and is therefore nowhere near sufficient to meet the needs of fragile situations.

Unfortunately, **donors avoid funding development in fragile situations** especially when they feel there is no real hope of change in bad governance practices, and where the investment is likely to be ineffective due to corruption, or to conflict. Collier's data shows that investment without a 'significant turnaround' in governance through war or elections, does not lead to any increase in growth. Humanitarian investment does make sense in its own right, and is funded, but assistance that is not 'directly life saving' is very limited.

This "**Aid Effectiveness**" approach, which emerged in the late 1990's (much influenced by Burnside and Dollar, 2000) used empirical data to show that the highest returns to development investment came when countries had good governance, fiscal, monetary and trade policies in place or were willing to put such a framework in place, and really implement it. This led to an over reaction, where the 'good performers' were funded almost to the exclusion of the fragile states. While major investment in countries with weak governance is not very effective in terms of economic growth, evidence shows that small investments can be important to prevent further deterioration. While some changes in governance can be prompted by continued engagement, with no external engagement improvements are unlikely until there has been some 'significant turnaround' usually through violence. This over reaction has now been recognized, and OECD-DAC members have agreed to a more balanced approach, giving priority attention to fragile states, while recognizing the limitations to major investments in such countries. (Accra Agenda)

**UNDP's focus on Early Recovery** since 2005 has been partially driven by the need to address this systemic under funding of fragile states. UNDP identifies important opportunities to invest in improving

people's ability to earn livelihood or to improve governance, either at the sub-national or national level' where there are 'pockets of peace' during conflict. This work with national partners on livelihoods and governance during conflict provides an important asset to the international community once conflict ends, as it generates detailed data on what is possible in terms of partnerships with national actors and institutions, and where the existing national capacity can be found, for fast action.

**An exception to the under funding pattern** for fragile states is the period immediately after crisis, if the crisis has generated a "significant turnaround" as Collier calls it, and a new government is in place. In the period immediately after conflict ends, (or there has been a change in government due to elections, or death), investment in recovery and development can be very effective, as people are ready for change, and expect it. Resistance to necessary reforms is reduced, and the 'old guard' that benefited most from the status quo is gone. However, Collier finds that there are important sequencing issues. In the first two years or so, when the governance capacity of the national authorities is very weak, technical assistance is very effective (especially if it is focused on building capacity), while cash or budget support, are not and can be even harmful. By the third year, capacity starts to emerge, and technical assistance declines in value, while programme investment becomes more effective. But investment in recovery and development at all times has to be carefully sequenced, based on detailed knowledge of the local situation, or it can do more harm than good.

**Challenges of working in fragile states compound the under-funding problem:** The difficulty of effectively supporting development in countries where levels of corruption are high, security is low, and the living conditions for international staff are very challenging makes the under-funding worse. Evidence shows that carefully selected international technical assistance can be very effective at this stage. In such cases, significant incentives should be provided to attract the best development professionals, and they should be positively encouraged to take calculated risks. This does not happen, at least in the UN System. Rather, pay packages for such duty stations have just been reduced, and organizations tend to send staff for whom expectations are low to such places. In addition, the number of staff available to support program design and implementation is typically linked to the size of the programme investment. This means that funds available to hire supervisory staff in very fragile states is very limited. Therefore management and supervision tend to be weaker than the norm in fragile states, whereas they should be stronger.

**OECD report on funding for fragile states**, March 2009. Superficially it looks like ODA to fragile states has increased from 2001-2007, from about \$8.5 billion to \$18 billion, or \$16 billion if debt relief is excluded. However, out of the 38 countries listed as fragile in 2007, half of ODA destined for fragile states went to only five countries (Iraq, Afghanistan, Ethiopia, Pakistan and Sudan). In addition to the focus on a few countries, much of the assistance provided was for humanitarian support (the breakdown is not provided). Three sets of countries are identified as needing special attention:

- Countries where a 2008 survey of future funding indicated **decreasing aid levels**. While 16 fragile states can expect increases from 2005-2010, 15 could expect some decrease, and 7 face a decrease of more than \$20 million (Chad, Eritrea, Guinea, Iraq, Solomon Islands, Tajikistan, Timor Leste).

- Countries with **very volatile** aid flows. Seven countries can expect fluctuations by more than 5% of GDP, Burundi, DRC, Eritrea, Guinea Bisseau, Liberia Sierra Leone, and Palestine. Aid flows often tail off just when a country has developed the capacity to use them well.
- Countries **heavily dependent** on a very small number of donors. 20 fragile states receive 2/3rds of their funding from three donors or less. This leaves countries very vulnerable to changes of policy in the donor country.

One positive trend is the increase in funding for conflict prevention (traditionally very underfunded), and governance activities. And ODA for security sector reform in fragile states has increased almost 200% from 2004 to 2007. An interesting trend is the emergence of non-traditional donors over recent years, with Brazil, China and India, the Gulf States, and South Africa being especially active in fragile states.

### **Getting funding in place fast**

Funding for humanitarian relief is very well established. There are special rules and procedures that allow for very fast disbursements, and tolerate a high degree of non-compliance in terms of reporting in recognition of the difficult environment. Rules and procedures for funding for recovery and development have also been established for some time. But they are based on the 'normal' development context, where funds have been flowing to a country for many years. In this situation, having a funding pipeline that takes 18-24 months to release funds at country level is not so problematic. In a situation where the international community wants to move quickly to make new kinds of investments in a country, these procedures are very ineffective, causing major problems and delays. The **OECD has a working group** (INCAF) looking at ways to change the rules, and overcome the delays. They are working to modify the rules donors apply to their funding for post conflict peace consolidation and recovery, to allow for high levels of risk tolerance. As Collier shows, investment in this period can have much higher return in terms of future growth than investment later when the situation is fully stable. Recognition of this should be used to justify higher risk. One way that some donors find helpful in terms of managing risk is to establish '**pre-positioned**' pooled funds that are ready before they are needed, and can at least cover the urgent start-up costs. These can be used as global funds for the initial allocation, or as country specific funds. Known as Multi-donor trust Funds, (MDTF's) they are becoming more common as donors find they reduce the risk of the individual donor, and as the UN and WB get better and faster at setting the up and running them. (The number of MDTF's managed by the UN has grown from one in 2003 (Iraq), to 27 in 2008, most for post conflict situations.)

**At least four existing global funds** have been established specifically for fast funding of recovery:

- **WB State- and Peacebuilding Fund**, up to \$100million per annum. Focus on development of national capacity especially national and local government capacity for governance, recovery and development. Does not normally cover natural disaster situations. Application comes from WB country office.
- **UN Peacebuilding Fund**, up to \$150million per annum. Investment in initiatives that will directly reduce the risk of relapse into violence. Intended to specialize in areas not covered by

humanitarian or development funding. Does not cover natural disaster situations. Application comes from UN Country Team, through team leader.

- **EU Stabilisation Fund**, \$150million per annum. Covers prevention and recovery from both conflict as well as natural disaster. Application can be from HQ or from EU country office. Can cover HQ activities to enhance overall response.
- **UNDP/BCPR Trust Fund**, \$100million per annum. Both prevention and recovery from conflict and natural disaster. Application comes from UNDP country office,

All four funds are supposed to be released very quickly, to catalyze action and cover the funding gap until the more significant bi-lateral funding or longer term multi-lateral funding can come on tap. The scope of each fund varies slightly, although all are ambiguous, reflecting the ambiguous nature of peacebuilding itself. All funds state desirability of close consultation with Government, but do not make it a condition to have official request. Given the great degree of overlap in the scope of the four funds, the managers of the various funds will shortly come together as follow up to the SG Report on peacebuilding, to discuss complementarities in the early funding of conflict prevention and peacebuilding, and to explore scope for alignment, rationalization and reduction of transaction costs through shared assessments, joint strategies etc.

### **Funding for what?**

Apart from the well known humanitarian needs with their own funding channels, there are two very different types of international investment for stabilization and recovery, with very different sources of funding and decision making.

Where the 'significant turnaround' is a result of violent conflict, a country will often (but not always) request external **support to peace and security**. This largely consists of international peacekeeping troops and police who come in to establish a 'safe space' for the peace agreement to take hold, for positive changes to take place and for capacity of national actors and institutions to be built. Funds are used for the deployment and operational needs of the international peace keepers, rather than for significant investments in national capacity (except when peacekeepers are used as trainers). Although there is normally close consultation with national actors, this kind of investment is decided outside the country as a top down 'crisis management' type of response. When it is a UN Peacekeeping Mission, or a UN Political Mission, it is decided by the UN Security Council, and funded by assessed contribution of all UN members. It has been expected that such missions would wind down after 3-4 years, although experience suggests that this is usually not realistic.

At the same time, sustainable peace requires the rapid emergence of national capacity to run the affairs of state effectively. Investment in institutional capacity, and in revitalizing the economy to generate the revenue to pay for state capacity, must also start immediately. This **program of recovery and development for peace consolidation** is typically planned by international development experts working in-country with whatever national partners they can productively engage with. It is funded through many different channels, the bi-lateral donors, the UN development entities (including the World Bank), regional entities (including EU), private sector, NGO's etc. And the time frame is 15-20 years. In recent years this "bottom-up" process has become a bit more organized, with one process of assessment and planning between the national and many of the international partners co-led by the World Bank group,

the UN development group and the EU. The significant sources of post conflict recovery funding (World Bank, IMF, Regional banks, EU, UN Funds and Programs) must have this kind of national assessment and framework for action as a pre-requisite for release of their funding (with the exception of the relatively small amounts they can release from their pre-positioned funds).

When both types of support are required, **they need to be planned together to be fully effective, however they are currently completely disconnected.** The need for bringing these two disparate processes together has been recognized, most recently in the SG's report. This will require significant adjustment to both kinds of planning, to the way decisions are made, and funding is provided, as well as to the institutional mechanisms and the staff skills and attitudes.

### **So what should we do different?**

1. Overtly **recognise the two different planning/budgeting/funding systems** that have now to be brought together, and build in much stronger strong incentives for coherence at every level. This will not be easy. One is very focused in New York, (or other global capitals) and one is focused in country. One is planned on a six month rolling basis, the other on a five year rolling basis. One is automatically funded once approved by the Security Council; the other may still be largely unfunded after several years.
2. Overtly **recognise difficulties of working in fragile states.** Design adapted funding/staffing rules that allow for fast allocation of funding and staff, and that ensure the best staff (especially the leaders at country level) are attracted to work in such countries, taking the necessary risks. Agree on clear roles and responsibilities, and modify the rules and procedures for recruiting and deploying staff to allow for fast ramp up of international support.
3. Encourage and support the ongoing **OECD-DAC process** to modify donor procedures for release and use of post conflict funding. (US could take greater leadership role, especially as next meeting is in DC.)
4. Support efforts to **pre-position appropriate peacebuilding response capacity**, both pre-positioned funds, and rosters of qualified technical staff (national and international, including Diaspora)
5. UN (including the World Bank) to recognize how critical to success an **effective coordination platform** for peacebuilding and recovery is, and make the necessary investment (like OCHA provides for an international humanitarian response).
6. **Member states (especially US) agree to work as part of a wider consortium**, participating in needs assessments, so that final strategy and set of priority needs are fully agreed and supported. And, member states should support resulting common strategy for country support, both with political, financial and technical support

### **Annex: Note on different pre-positioned funds**

1. **EC Instrument for Stability (IfS)** \$220 million 2009. Established in 2007 by the EC's **Crisis Platform** within DG RELEX, under which financing can be adopted within days, to undertake any

action in third countries eligible under other EC instruments, to the exception of humanitarian assistance or actions of a military nature. designed to address global challenges, from preventing conflict, supporting post conflict political stabilization and to ensuring early recovery after a natural disaster. It is a political instrument and it focuses on re-establishing the critical functions of the state in post-crisis situation. It can only be triggered in a situation of crisis or emerging crisis and it plays a complementary role to long-term programmes under relevant geographic financing instruments. The IfS can provide support in two phases: **emergency response measures** and **interim response programmes**, both with a duration limited to 18 months.

2. **UN Secretary General's Peacebuilding Fund (PBF)** Approx \$150 million pa. Established in 2006. Designed as a rapid and flexible mechanism for addressing the immediate needs of countries emerging from, and at risk of relapsing into, violent conflict. The Fund focuses on interventions with direct and immediate relevance to peacebuilding, addressing critical gaps, and serving as a catalyst for the sustained support and engagement of other key stakeholders. The scope of the Fund, as set out in its Terms of Reference, covers four key areas of intervention. Activities designed to: respond to **imminent threats to the peace process**, support for the implementation of peace agreements and political dialogue; **build and/or strengthen national capacities** to promote coexistence and peaceful resolution of conflict and to carry out peacebuilding activities; **revitalise the economy** and generate immediate peace dividends for the population at large; **establish or re-establish essential administrative services** and related human and technical capacities. First two years focus was largely on countries where war had ended several years before. GA decided in April 2009 that fund would have two windows, one for immediate post conflict response based on submission of senior UN leader in country, and one for longer term response based on national peacebuilding plans. Intended to catalyze activities not normally funded by humanitarian or development funding. Activities covered include DDR, SSR, Election support, Rule of law and Transitional Justice, Reconciliation, etc. Emphasis on building national capacity. Activities funded should directly contribute to reduced risk of return to conflict. Funds are channeled through UN entities working in countries who disburse to Government, or national CSO organizations.
3. **World Bank State and Peace-building Fund (SPF)**. \$100 million pa. Established in 2008, (merging LICUS and the Post-conflict funds) to address the needs of state and local governance, and peacebuilding in fragile and conflict-prone or conflict affected situations. Two main objectives: Support measures to improve governance and institutional performance in countries emerging from, in, or at risk of sliding into, crisis or arrears. Support the reconstruction and development of countries prone to, in, or emerging from conflict. Under the first objective activities could include: strengthening economic governance; strengthening accountability of public resource use; initial salary support; support for property rights; leadership training, and programs to attract diaspora, develop human capital etc. Under the second objective, activities could include reintegration of conflict affected people; support on economic aspects of peace mediation process; employment creation and support to private sector; access to justice and rule of law; etc.
4. **UNDP/BCPR Crisis Prevention and Recovery Thematic Trust Fund**: Approximately \$100 million pa. Established in 2000 as a new fund, to allow UNDP respond with quick action following a natural disaster

or violent conflict, or when a unique opportunity arises to reduce the risk of disaster or violent conflict. It is designed to provide a bridge between the humanitarian or emergency phase of a crisis and the medium to longer term development phase. Program areas include efforts to address the structural causes of violence; conflict management and resolution; DDR; Rule of Law; Mine action and small arms; early reestablishment of livelihoods, shelter, enhanced governance, and support to UN System coordination for more effective early recovery; and disaster risk reduction. Emphasis is on capacity building and achieving gender equity as cross cutting concerns. Fund allocation is done based on requests from County level staff of UNDP (with national partners where possible), and disbursement is done through UNDP field offices to the relevant national actors.

**Key references:**

Ensuring fragile states are not left behind. OECD-DAC INCAF, March 2009

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