Introduction

1.5 billion people live in countries affected by repeated cycles of violence and insecurity. These countries face tremendous challenges as they transition from conflict to peace. International support can play a crucial role in these contexts, but has so far struggled to deliver transformative results. More effective support requires sustained and co-ordinated engagement to tackle the risks and vulnerabilities inherent in such situations, using aid strategically as an element of broader international support. The continued relevance of OECD governments in these challenging environments will in part depend upon their ability to deliver their support accordingly, and to focus on key peace and statebuilding objectives.

Why is change needed?

Donors provide substantial and increasing amounts of support to fragile and conflict-affected states, but this support is nonetheless failing to yield the intended results. Critical challenges include:

- **Financing is too compartmentalised.** The current aid architecture creates rigid compartments for humanitarian, development and security-related financing, and prevents more holistic support to transitions (see Figure 1).

- **Policies and procedures** for international engagement and risk management are not properly tailored to the context of transition environments. Current approaches often focus on risk avoidance, rather than good risk management.

- **Planning processes** are often based on unrealistic needs assessments with no link to necessary funding. Needs-based approaches alone do not allow for the necessary prioritisation during transition.

- **Financing instruments are fragmented** and designed based on institutional mandates, rather than on the objectives to be achieved.

What is transition?

A transition period spans across a broad spectrum of activities along the path out of conflict and toward sustainable development, greater national ownership and increased state capacity. This includes recovery and reconstruction activities that traditionally fall between the humanitarian and development categories, and security-related and peacebuilding activities.

Transition is a non-linear process that presents tensions and trade-offs between the need to provide rapid support to peace-promoting and life-saving activities whilst supporting the development of sustainable state structures. As such, it requires a shared space between humanitarian, development and security actors, as countries might experience humanitarian emergencies, longer-term development programmes and peacekeeping efforts simultaneously. This requires a flexible approach that does not compromise humanitarian principles.

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**Figure 1. Overlapping objectives during transition**

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**Source:** Adapted from Bailey S. and S. Pavanello (2009), "Spectrum of transitional interventions (see FSPs 3, 4, 5 and 8)."
**What can be done?**

Donors need to accept that a pragmatic approach is fundamental to generate results in transition contexts, and that greater simplicity is required in planning and accountability frameworks, procedures and instruments. A gradual application of the Paris Declaration principles and more realistic assumptions about what can be achieved by different actors within a given timeframe are needed.

Donor policies and procedures need to be better tailored to transitional challenges and allow for an early and flexible release of development funds. At the core of an amended approach is the need for more serious collaboration, joint analysis and willingness to be held collectively accountable to deliver results against agreed objectives. An international agreement on objectives should be used to facilitate prioritisation during transition. Furthermore, strict prioritisation should be linked to a specific financing strategy that combines different aid instruments in support of these priorities, which should be revisited on an annual basis to ensure continued relevance. This requires a collective approach across policy communities and better risk management.

**What about risks?**

Engagement during transition involves high risks, but also offers opportunities for a high return on investment. International assistance can help make (and has made) a difference between continued conflict and progress towards stability and sustainable development. But the results of interventions can be unpredictable: they can be positive in unexpected ways as well as negative, and there is no clear, predefined pathway to peace. Just as life-saving objectives have led donors to accept a higher degree of risks in humanitarian instruments, so should the extreme human and financial costs of recurrent conflict be an argument to accept a certain degree of risk during transition.

Donors need to rethink their procedures, rules and conceptual frameworks for addressing risk in transitional situations. Current approaches are largely guided by accountability and reporting requirements that have been created for more stable environments. Partially as a result of this, current risk management practice is primarily focused on institutional risk reduction — in particular to address fiduciary and reputational risks to the donor.

But risk management is not just about risk reduction or avoidance: it involves balancing risk and opportunity, or one set of risks against another. A new conceptual framework is therefore required (see Figure 2) to ensure parallel focus on contextual, programmatic and institutional risks along with specific reforms to simplify the tools and procedures available, including for planning, procurement and financial management. Whilst this may be uncomfortable for international partners, it will ultimately help to deliver better results.

**Improving focus and building trust through compacts**

Coherent and collective approaches can be promoted through the use of transition compacts. Compacts are light and flexible agreements between national and international partners. They should be based on a collective agreement on key priorities and an explicit strategy for how, and from which instruments, implementation will be financed.

Compacts reduce the risk of strategic failure, improve the focus on results, and provide realistic steps towards stronger national involvement and leadership. They allow for joint prioritisation between national and international actors and for frequent reviews of progress, thus addressing donor concerns about the partner country’s capacity and legitimacy, and associated risks (see Figure 3). In short, compacts allow partners to focus on the most critical areas whilst providing a mechanism that can build mutual trust.

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**Figure 2. Introducing a new conceptual framework for understanding risks**

![Figure 2: Introducing a new conceptual framework for understanding risks](image)

**Source:** OECD (2011a)

**Contextual Risk**
- Risks of state failure, return to conflict, development failure, humanitarian crisis.
- Factors over which external actors have limited control.

**Programmatic Risk**
- Risk of failure to achieve programme aims and objectives.
- Risk of causing harm through intervention.

**Institutional Risk**
- Risks to the aid provider: security, fiduciary failure, reputational loss, domestic political damage, etc.
Prioritise specific transition needs. Effectiveness of pooled funding instruments, clarifying the link between funding in-country transition financing. The report also addresses improving the operational and practices in financial flows, implementing procedural and cultural changes that go far beyond the timescale and scope of the funded activity.

And because it signals approval much more than the flow of resources: it affects behaviour, aid architecture, power and influence, priorities, and capacity development. And because it signals approval much more than the flow of resources: it affects behaviour, aid architecture, power and influence, priorities, and capacity development. This is because financing is about donor control, decisions about which activities to finance and how to finance them while many determining forces in fragile and conflict-affected countries are outside financing processes.

The report “Peacebuilding in the Immediate Aftermath of Conflict” agree: international Development Assistance Committee (OECD DAC) and the UN Secretary-General’s high-level forum on aid effectiveness have stressed the importance of coordinating and pooling aid, moving from fragmented aid to systemic support. And when aid is pooled, decision-making should be moved closer to the actual needs of the people and transparently accountable to the beneficiaries. And when aid is pooled, decision-making should be moved closer to the actual needs of the people and transparently accountable to the beneficiaries.

More than one-third of Official Development Assistance is spent annually on fragile and conflict-affected countries. Nonetheless, aid does not always flow promptly and effectively to where it is most needed, especially in countries recovering from conflict. This is both because conflict-affected countries have a high transaction cost, and because the international financial architecture can reinforce the transaction costs of aid.

BUILDING A BETTER RESPONSE
Conflict and Fragility

Transition Financing

For more information

The DAC guidance on transition financing, International Support to Post-Conflict Transition, is available online at www.oecd.org/dac/incaf. For more information on the guidance and the work of the DAC International Network on Conflict and Fragility, please contact Mr. Asbjørn Wee, asbjorn.wee@oecd.org; +33 (0)1 45 24 90 27. Other relevant resource material includes the following publications, which are also available for download at the addresses below.

International Engagement in Fragile States: Can’t we do better?
http://dx.doi.org/10.1787/9789264086128-en
Four years after DAC ministers endorsed the Principles for Good International Engagement in Fragile States and Situations, 13 countries have decided to take stock of the quality and impact of international engagement across the areas of diplomacy, development and security. The 2011 Monitoring Report synthesises main findings and recommendations from across these 13 countries, providing evidence from the ground of what works and what doesn’t. The report is one of the key inputs for the Fourth High-Level Forum on Aid Effectiveness (Busan).

Managing Risks in Fragile and Transitional Contexts: The Price of Success?
http://dx.doi.org/10.1787/9789264092198-en
From the anarchy of Somalia to the relative stability of Nepal, fragile and transitional situations represent a broad spectrum of contexts. However, they share some common features: these are risky environments – for the people who live there, for their governments, for neighbouring countries, and for those who seek to provide assistance. International engagement in these situations presents significant risks for donors and implementing partners, but also holds the potential for substantial rewards. This publication provides the evidence to help donors understand how to balance risks and opportunities in order to protect the integrity of their institutions while delivering better results to those who need it most.

Transition Financing: Building a Better Response
http://dx.doi.org/10.1787/9789264083981-en
This publication enables development partners to map out more effective, rapid and flexible transition financing. This includes improving current policies and practices in financial flows, implementing procedural and cultural changes in donor administrations, and maximising use of the instruments available for in-country transition financing.
A variety of aid instruments is available during transition. Based on country context and objectives, the following four criteria should be used to identify the appropriate mix to use in financing strategies. The ratings indicate the probability that the given aid instrument will positively contribute to each criterion.

<table>
<thead>
<tr>
<th>General budget support</th>
<th>Institutional transformation</th>
<th>Speed and flexibility</th>
<th>Scope for risk management</th>
</tr>
</thead>
<tbody>
<tr>
<td>High. Allows linking of resources to capacity building and impact</td>
<td>High. Clear incentives to strengthen country systems</td>
<td>Low. Takes time to negotiate and requires up-front investments to strengthen systems</td>
<td>Mixed. Requires high standards of public financial management and local accountability</td>
</tr>
<tr>
<td>Sector budget support</td>
<td>High. Facilitates joined-up sector dialogue and lower transaction costs</td>
<td>High. Allows government-led delivery and pooling with domestic resources</td>
<td>Low. Requires up-front negotiations and investments in sector systems</td>
</tr>
<tr>
<td>Jointly managed pooled funds implemented through country systems</td>
<td>Potentially high. Allows for pooling of donor resources. But requires a critical mass of donors to be an effective harmonisation tool</td>
<td>Potentially high. Resources aligned with government strategy. Can allow for additional controls</td>
<td>Mixed. Can take time to establish, as requires significant up-front investments and capacity building and may be subject to lengthy negotiations and lack of prioritisation</td>
</tr>
<tr>
<td>Jointly managed pooled funds not implemented through country systems</td>
<td>Potentially high. Allows for pooling of donor resources. But requires critical mass of donors to be an effective harmonisation tool</td>
<td>Potentially high. As long as resources are aligned with government strategy and implementation happens in partnership</td>
<td>Mixed. Can take time to establish, and might limit flexibility once resources have been allocated. But allows for rapid implementation once funding decisions have been made</td>
</tr>
<tr>
<td>Externally managed pooled funds</td>
<td>Mixed. Can allow pooling of donor resources</td>
<td>Low. Can support institutions, but in general not aligned with or using country systems</td>
<td>High. Allows for rapid establishment and funding decisions and provides great flexibility in allocations</td>
</tr>
<tr>
<td>Project / programme support to state institutions</td>
<td>Low. Can make co-ordination more time-consuming, allowing for more fragmented approach</td>
<td>Low. Can use country systems to differing extents but can undermine institutions if provided in an uncoordinated manner</td>
<td>High. Can target specific urgent priorities, through earmarking for specific activities and allow for flexibility in design</td>
</tr>
<tr>
<td>Project or programme support to and through non-state actors</td>
<td>Low. Can make co-ordination more time-consuming, allowing for more fragmented approach</td>
<td>Low. Can undermine institutions.</td>
<td>High. Can help to meet short-term service delivery needs where state capacities are weak, or for communities that are not political priorities</td>
</tr>
<tr>
<td>Humanitarian support</td>
<td>Low. Co-ordination within clusters but not with other resource flows</td>
<td>Non-applicable. Based on neutrality and impartiality</td>
<td>High. Rapid and flexible based on clearly defined mandates</td>
</tr>
</tbody>
</table>