

FINANCING FOR STABILITY: GUIDANCE FOR PRACTITIONERS

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Acronyms

AAAA	Addis Ababa Agenda for Action
AFD	Agence Française de Développement
AfDB	African Development Bank
AP-DEF	Asia-Pacific Development Effectiveness Facility (UNDP)
ARC	African Risk Capacity
ATI	Addis Tax Initiative
BMZ	German Federal Ministry for Economic Cooperation and Development
CAR	Central African Republic
CPEIR	Climate Public Expenditure and Institutional Review
DFA	Development Finance Assessment
DFID	Department for International Development (of the United Kingdom)
DIG	Debt-Investment-Growth (IMF)
DSA	Debt Sustainability Analysis (IMF)
DRC	Democratic Republic of Congo
DRFI	Disaster Risk Financing and Insurance (World Bank)
EITI	Extractive Industries Transparency Initiative
EU	European Union
FAO	United Nations Food and Agriculture Organisation
FDI	Foreign Direct Investment
FFO	Federal Foreign Office (of Germany)
FGS	Federal Government of Somalia
GCFF	Global Concessional Financing Facility
GESS	Girls Education South Sudan
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (Germany)
GDP	Gross Domestic Product
GNI	Gross National Income
HRP	Humanitarian Response Plan
IDA	International Development Association (World Bank)

IFC	International Finance Corporation
IFI	International Financing Institution
IMF	International Monetary Fund
INFF	Integrated National Financing Framework
IOM	International Organisation for Migration
JICA	Japan International Cooperation Agency
MBF	Myanmar Business Forum
MTDS	Medium-Term Debt Management Strategy (IMF)
MPTF	Multi-Partner Trust Fund
MPF	Multi-Partner Fund
MIGA	Multilateral Investment Guarantee Agency
NFP	National Financing Pathways and Strategies (for climate finance)
OCHA	United Nations Organisation for the Co-ordination of Humanitarian Affairs
OECD	Organisation for Economic Cooperation and Development
ODA	Official Development Assistance
OOF	Other Official Flow
PCNA	Post-Conflict Needs Assessment
PDNA	Post-Disaster Needs Assessment
P-FRAM	Public-Private Partnership Fiscal Risk Model (IMF)
PIMA	Public Investment Management Assessment (IMF)
PPP	Public-private partnership
RACE	Reaching All Children with Education (Lebanon)
RA-FIT	Revenue Administration Fiscal Information Tool
RA-GAP	Revenue Administration Gap Analysis Program
RPBA	Recovery and Peacebuilding Assessments
RSA	Resilience Systems Analysis (OECD)
PRSP	Poverty Reduction Strategy Paper
SDG	Sustainable Development Goals
SDRF	Somalia Development and Reconstruction Facility
TADAT	Tax Administration Diagnostic Assessment Tool
TDA	Transitional development assistance (Germany)
UMFCCI	Union of Myanmar Federation of Chambers of Commerce and Industry
UNDAF	United Nations Development Assistance Framework
UNDESA	United Nations Department of Economic and Social Affairs

UNDS	United Nations Development System
UNEP	United Nations Environment Programme
UNESCO	United Nations Educational, Scientific and Cultural Organisation
UNFCC	United Nations Framework Convention on Climate Change
UNFPA	United Nations Population Fund
UNHCR	The Office of the United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UN MPTFO	United Nations Multi-Partner Trust Fund Office
USD	United States Dollars
WFP	United Nations World Food Programme
WHO	World Health Organisation
WHS	World Humanitarian Summit

Executive summary

This guidance outlines the process for developing financing strategies for fragile contexts: financing for stability. The process includes the **concrete steps** to take to deliver the financing strategy, accompanied by **financing principles**, and a range of **tactical investments**, that allow financing actors to use financing to incentivise certain behaviours and priority investments, and to invest in enabling conditions and public goods.

Key message 1: Responding to the challenge of Agenda 2030 requires updated approaches to financing, which includes new approaches to financing at the country level.

Responding to the call to leave no-one behind and to scale-up financing resources for sustainable development requires the right amount of finance, the right type of financing tools, at the right time, and delivering the right incentives for stability. Doing this at country level is a challenging task. New approaches to financing for development bring in a more diverse cast of actors, with different interests and experiences, as well as unfamiliar tools and ways of working. Navigating this growing complexity, as well as a host of existing targeting, co-ordination and financing challenges, requires a major change in the way financing is managed at the country level.

Key Message 2: Country level financing strategies are emerging as a means to achieve a smarter and more results-focused approach to mobilising and targeting investments.

No business would embark on a major new investment programme without a financial plan – and yet this has long been standard practice for the international development community. In response, the idea of developing financing strategies to support the delivery of results for sustainable development has gained considerable traction among development actors and governments, notably as part of the Addis Ababa Action Agenda (AAAA) at the Third International Conference on Financing for Development.

Key Message 3: Evidence from existing efforts in developing country-level financing strategies indicates that they may also offer solutions to a variety of perennial country level challenges.

Profound and long-standing challenges often exist at the country level, including the existence of competing planning and prioritisation processes; the tendencies of fragmentation and self-interest; analytical, operational and cultural siloes across international peacebuilding, development, climate change and humanitarian communities; the challenge of setting priorities when government leadership and consent is lacking; needs are overwhelming, resources limited, and set-backs and shocks are extremely likely. A better understanding of the potential benefits of developing country level financing strategies is emerging, including sharpening the focus of prioritisation exercises, defining the contribution of financing flows and investments to change, and incentivising a co-ordinated and coherent approach from all actors.

Key Message 4: A financing strategy is an opportunity to look beyond immediate financing gaps to consider the potential contribution of a range of financing actors and flows to strategic development, peacebuilding and resilience goals.

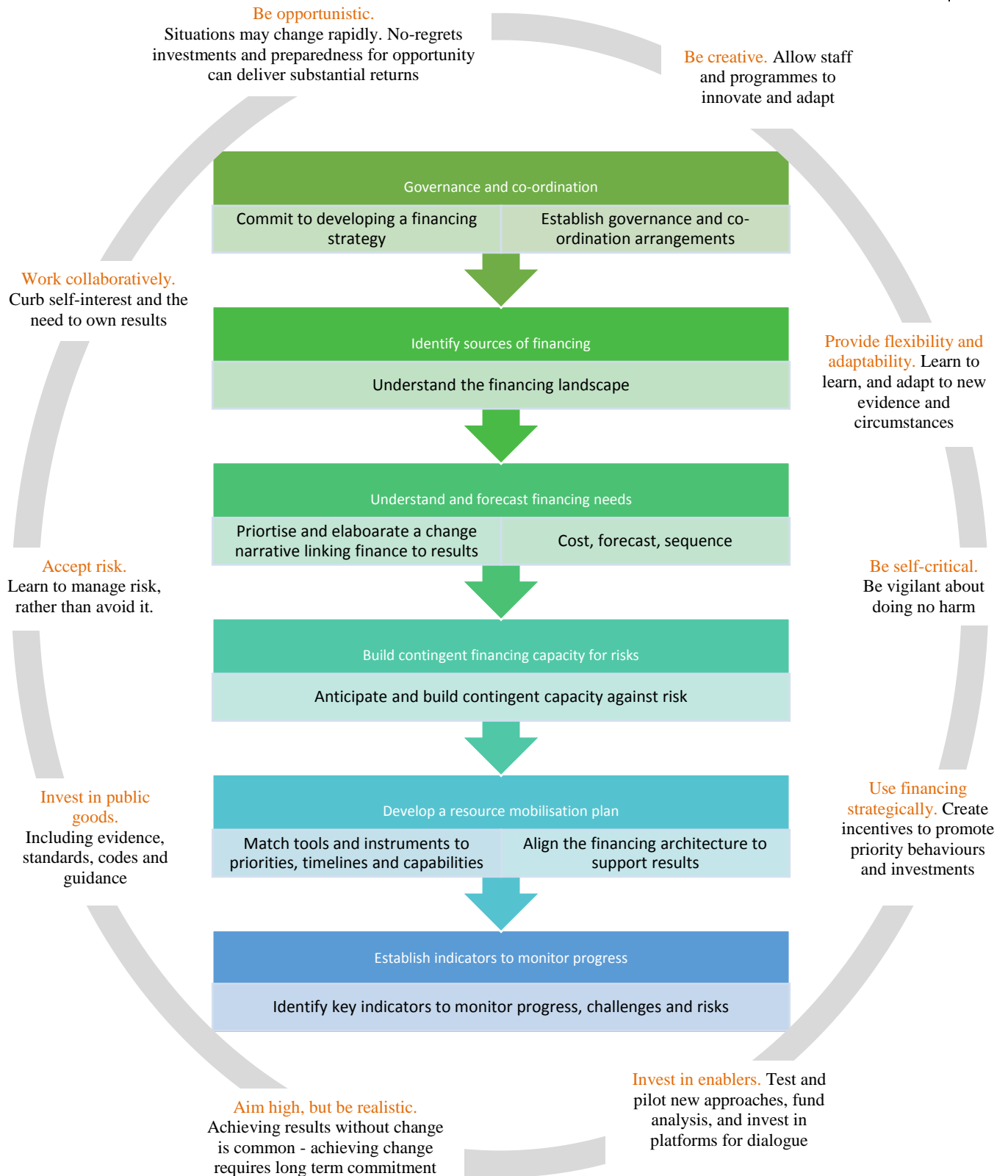
A financing strategy process can help to:

- identify priority investments
- help financing actors understand how their investments contribute to the achievement of higher-level goals or results
- rationalise prioritisation and sequencing of investments
- provide incentives, reforms and policies to strengthen public financial management
- stimulate revenue generation, private sector investment and economic growth
- identify and quantify contingent financing needs
- identify specific actions to make financial provision against risk
- build platforms for dialogue and inclusion of a far wider range of actors, in particular private sector actors, who can better articulate their constraints and priorities
- ensure that public policy shifts and incentives are calibrated to target priority actions with the greatest returns.

Key Message 5: INCAF members can play an important role in advocating for and providing targeted financial and technical support to deliver financing strategies for stability.

Development financing actors working in fragile contexts will have to guard against the risk of financing strategies simply adding to the pile of planning tools and documents. Financing strategies should be a centre of gravity around which decision-makers convene, discuss, and adapt approaches and investments as new evidence and circumstances emerge. However, they do not currently have a home, champion or the technical capabilities to support them within country-level coordination structures and processes. Ensuring that country level financing strategies live up to their potential as a truly strategic tool will require strong leadership and backing to both at the global policy level, and with technical and financial support at the country level.

Financing for Stability: Country Level Strategies



Introduction

International financing actors have begun to respond to the immense scale of the challenges set by Agenda 2030, including in the most challenging and risk-exposed environments

Agenda 2030 dramatically expands the scope of ambition of the international development agenda, with the recognition of peace as a precondition for sustainable development. The rallying cry to “leave no-one behind” means that investing in some of the most challenging places – crisis-affected, fragile and at-risk environments – and addressing truly complex problems is no longer optional.

Agenda 2030 calls for a completely new approach to financing, where official development assistance (ODA) plays a more specialised role, targeting critical gaps where it adds the most value: meeting basic needs and responding to shocks; helping to stabilise deteriorating governance and security environments; supporting positive governance and development trajectories at critical moments of opportunity; and investing in “public goods”, at the country, regional and global levels, which would otherwise fail to attract investment¹. But official development finance also has a growing role to play in catalysing or “crowding-in” other types of finance, particularly private finance and domestic resources, which are necessary to meet the large investments required to deliver the SDGs (OECD, 2018).

There are many implications for development financing actors in adapting their financing offerings to the challenges set by Agenda 2030. These include the need to invest in new technical capabilities and partnerships, more robust approaches to understanding and managing risk, as well as updated standards, codes, guidance and monitoring tools to ensure investments meet priority financing needs, without inadvertently causing harm. And for actors at the country level, the corollary of increased choice and diversity in the financing tool-kit at the global level is increased complexity and the potential for new risks.

Many concrete changes, including major adjustments in spending priorities and the creation of new tools, approaches and partnerships, are emerging at the global level, but progress at country level still lags behind

A more diverse financing tool-kit to anticipate, prepare for and respond to risk has emerged at the global level. And development financing actors are rapidly investing in their ability to incentivise financing from other sources, including private investors, through a range of blended finance instruments and guarantees (OECD, 2017). However, while progress is being made to ensure increased volumes of risk-tolerant financing and in engineering tools and instruments through which to deliver and mobilise these funds, at the country level a number of different challenges exist (OECD, 2018). Indeed, ensuring “the right amount of financing, using the right financial tools,

for the right length of time, in a way that delivers the right incentives for peace and, by extension, sustainable development” (Scott, 2017), is not only a matter of having the right tools at the global level.

Negotiating access to financing that meets country level requirements and priorities will depend on a demand-led approach to navigating an increasingly complex financing landscape

Many country level financing challenges have been recognised long ago, including in the OECD’s 2010 Guidance on Transition Financing (Box 0.1), which notably identified the desirability of developing country level financing strategies. The idea of developing country level financing strategies also received recognition in the 2015 Addis Ababa Action Agenda (AAAA) of the Third International Conference on Financing for Development, which identifies “cohesive nationally owned sustainable development strategies, supported by integrated national financing frameworks” (INFFs) as a central plank of the global framework for financing development in the post-2015 era (UN, 2015). The foundation of a robust and nuanced strategy is built on deeply contextualised analysis of the problem, but this is a function in which development financing actors consistently under-invest (OECD, 2016).

Box 0.1. OECD DAC Guidance on Transition Financing: key messages

From assessment of needs to agreement on priorities: Prioritisation should take place based on internationally-agreed objectives and a country-led vision or broad strategy. Annual reviews of these priorities should be undertaken to ensure relevance, and sector planning frameworks should be simplified and/or integrated based on realistic assumptions of what can be delivered within specific timeframes.

From fragmentation towards transparency and coherence in aid instruments: A single instrument cannot deliver on all transition priorities. A financing strategy should be agreed, mixing and matching different instruments based on agreed objectives. Country level pools can be used to this end, with additional oversight as needed, to accelerate transition towards the use of country systems. Global funding sources should be used strategically to meet country priorities.

From individual towards collective agreement on priorities and how to finance them: Transition compacts should be used to link priorities with a financing strategy. The focus should be on rapid and sustainable delivery. Partners should, however, avoid pressure to turn these into heavy legal frameworks.

From risk avoidance towards better risk management: Donors need to a) start performing shared assessments of contextual risks; b) use collective or shared risk management arrangements; and c) simplify procedures for the release and delivery of aid.

Source: OECD (2012).

Promising new tools and approaches to developing country level financing strategies are emerging

Recent experiences in developing country level financing strategies indicate a range of potential benefits:

- Financing strategies can contribute to more strategic and effective investments.
- They can be a practical means by which governments strengthen their leadership and operational management of development processes.
- They may prove to be a critical tool in efforts to mobilise and align a wider range of financing flows and actors behind national priorities.
- The process of developing a financing strategy provides opportunities to revisit and adjust the existing aid architecture and division of labour among financing actors to better support strategic goals and aid effectiveness commitments.

These tools may not yet be fully adapted for use in crisis-affected, fragile and at-risk settings, but there are transferrable approaches and lessons, which can be drawn from these experiences.

Purpose of this guidance

Against this backdrop of substantial shifts at the global policy level, and as part of the OECD and the International Network on Conflict and Fragility's (INCAF) commitment to support improved co-ordination and management of development finance for greater impact, this paper is intended to provide guidance for how to develop financing strategies for fragile contexts, while also recognising that all strategies should be context specific and thus the methodology will need to be adapted to each specific fragile context.

This guidance is part of a wider research project that includes a set of products that collectively aim to:

- expand on the nature of current financing challenges in fragile, conflict-affected and at-risk settings
- draw practical lessons from the experiences of development financing actors in attempting to manage these challenges, and point to potential future risks and challenges
- make practical recommendations for financing actors on how to support the emergence and delivery of more comprehensive financing strategies at the country level, and
- provide practical guidance for “how to” develop financing strategies for fragile contexts (this document).

The project draws on an extensive literature review, a series of semi-structured interviews at the global level, in-country research visits to Lebanon and Myanmar that involved discussions with country level decision-makers and financing actors, and a joint-piloting of the proposed methodology with the UN Multi-Partner Trust Fund Office (UN MPTFO) in Sudan in May 2017, and further OECD-UN pilots in the Central African Republic (November 2017) and others planned in Haiti and the Democratic Republic of Congo. These provided practical examples of challenges and good practice in managing a range of issues at the country level.

The guidance builds on emerging new approaches and opportunities to develop coherent financing strategies at the country level in fragile, crisis-affected and at-risk settings and identifies a number of lessons from these early experiences. The guidance is complemented by a policy paper considering current financing challenges and emerging new approaches and instruments at the global level.

The research acknowledges that there are many high-level strategic debates which have yet to be concluded concerning the comparative advantage and future role of ODA within a more diverse division of labour in financing, as well as a huge range of technical and capacity challenges ahead. The analysis, observations and conclusions put forward in this study should be interpreted as preliminary contributions to a live and dynamic process of debate.

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Notes

¹ Based on interviews with INCAF members

Chapter 1. Existing and emerging approaches to developing country level financing strategies

New approaches to integrating financing into planning and prioritisation processes are emerging, which consider a wide range of finance options and actors

There are a number of existing and emerging tools and approaches that aim to drive comprehensive and coherent approaches to financing sustainable development results at the country level. These include UNDP's Development Finance Assessment (DFA) and Financing Solutions tools, which have evolved out of years of work supporting governments in the Asia-Pacific region to establish or strengthen the building blocks of existing or future INFFs; recent changes in the approach to EU-UN-World Bank Recovery and Peacebuilding Assessments (RPBAs); revision of the existing UN Development Assistance Framework (UNDAF) guidelines to include guidance on developing country level financing analysis and strategic planning; and various programmes and tools to support developing countries to access and manage climate finance effectively.

These tools and approaches have many common elements:

- they typically aspire to align financing flows, actors, and policy to support the delivery of results against national-level priorities;
- they often identify key actors and institutions, including those who should lead prioritisation and strategy development, those who should co-ordinate, those who should be held to account, those who are responsible for financing and delivery, and those who have a stake in design and holding the system to account;
- they often assess and identify gaps in policy and capacity;
- they often include an assessment of the financing landscape and sometimes include a costing of financing needs and identification of financing gaps;
- and they typically elaborate strategies to mobilise finances from a range of sources to meet these financing gaps.

Climate finance discussions foreshadow many of the current debates in development financing

Climate finance assessments and strategies are perhaps the longest-standing of financial strategy approaches, and include a range of methodologies and tools to assess national capacities to prioritise climate change actions, mobilise, target and manage finance. There are already a wealth of practical experiences in conducting climate finance strategies, including in a range of fragile settings and contexts exposed to high levels of risk.

They include debates on how to achieve coherent strategies and policies across public and private sources of finance, and how to “crowd-in” private sector finance. Although climate finance strategies focus heavily on the integration of climate change priorities across public sector budgeting and policy, they also place a clear emphasis on the need for engagement with the private sector in the design of policies and as a key source of finance. This recognises that international and domestic public sector finance alone will fall far short of meeting climate finance needs and that the critical role of the public sector in fact is to establish public policies which will incentivise and catalyse private capital investment (UNDP, 2012). To this end, climate finance strategy tools emphasise the inclusion of a range of actors in prioritisation and design and they identify the capacities of governments to develop and execute policies influencing resource mobilisation as a priority area. In particular, climate finance tools have established the concept of assessing the “readiness” of institutions and actors which helps to identify key gaps in capacities and policies, a step relevant to fragile settings where institutional capacities and policies to mobilise and manage finances may be limited.

Climate finance actors have also taken a pragmatic approach to acknowledging that the complexity of the international climate finance landscape is likely to increase with time and that national actors will have limited influence over this problem. The focus therefore should be on enabling national actors to navigate and work with this complexity, clearly articulating their demands (Naidoo et al., 2014; UNDP, 2012).¹ Some of the tools and approaches to developing national-level climate finance strategies are described in Box 1.1.

Box 1.1. Lessons from the implementation of climate finance strategies

As international climate finance became increasingly available at the country level, and as governments increased domestic public spending on climate change activities, climate finance actors developed the concept of “readiness” to mobilise, effectively target, spend and monitor climate finance. The properties of climate readiness include “the capacities of countries to plan for, access, deliver, and monitor and report on climate finance, both international and domestic, in ways that are catalytic and fully integrated with national development priorities and achievement of the MDGs.”, and a variety of tools to assess and orient governments in their journeys towards climate finance readiness (UNDP, 2012).

UNDP’s Components of Climate Finance Readiness (UNDP, 2012)

Financial planning <ul style="list-style-type: none"> Assess needs and priorities, and identify barriers to investment Identify policy-mix and sources of financing. 	Accessing finance <ul style="list-style-type: none"> Directly access finance Blend and combine finance Formulate project, programme, sector-wide approaches to access finance 	Delivering finance <ul style="list-style-type: none"> Implement and execute project, programme, and sector—wide approaches Build local supply of expertise and skills Coordinate implementation 	Monitor, report & verify <ul style="list-style-type: none"> Monitor, report, and verify flows Performance-based payments
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In the Asia-Pacific region, UNDP developed the Climate Public Expenditure and Institutional Review (CPEIR) tool, based on World Bank public expenditure reviews, and designed to help governments to mainstream climate change into the budgeting and planning process. The first CPEIR was implemented in Nepal in 2011 and more than 18 CPEIRs have since been carried out worldwide (UNDP, 2015).

A CPEIR is a diagnostic tool which is based around three pillars of policy, institutional and climate public expenditure analysis:

- **Policy analysis** includes a review of the policy framework, its monitoring framework and the ways in which policy objectives match programmes and instruments.
- **Institutional analysis** includes assessing the roles and responsibilities for institutions and their capacities to develop, implement and co-ordinate climate responses. This includes review of the budgetary and planning processes, its links to financing policies and programmes, with financing from a range of domestic and international sources. Co-ordination includes actors within and outside of government, including civil society and the private sector.
- **Climate public expenditure analysis** assesses volumes of funds within national budgets targeting climate actions, and identifies relevant fiscal policies contributing to climate financing, including tax incentives and subsidies.

National Financing Pathways and Strategies (NFP) for climate finance, developed by independent organisation e3g and implemented to date in Mexico, Chile and Colombia, prioritise, sequence and co-ordinate a range of financing – including private sector investments – in support of nationally determined strategies to transition to low-emission and climate-resilient development plans. NFPs frame “readiness” as the capacity for domestic and international public and private sectors, to facilitate scaled-up investment in climate-related sectors. NFPs include a series of diagnostic tools including processes for iterative stakeholder engagement, evaluation of national financing systems and capacities and developing scenarios to help model “financing pathways”. The iterative approach to engaging stakeholders in the NFP process is credited with helping to engage private sector investment through creating ongoing platforms for dialogue between public and private sector actors, helping to identify market-enabling conditions, to shape the design of investment programmes and a pipeline of projects. A set of core principles, including inclusivity, equitable access to finance, effectiveness, predictability and transparency, have emerged from country experiences as valuable in underpinning the implementation of an NFP process.

In addition to diagnostic tools and processes, a number of international programmes have been established to

support governments to establish “readiness”, including a Readiness and Preparatory Support initiative under the Green Climate Fund and the Climate Finance Readiness Programme (CF Ready) run by GIZ on behalf of Germany’s Ministry for Economic Cooperation and Development (BMZ).

The CF Ready approach offers a package of technical support grouped under five stages of readiness to support governments to access and effectively utilise climate finance.

GIZ’s Ready for Climate Finance approach



Under thematic area 1 for example, “Strategic planning and developing policies”, GIZ offers technical support to the development of prioritised cross-sectoral climate change strategies supported by corresponding investment plans. This includes quantitative and qualitative cost-benefit analysis and analysis and costing of financial needs. Under thematic area 2, “Strengthening institutions and good financial governance”, GIZ offers support to governments to establish a coherent climate finance architecture, where clear roles and responsibilities and effective co-ordination are established between relevant ministries, authorities, sub-national governments, legislative bodies, civil society and the private sector.

Climate Investment Funds (CIFs) identify and invite countries to work with MDBs and other key stakeholders, including civil society, indigenous peoples and the private sector, to develop investment plans to finance key projects eligible under the CIF thematic windows. The investment plan process provides an opportunity for a broad set of stakeholders to scope priority issues and funding options, and to ensure these are aligned with national priorities through a structured process. The governance of the fund has also built in additional opportunities for engagement and scrutiny of investment plans through committees, sub-committees and observer functions, which include major donors, MDBs, developing country governments, international NGOs and civil society observers.

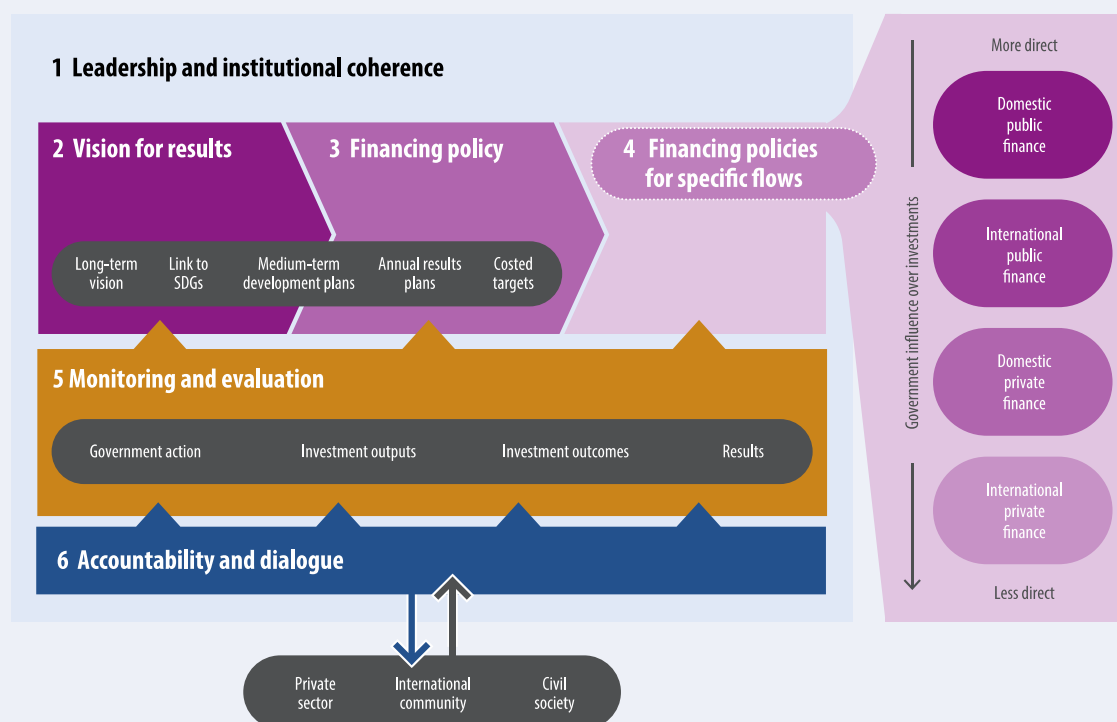
Sources: GIZ (2013); Naidoo et al. (2014); UNDP (2012); UNDP (2015); www.climateinvestmentfunds.org.

The idea of developing financing strategies to support the delivery of results for sustainable development has gained considerable traction among development actors and governments

The inclusion of the concept of Integrated National Financing Frameworks (INFFs), in the AAAA has given impetus to the development of financing strategies. The AAAA frames INFFs as an important tool enabling countries to link development finance with the 2030 Agenda for Sustainable Development (Box 1.2).

Box 1.2. Key elements of Integrated National Financing Frameworks

1. **Leadership that facilitates institutional coherence** bringing together actors across and outside government to build an integrated approach, ensuring alignment in policies and providing overall results-oriented direction for financing policies.
2. **A clear vision for results** setting out the sustainable development outcomes and impact that the country wants to realise, typically articulated in a national development plan. The vision for results should set out a realistic formulation to consider the affordability and financial resources needed to achieve the goals.
3. **A financing strategy** which takes the long-term vision for results and develops estimates for the costs and types of investments needed and provides the framework for financing policies to mobilise resources.
4. **Financing policies** to mobilise each type of finance, which govern the mobilisation and use of particular types of finance, and cover a range of policies such as medium-term expenditure frameworks, tax revenue strategies, national aid policies, and industrial development strategies.
5. **A robust monitoring, evaluation and learning system** that can effectively monitor progress from government efforts to mobilise financing, to the outcomes of investments mobilised and the results they contribute toward can inform more effective approaches to the use of finance.
6. **An enabling environment for accountability and dialogue** to build the trust necessary to mobilise financing from stakeholders outside government, to make sure policies are being designed and delivered effectively and to ensure a voice for citizens, civil society, business, development partners and other actors in development.

Building Blocks of the INFF

Source: UNDP (2016)

In many settings, however, and not only those affected by crisis, fragility and risk, some of the key ingredients required to develop an INFF will not be in place. Moreover, financing flows are becoming more complex and involve a more diverse set of actors. And while many governments have established national development plans and have a range of national policies for mobilising and using different types of finance, these policies are not often aligned as part of a coherent strategy to support the delivery of development priorities.

In response to these challenges, UNDP with the Asia-Pacific Development Effectiveness Facility (AP-DEF) developed the Development Finance Assessment (DFA), a diagnostic tool to support governments, initially in the Asia Pacific region, through the process of developing and implementing the reforms needed for the adoption of a full-scale INFF (Box 1.3). It is worth noting that both climate finance strategies and the DFA tool are framed as diagnostic tools and starting points for much longer multi-stakeholder processes required to deliver a full financing strategy with broad engagement and buy-in.

Box 1.3. Lessons from UNDP's Development Finance Assessments

DFAs provide governments with a baseline assessment of financing flows, the quality of development plans and results frameworks, government policies, and capacities, and analysis of the extent to which these support the delivery of development priorities. DFAs help governments to bring together fragmented approaches to mobilising and using different sources of finance for national economic, environmental and social priorities into a single coherent framework, as well as producing a roadmap for the implementation of reforms, investments in capacity and new tools and approaches, and following up new opportunities.

DFAs aggregate existing data and analysis on financing flows for development finance, and draw on existing assessments, data and studies, rather than duplicating specialist technical work.

Recently, fragile states have begun to express interest in tailoring the DFA tool to fragile contexts and the Government of Timor Leste for example has commissioned a DFA.

Source: UNDP (2016)

Climate finance strategies and DFAs do not necessarily provide insights into how to develop financing strategies in fragile, crisis-affected and risk-prone settings since they assume a relatively stable and supportive policy environment. The application of financing strategies to higher-risk and less enabling political environments is particularly challenging and has only recently begun to receive serious attention, with recent adaptations to the RPBA approaches and revision of the UN Development Assistance Framework (UNDAF) guidance.

The February 2017 update of the UN system's UNDAF planning guidance also brought in the idea of financing strategies. UNDAFs are the primary tool by which the UN system ensures co-ordination and coherence of its activities in support of national policies and priorities, and is also a tool by which the UN system seeks to promote national ownership of the sustainable development agenda. In addition to foregrounding the commitment to “leave no-one behind” which requires a shift in analytical and programmatic emphasis towards the most marginalised, the revised UNDAF guidance

also includes acknowledgment of the particular challenges of fragile and conflict-affected settings, noting the need for greater coherence of programming approaches across development, humanitarian, human rights and peacebuilding agendas, and the need for “risk-informed” approaches, including conflict analysis. Critically, it also introduces a new element: the development of a financing analysis and strategy (UNDG, 2017a). An additional “companion piece” to the guidance, which further elaborates the rationale for and approach to developing a financing strategy describes the conceptual shift from “funding to financing”, and a linked emphasis on aligning efforts behind a results-focused approach (Box 1.4).

Box 1.4. Key elements of the UNDAF approach to linking financing with results

Moving from funding to financing involves 4 major steps:

- Step 1: Mapping the financial landscape at the country level
- Step 2: Assessing the UNDAF Funding Gap and preparing a Common Budgetary Framework
- Step 3: Developing a Financing Strategy
- Step 4: Mobilising Common Resources for Collective Action.

Source: UNDG (2017a)

Recent joint UN, World Bank and EU Recovery and Peacebuilding Assessments (RPBA) have also included greater attention to understanding the financing landscape, and in the 2016 Central African Republic (CAR) RPBA, a separate chapter comprising a financing strategy was included (Box 1.5).

So, there is emerging consensus that financing strategies are an important means for increasing the probability that development results can be achieved, including in fragile and crisis affected contexts.

The remainder of this guidance will outline a methodology, building on the good practices from the tools outlined above, to help develop financing strategies for stability in fragile and crisis affected contexts.

Box 1.5. Shifting approaches to financing strategies in Recovery and Peacebuilding Assessments

The Post-Conflict Needs Assessment (PCNA), now known as the Recovery and Peacebuilding Assessment (RPBA), has undergone a series of modifications and adaptations since the PCNA methodology was first introduced in 2003 as a tool for multilateral agencies and national actors to develop prioritised, costed and budgeted post-conflict needs assessments. In 2008, a global level co-operation agreement, the Joint Declaration on Post-Crisis Assessments and Recovery Planning, formally committed the UN, World Bank and EU to work together on planning and delivering support in post-conflict situations.

Since 2003 the PCNA methodology has been further refined, and a wealth of lessons have been accumulated. Earlier PCNAs were lengthy and comprehensive exercises that were expected to produce detailed sectoral assessments of recovery needs, often in advance of a major donor conference, which could form the basis of national recovery plans. Latterly, PCNAs have been more likely to take place in dynamic situations, including where conflict is still ongoing, where political transition or opportunities for dialogue are opening up or where the objective is to stabilise a deteriorating situation.

The PCNA methodology was adapted in 2008 to reflect the fundamental need to understand the nature of the context and conflict and to establish priorities to support peacebuilding processes, alongside other developmental and recovery goals. A review of PCNAs carried out between 2008 and 2015 established that further adaptation of methodologies, tools and approaches was needed to enable assessments to adapt to the operational realities of dynamic and insecure contexts; these adaptations included remote data collection, greater use of local expertise and citizen feedback mechanisms.

The RPBA approach to financing is also changing, with increasing attention being paid to the financing landscape and to the development of a financing strategy as a core element of the process. Notably, in 2016 the government of the CAR requested support from the EU, UN and World Bank in preparing a RPBA in advance of an international donor conference. The CAR RPBA places the “financial arrangements” among the higher-level objectives identified by the assessment.²

Sources: Garrasi and Hall (2016); EU, UN and World Bank (2015); EU, UN and World Bank (2016).

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Notes

¹ UNDP (2012) argues for example that “with more than 50 international public funds, 60 carbon markets and 6,000 private equity funds already providing “green” finance, mobilising external finance in ways that are aligned with national systems and priorities is extremely complex.....International public finance must be used to support systems that are able to navigate and take advantage of this landscape by accessing and using this multitude of finance.” Naidoo et al. (2014) argue that because climate finance is fragmented at global level, it is not possible to achieve coherence at this level and therefore it is essential that developing countries “foster a “demand driven” approach to these initiatives to ensure greater consistency and lasting benefits.”

² The stated objectives were: (1) support the CAR government in identifying recovery and peacebuilding needs and priorities and associated financial costs; (2) Identify specific operational, institutional, and financial arrangements to facilitate the implementation of identified priorities, given capacity and security constraints; (3) Create a platform to monitor implementation progress, notably on major reform commitments, and ensure consistency and co-ordination across development, humanitarian, political, and security engagements.

Chapter 2. Guidance for developing country financing strategies

While there is growing interest and a gathering body of experience in implementing aspects of country-level financing strategies, their application in fragile and at-risk settings is to date limited and consequently little practical guidance exists.

The following discussion draws on lessons learned from climate finance strategies, DFAs, RPBAAs and elsewhere, to provide practical insights for actors at the country level on the range of issues, stakeholders, and potential sequencing of actions they should consider in undertaking a country financing strategy in fragile and at-risk settings. The process and outcomes will differ according to context. In many settings conditions are unlikely to be optimal and pragmatism and flexibility are stressed throughout. A full financing strategy will not always be possible, but elements can in most cases be applied and actors at the country-level will need to assess ‘readiness’, appropriateness, capacity and sequencing, and tailor their approaches accordingly.

The range of actors involved will also vary from country to country, depending on the strength of leadership, demand, capacity, presence and influence of actors, and the guidance anticipates that the composition of actors leading and involved will start from a coalition of the willing rather than a set cast of actors. It should be noted however that financial literacy is often limited at country level and that external technical support is likely to be required.

Financing strategies are developed to ensure there are the right resources to support the achievement of strategic goals.

Recent experiences in developing country level financing strategies indicate a range of potential benefits:

- Financing strategies can contribute to more strategic and effective investments.
- Financing strategies can be a practical means by which governments strengthen their leadership and operational management of development processes.
- Financing strategies may prove to be a critical tool in efforts to mobilise and align a wider range of financing flows and actors behind national priorities.
- The process of developing a financing strategy provides opportunities to enhance coordination and mutual awareness among financing actors, and also to revisit and adjust the existing aid architecture and division of labour among financing actors to better support strategic goals and aid effectiveness commitments.

While comprehensive country level financing strategies may have substantial benefits in mobilising resources and supporting the delivery of results, many formidable challenges remain

These challenges include how to:

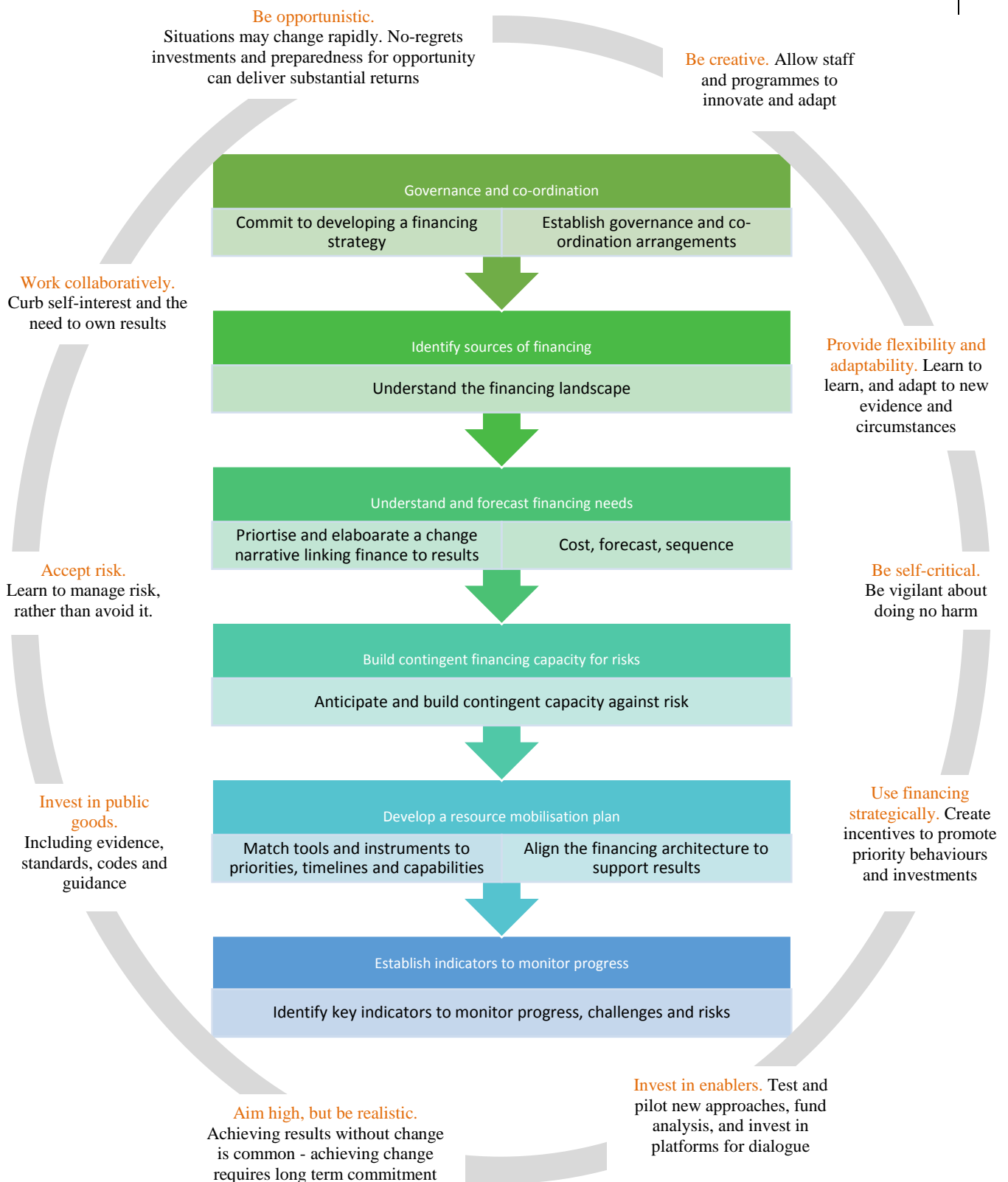
- reconcile many competing planning and prioritisation processes;
- overcome long-standing analytical, operational and cultural siloes across international peacebuilding, development, climate change and humanitarian communities;
- prioritise and lead in settings where government leadership and consent is lacking;
- prioritise and plan in settings where needs are overwhelming, resources limited, and where set-backs and shocks are extremely likely; and
- manage the tendencies of financing actors towards fragmentation and self-interest.

In some cases, the process of convening actors and engaging in dialogue, identifying areas for capacity-strengthening, and creating incentives to align resources with national-level priorities may help to address some of these challenges.

This guidance for developing country level financing strategies for stability has been developed with both these opportunities and these challenges in mind. However, it is important to acknowledge that while a financing strategy process, and the incentives provided by the right financing, may help address some of the long-standing challenges, the financing strategy cannot be seen as a one stop solution – it must be accompanied by strong leadership, effective co-ordination, and a will and desire to work together to deliver on common outcomes and leave no one behind.

The concrete steps that form this guidance are outlined in Figure 2.1.

Figure 2.1. Concrete steps for developing comprehensive county-level financing and investment strategies



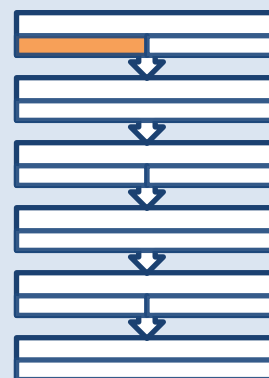
Step 1: Governance and co-ordination

Step 1a: Commit to developing a financing strategy and establish the ‘building blocks’

Financing strategies are not yet a routine component of planning and prioritisation processes, and may need to be explicitly “mandated” to establish buy-in and ensure adequate resourcing, including staff expertise and time for data gathering, consultation and strategic analysis work. Ensuring this commitment to a financing strategy is critical for its success.

Practical steps in this stage include:

- Ensure that the financing strategy is demand driven.** Assess the level of support and identify champions and allies, including from government, and among the bilateral donor community and IFIs, who will be key financial backers. Obtaining clear buy in and leadership from the UN Resident Co-ordinator’s office is critical for this step – and will help reduce competition between different actors on the ground.
- Ensure that stakeholders have a realistic understanding of the context and potential risks.** Collate existing political-economy analysis and undertake preliminary analysis of risks, spoilers, constraints in order to tailor the scope and scale of the exercise.
- Build buy-in and support.** Include the requirement for a financing strategy in the terms of reference for planning and prioritisation processes. Form coalitions of support at the country level and build links to international supporters who can provide technical support and guidance.
- Identify a neutral party** – with no stake in the outcome of the financing strategy – to support the strategy facilitation process.
- Identify the role of national actors and the ways in which the strategy will support national leadership.** In an ideal scenario, governments would provide leadership, but in fragile and conflict-affected settings, capacity and/or willingness may be lacking. Where this is the case, it should not be a barrier to undertaking a strategy, rather targeted investments and incentives supporting greater engagement and leadership of national actors over time should form an integral part of the strategy. The UN Resident Coordinators’ Office (RCO) can play a key role in providing leadership, support and convening key actors.
- Where the demand and capacity does not currently exist a lighter process may still be undertaken to assess financing “readiness”, understand the financing environment, support co-ordination, and identify building blocks and enabling conditions.** These enabling investments may include platforms for dialogue on prioritising investments, including with the private sector; the generation of evidence and analytical capacities; identifying opportunities for dialogue and reform; and identifying “quick-wins” including early reforming and instrumental sectors where costed-prioritised investment may be more feasible, including education and infrastructure.



Establishing commitment in principle, buy-in and practical support for the development of a financing strategy are critical foundational steps.

Financing strategies are not yet a part of planning and prioritisation packages and may require a range of incentives and targeted investments to ensure their routine use in fragile, crisis-affected and at-risk settings. The EU, UN and World Bank RPBA's are in the early stages of experimenting with the inclusion of collective financing strategies into their tool-kit. However, establishing the commitment to develop a strategy, and building support and buy-in from key stakeholders, are ultimately more important than the existence of detailed guidance and formal institutional endorsement of tools and responsibilities. In fragile and at-risk settings, flexibility, pragmatism and a willingness to revisit and adapt are key and even where an ideal process is not realistic, important elements of a strategy can still be realised. For example, several countries are taking a phased-approach to undertaking Development Financing Assessments, first conducting an initial mapping of the development financing landscape and identifying key financing challenges and priority areas of in-depth analysis to be explored by the full assessment.

In practical terms, time, resources and capacity also need to be planned and budgeted for. Recent experiences from the RPBA process in CAR highlighted the need to make adequate time for the development of a financing strategy.¹ During the CAR RPBA process, a team of financing specialists were drafted in from agency headquarters to lead the financing analysis, providing an independent perspective as well as additional technical capacity, including experience and knowledge of a more diverse set of instruments and approaches. Financing strategies may also require dedicated funding, depending on how they are staffed and the scope of ambition of the exercise.²

The more widespread application of comprehensive financing strategies is likely to require targeted investment in skills and knowledge at the country level as well as at higher-institutional levels, as well as ongoing investments in the development of tools and guidance.

Establishing the commitment to develop a financing strategy can prove a useful stimulus to longer-term thinking and to convene a wider scope of financing actors behind shared results frameworks. Existing development, resilience, stabilisation and humanitarian prioritisation and costing approaches typically consider a relatively narrow range of external financing sources and actors, primarily ODA grants and loans, and often the financing element of these processes amounts to little more than a fundraising exercise. ODA is the lifeblood of the international organisations that are likely to be leading or supporting prioritisation exercises, and national governments too may be keen to mobilise this highly concessional form of finance, so there are powerful incentives driving this ODA bias. There are therefore limited short-term incentives to think beyond fundraising for immediate ODA opportunities.

However, ODA alone cannot deliver adequate, predictable or long-term finance to meet the full range of peacebuilding, development, resilience and crisis response needs in many settings. In addition, in upper-middle-income fragile countries the availability of external finance may not be the most critical financing challenge.³ Establishing the commitment in principle to develop a financing and investment strategy is an important step in moving away from short-term and often self-interested fundraising concerns, and in building a more inclusive dialogue and division of labour. The development and implementation of National Financing Pathways and Strategies (NPS) for climate

finance for example has been credited with facilitating more effective co-ordination, promoting the establishment of durable platforms for dialogue between national and international actors as well as between the public and private sectors, and bringing actors together in a “national financing ecosystem” (Naidoo et al., 2014).

Where the demand and capacity does not currently exist a lighter process may still be undertaken to assess financing “readiness”, understand the financing environment, support co-ordination, and identify building blocks and enabling conditions.

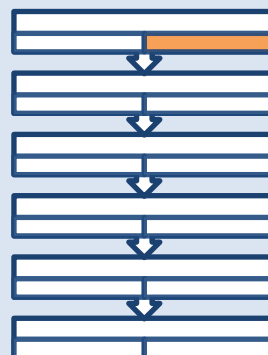
Many settings affected by conflict, fragility and risk, do not have adequate political support for and/or the technical capacity to develop comprehensive development financing strategies. However, this is not only a challenge for settings with limited institutional capacity. Where violence, fragility and risk may be sub-national, externally imposed, and/or criminal in nature, a comprehensive national-level prioritisation and costing may not be necessary or welcome.

Even in these situations, international actors can invest in the building blocks of a financing strategy. For example, in settings where conflict has recently ended or a major political transition has taken place, there may be appetite and opportunity for conducting baseline studies and analysis which can be fed into wider planning and prioritisation processes. Evidence, analysis and diagnosis of major constraints to private sector development for example may be lacking, yet these are areas where external development partners can play a critical technical and financing role. The World Bank for example regularly produces diagnostic studies, targeted studies on thematic investment areas (such as social protection, basic service provision, public financial management, access to energy and infrastructure investment needs), assessments of the business and trade environment, and bi-annual country economic monitoring reports for a wide audience of policy-makers, businesses, investors and analysts.

Investing in platforms to support dialogue, including engaging the private sector in the prioritisation of reforms and investments, can also help to ensure that the building blocks of effective prioritisation processes and buy-in to subsequent financing and investment strategies are in place.

Step 1b: Establish governance and co-ordination arrangements

Co-ordinating and ensuring alignment with strategic priorities and financing policy objectives requires effective leadership. Financing strategies also require the participation of a wide range of actors, including multiple government ministries and departments, development partners, private sector actors and civil society representatives. Clarifying roles and responsibilities, establishing platforms for dialogue and protocols for decision-making, and providing targeted resources and technical support to leadership and governance are key steps in ensuring that a financing strategy is not just a paper exercise and can adapt to changing circumstances.



A range of public sector capacity-strengthening and market-enabling investments may fall outside of regular sectoral co-ordination, informal convening may emerge, but additional attention to ensuring a rational and co-ordinated approach to these investments may nevertheless be needed.

Practical steps in this stage include:

- **Identify key stakeholders.** Identify the actors responsible for leading the development and delivery of the financing strategy – including government, donors, operational actors, civil society, multilateral development banks, private sector organisations, security actors, and others.
- **Set up a multi-stakeholder platform that brings together all the relevant actors.** Building trust between the actors will be the important first step, so choose concrete but non-political deliverables – such as a mapping of projects – as a first task for the platform. If the number of participants is unwieldy, consider choosing representatives from each of the key groups to form a smaller management group.
- **Establish and agree decision-making responsibilities and protocols.** Consider government leadership and/or joint co-chairs for the platform, who might regularly rotate.
- **Identify potential gaps and exclusions in co-ordination and decision-making.** Consider whether cross-sectoral capacity strengthening and market-enabling investments require special attention in the co-ordination architecture.

The governance of prioritisation and strategic financial planning processes is critical to their successful implementation and their ability to adapt to changing circumstances, and should be factored in during the design phase.

UNDP’s development approach for example, stresses the importance of leadership in order to bring multiple constituencies together, to build consensus and to give authority to co-ordination mechanisms (UNDP, 2016). In the case of DFAs, this leadership is envisaged as being “rooted at the top of government” (ibid.).

Recent RPBAs supported by the EU, UN and World Bank also support **government-led planning and prioritisation** and have taken the opportunity to review existing co-ordination structures and to recommend specific governance arrangements designed to support the implementation of financing strategies and their alignment with agreed priorities.

The 2015 Ukraine RPBA, for example, recommended the formation of a cross-governmental co-ordination structure situated under the executive level of government and supported by a secretariat, which would support day-to-day co-ordination and monitoring as well as playing a role in the co-ordination of financing instruments (EU, UN and World Bank, 2015).

The 2016 CAR RPBA meanwhile proposed governance and co-ordination arrangements comprising a Political Dialogue Group and Advisory Board chaired by the head of state; a Joint Executive Committee for RPBA implementation comprised of senior government, international development partners and national civil society representatives, with responsibility for resource allocation and monitoring, including supervising trust funds; and technical working groups for each of the three RPBA pillars, supporting operational-level co-ordination and monitoring. It was also envisaged that the pillar working groups would serve as platforms for dialogue and co-ordination on cross-sectoral issues. An internationally supported secretariat would provide practical support to all three co-ordination bodies, as well as monitoring progress against the RPBA and the CAR Mutual Commitment Framework (Cadre d'Engagement Mutuel – CEM-RCA) and donor performance against aid effectiveness commitments (EU, UN and World Bank, 2016).

Where government is not yet in a position to lead in the development of a financing strategy, international actors can invest in supporting government co-ordination capacity and shifting incentives in favour of co-ordination.

The incentives that influence the behaviour of external financing actors are often skewed towards competition, maximising visibility and influence so that, even when a plan exists, there are powerful incentives for those actors to interpret it selectively. Despite acknowledgement at the policy level of the need to align with nationally defined priorities and to co-ordinate and operate transparently, as codified in aid effectiveness principles and international agreements such as the New Deal for Engagement in Fragile States, institutional incentives are often at odds with these logical and laudable principles. Fragmentation, proliferation and orphan sectors remain common and, without strong inducements from government, transparency often lags well behind policy-level commitments. There is no simple solution to fix the problem of competition and self-maximising behaviour among external financing actors. More inclusive and strategic dialogue on development financing priorities (which may include inclusion of representatives from donor headquarters as well as country staff); transparency and routine scrutiny of donor behaviour; and providing support to government coordination and leadership functions are all noted as useful in managing competitive dynamics.

Research for this study confirmed that in Lebanon and Myanmar co-ordination among international financing actors often remains below the strategic level and in practice often equates to information sharing.⁴ In both Lebanon and Myanmar, development financing actors gave examples of direct competition for projects and market share. In Myanmar, however, the EU has funded two technical advisors to work within the

government's new Development Assistance Co-ordination Unit, providing practical day-to-day support and developing practical tools and policies to facilitate more efficient and rational co-ordination of aid. The Myanmar Aid Information Management System (AIMS), for example, has been used, with the support of the EU-funded technical advisors, to provide analysis of fragmentation and concentration of donor efforts, which has assisted the government in dialogue on co-ordination with donors.

Certain cross-cutting programming areas may need additional attention in co-ordination efforts to ensure they are fully aligned with, and supportive of, strategic goals.

A number of programming and investment areas, including knowledge generation, capacity strengthening, technical assistance, and some areas of public sector and legislative reform fall outside of traditional sector-based development co-ordination forums, or they may span multiple traditional sectors. Key areas for reform identified in DFAs in the Asia Pacific region spanned a range of policy areas and institutions. Creating an enabling environment for foreign direct investment (FDI) for example was noted to require integrated packages of reforms including revising anti-monopoly legislation, labour laws and environmental regulations, as well as developing new tax incentive systems (UNDP, 2015). Although informal convenings of actors often emerge around technical issues, ensuring oversight of coverage and gaps, and integrated approaches, may be challenging and in practice and these cross-cutting investments may require additional consideration in designing development cooperation co-ordination arrangements.

Step 2: Identify sources of financing

Step 2: Understand the financing landscape

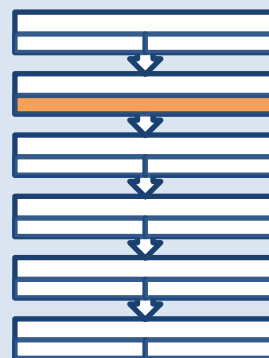
Understanding current and potential sources of financing provides the building blocks for a financing strategy and a basic situation analysis of the financing landscape can be carried out both as a desk review, and during an in-country mission through interviews with key financing stakeholders.

Internationally comparable data are collected at the macro level for major public and private financing flows by major multilateral institutions, including the World Bank, the IMF and OECD, as well as information on UN peacekeeping budgets, and forward-looking plans and budgets of leading financing and implementing actors. This information can be marshalled to provide a basic analysis of the respective volumes and historic trajectories of domestic and international, public and private flows.

A mapping of national sources of data should complement an analysis of aggregate financial flows. Such a mapping can provide an indication of key gaps in national statistics to inform subsequent investment and capacity-strengthening priorities. National data sources may provide insights into important qualitative issues, such as aid alignment with national priorities, revenue forecasts and market conditions. Central banks and finance ministries are often key data sources at the national level.

Practical steps in this stage include:

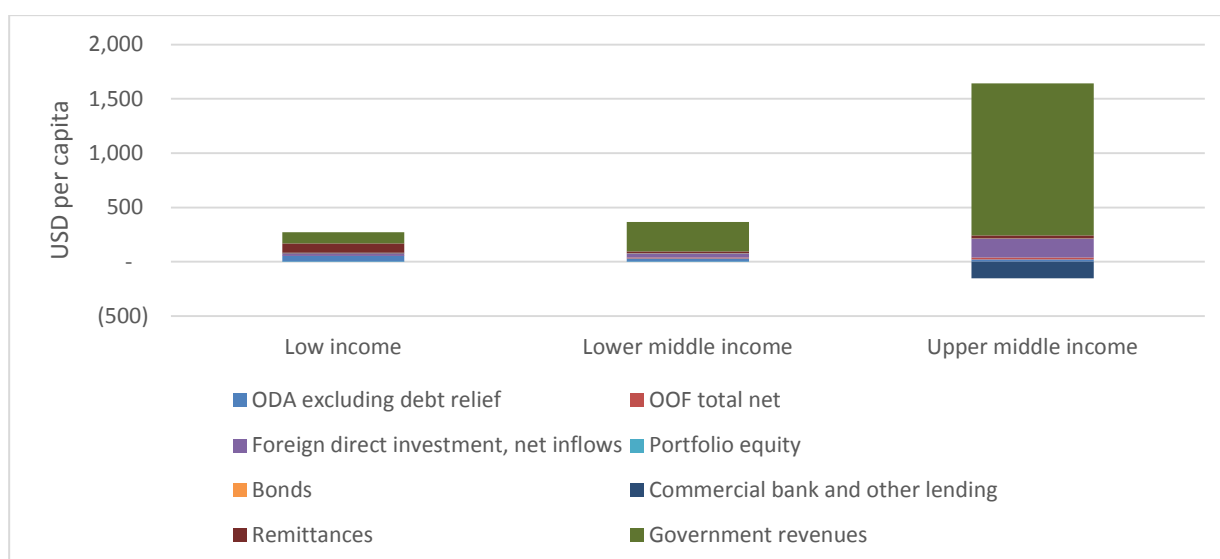
- **Conduct a preliminary desk-based mapping of financing flows and actors.** Identify flows, actors and sources of information to carry out a basic mapping of the financing landscape, from which an analysis of opportunities for growth and potential risks (structural vulnerabilities, exposure to shocks and volatility) can be developed.
- **Validate and supplement analysis with key stakeholders.** Send the initial results of the desk research on the financial landscape, together with potential opportunities and challenges, to actors in country. This preliminary analysis should then be validated and completed by interviews and further information gathered in country. It will also stimulate interest in the overall idea and potential of a financing strategy.



Understanding the existing financing landscape is a fundamental step in any financing strategy and can build upon a range of existing sources of data, analysis and information

The mix of funding flows and actors and opportunities for growth vary widely across country contexts. Figure 2.2, for example, illustrates the wide variation in the volumes and composition of funding flows between countries registering on the OECD's fragility spectrum (OECD, 2016).

Figure 2.2. External and domestic financing flows per capita in countries affected by violence and fragility in 2015



Sources: OECD CRS statistics; World Bank remittances data; IMF World Economic Outlook. Countries designated as affected by fragility and violence in the OECD's 2016 classification.

Country-level statistics are almost always available to some degree, albeit of variable quality and coverage in some areas. Macro-level data, which can be used for trend analysis, are often publicly available, and substantial volumes of data, including indicators of economic performance, are likely to be collected and routinely monitored by international actors present at the country level and in government ministries. UNDP's DFAs recommend as a preliminary step to marshal data from existing sources and carry out a ten-year trend analysis for each flow, considering the current status and potential future trajectories, the levels and mix of financing flows and instruments, as well as data on the ways that these flows are invested and their effects on different components of sustainable development (UNDP, 2016). The UNDAF companion guidance also recommends undertaking analysis of existing financing data, including sourcing data from the UNDESA-led Inter-Agency Task Force supporting the processes of Financing for Development (UNDG, 2017a).

[Review and validation of mapping and flow analysis can help to streamline prioritisation and identify reform and technical assistance priorities](#)

Financial flow analysis provides an opportunity to bring together data and analysis of financing flows, actors and institutions to enable analysis of the potential for growth, along with an assessment of exposure to shocks and volatility. It can also help to rationalise prioritisation and sequencing of investments, financing incentives, reforms and policies to strengthen public financial management, stimulate revenue generation, private sector investment and economic growth.

The climate finance concept of “readiness” captures the need to understand the enabling environment for mobilising and managing financing flows. For example, experiences from the development of National Financing Pathways and Strategies (climate finance) highlight the importance of understanding the capacities of national

financing systems, including public financial management capabilities, the roles and capacity of private finance institutions and capital markets, and development financing actors in driving sustainable growth (Naidoo et al., 2014). UNDP's DFA approach also recommends in the analysis stage assessing the policy and institutional setting for each flow, including institutional arrangements, regulation and co-ordination, the degree of influence of government, and potential barriers to growth (UNDP, 2016). This analysis of the enabling environment can feed into subsequent policy development and prioritisation of technical assistance and capacity-strengthening investments.

Step 3: Understanding and forecasting financing needs

Step 3a: Prioritise and elaborate a change narrative linking finance to results

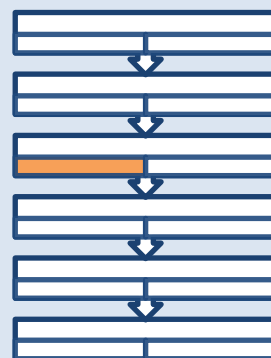
Targeting investments which will deliver change and impact requires careful prioritisation to avoid spreading efforts too thin across a broad range of priorities. It is important to note, however, that a financing strategy does not set national-level priorities, the strategy exists to support the delivery of these priorities, and while the strategy can help to focus discussions on feasibility and prioritisation, it is ultimately dependent on the quality and coherence of the prioritisation and planning processes.

A robust analysis and explanation of critical enabling factors and risks can help to identify priority investments and can help financing actors to understand how their investments contribute to the achievement of higher-level goals or results. This analysis should also include realistic assessment of the willingness and ability of local and national actors to deliver and sustain results.

In practice, while systems adapt to include financing strategies as a regular part of the planning and prioritisation process, they are likely to be requested after plans have already been developed. This makes prioritisation complicated – and should be avoided wherever possible. In such cases, at the very least clear links should be made between the different actions envisaged under existing humanitarian, development, security and government plans, before the financing strategy can proceed.

Practical steps in this stage include:

- **Establish common ground from which to guide and streamline prioritisation.** Identify criteria for prioritising actions which are feasible and likely to contribute to positive change.
- **Identify critical enablers of change.** Drawing on political-economy context analysis, identify the degree to which actors (including the private sector), institutions and the environment meet the enabling conditions required. Identify specific commitments, policy and programming actions necessary to achieve the change narrative and desired financing flow trajectory. Cost benefit analysis can help support this – i.e. ensuring that the available finance is going where it will have the most impact.
- **Ensure private sector actors input to prioritisation.** Provide opportunities for private sector actors to identify their key constraints and priorities.



The current array of competing country level plans supported by international actors does not provide an adequate basis for coherent financing strategies with realistic timelines.

In addition to national budgets and development plans, there are often multiple internationally-supported plans in operation, which are not necessarily functionally coherent and rarely provide a foundation for prioritisation and costing across the whole spectrum of humanitarian, development, risk and resilience, climate change and peacebuilding needs.⁵ For instance, there may be a UN-led

Humanitarian Response Plan (HRP), which offers a short-term prioritised and costed plan for external financing actors to align behind. In some cases in the aftermath of a major disaster or the end of a conflict, there may be a joint UN, World Bank and EU post-conflict Recovery and Peacebuilding Assessment (RPBA) or Post-Disaster Needs Assessment (PDNA) which includes an assessment and costing of recovery needs. UN peacebuilding actors may undertake a Peacebuilding Context Assessment (PCA), and there may be a New Deal Fragility Assessment. There may also be a national-level development plan such as a Poverty Reduction Strategy Paper (PRSP), an UNDAF and/or a New Deal Compact. And governments may engage in developing United Nations Framework Convention on Climate Change (UNFCCC) vulnerability assessments and climate change adaptation plans. Meanwhile, bilateral donors typically each undertake their own in-house needs and risk analysis, prioritisation and funding allocation exercises. EU member states may also develop EU comprehensive approaches in addition to their individual bilateral planning exercises.

Therefore, many simultaneous priorities for reform and investment are likely to exist in fragile, crisis-affected and at-risk settings. Current approaches to joint or shared planning and prioritisation exercises are often unwieldy and time-consuming and struggle to adapt to changing circumstances, and their inclusive approach may lead to very broad prioritisation, without ultimately identifying critical transformative priorities for investment. PCNAs, for example, have historically tended towards identifying needs across broad traditional sectors aligned to the MDGs, rather than focusing on a strategic set of critical peacebuilding and state-building priorities that would contribute to transformative outcomes (Garrasi and Hall, 2016). Among international actors, competition for influence and resources tends to shape prioritisation and costing. Historically, the prioritisation of needs within PCNAs, for instance, has often focused on “who does what” and on protecting institutional turf (ibid.) and UN-led Humanitarian Response Plans have been criticised for many years as being inflated “shopping lists” of funding requests rather than strategic prioritisations of needs and response.⁶

There is clearly scope to better harmonise and reduce duplication and overlap, but there is currently little incentive or requirement at the country level for organisations to forego overlapping planning and prioritisation processes, which in many cases are linked to fundraising opportunities, and to invest instead in joined-up or joint approaches to identifying priorities across the whole spectrum of peacebuilding, development, resilience and humanitarian needs.

The UN Secretary General’s 2016 “Agenda for Humanity” establishes commitments to transcend the humanitarian-development divide and to work towards collective outcomes, focused on ending humanitarian needs and reducing risk and vulnerability in support of the Agenda 2030 (UN, 2016). The subsequent “New Way of Working” includes the commitment to deliver collective outcomes and identifies the need for shared prioritisation, multi-year planning, a division of labour based on comparative advantage, empowered leadership, and financing calibrated to support the delivery of outcomes.⁷ The New Way of Working expresses concretely specific areas targeted for improved tools, approaches and partnerships among signatory UN agencies, including financing modalities calibrated to support collective outcomes (Box 2.1).

Box 2.1. The Commitment to Action – a “New Way of Working”

The New Way of Working will mean working towards achieving:

- pooled and combined data, analysis and information
- better joined-up planning and programming processes
- effective leadership for collective outcomes, and
- financing modalities to support collective outcomes.

Source: UN OCHA (2017) New Ways of Working,
www.unocha.org/sites/unocha/files/NWOW%20Booklet%20low%20res.002_0.pdf

Many new tools and approaches are now expected to be tested and rolled out, including approaches to agreeing “collective outcomes” at country level, which could help to align and streamline these multiple overlapping and often incoherent processes. And increasingly, planning and prioritisation processes are likely to build in financing strategies as a routine element – the new UNDAF guidance for example recommends undertaking analysis of the financing landscape during the joint analysis stage of the UNDAF cycle. In the short-term however, actors undertaking financing strategies are likely to face the difficult prospect of having to link up to overlapping planning and prioritisation processes which have already been agreed.

A clear identification of desired outcomes or end points, with an accompanying narrative to explain why and how prioritised actions are expected to contribute to these, can help to support a more rigorous prioritisation process.

The 2015 Ukraine RPBA prioritised activities against criteria of criticality, feasibility and urgency. Similarly, the UK government has developed an approach to assessing barriers and opportunities in determining investment priorities to drive economic growth, which attempts to avoid an “overloaded reform agenda that tries to fix everything at once”, focussing instead on a slimmed down list of actions which are considered both feasible and likely to make the greatest difference (DFID, 2017). The 2016 CAR RPBA established discipline in prioritisation by narrowing the focus to needs related to recovery and peacebuilding only, and critically assessed priorities and activities against a set of questions designed to test their contribution to meeting these needs (Box 2.2).⁸

Box 2.2. Critical questions for prioritising actions against the CAR RPBA

Activities included in the CAR RPBA were assessed against the following questions:

- Will the activity have an immediate and visible impact on peacebuilding and recovery and/or on reducing critical risks and fragility factors?
- Will the activity directly target the poorest and most vulnerable population groups and households and/or the most disenfranchised parts of the country?
- Can the activity be realistically implemented in the planned timeframe within the security context, given existing implementation (national/international) and absorptive capacities and available resources?
- Does the activity establish essential systems and/or the prior reforms required to rebuild state legitimacy?

Source: EU, UN and World Bank (2016).

Creating opportunities for private sector actors to provide regular input and feedback on priorities for reform and investment can help to provide a much more tightly prioritised and responsive strategy for investment and growth

The aid effectiveness agenda has stimulated greater alignment of investments with nationally led priorities, it is important to ensure these are not only government priorities. The priorities of government and private sector actors may not be well aligned. For example, in South Sudan, in the relatively stable period from 2006 to 2010, donors were relatively well aligned in their support for government-identified priorities for private sector development, with 90% of donor development projects aligned to address government-identified priority business constraints and economic development priorities. But these investment priorities did not match the priorities identified by urban businesses themselves, which in surveys ranked access to electricity and the cost of finance as the leading constraints (Leo et al., 2012). Leo, Ramachandran and Thuotte (2012) argue that “good policies are drawn from the intersection of three elements – the private sector’s most severe constraints, the stated priorities of governments, and policy interventions with an acceptably effective track record. The policies emerging from the intersection of these areas must also support the ... goals of economic growth, job creation, tax mobilisation, and positive spillovers.”

Ensuring that private sector actors have the opportunity to articulate their constraints and priorities therefore is an important feature of a comprehensive financing strategy in which domestic and international public sector resources, policies and incentives are calibrated to target priority actions with the greatest returns. In Myanmar for example, as part of wider programmes of support for private sector development, a number of bilateral donors and multilateral actors have invested in platforms to enable dialogue between private sector constituencies and the government to inform ongoing legislative and procedural reforms and to ensure that these reforms recognise the leading constraints facing the business community. The Union of Myanmar Federation of Chambers of Commerce and Industry (UMFCCI) has established the Myanmar Business Forum (MBF), with financial support from bilateral and multilateral donors, to serve as a platform for ongoing dialogue with the government

on priorities and the implementation of reforms. Of 77 recommendations made to government by the MBF to date, 11 have resulted in concrete responses from government, including legislative amendments.⁹

Step 3b: Cost, forecast and sequence

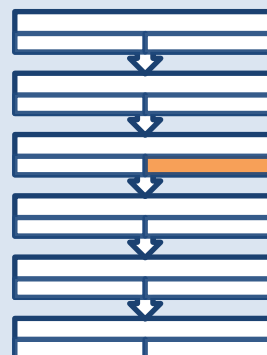
Financing needs are derived from an identification of strategic goals and results. Costing the actions that will deliver against these results however is challenging. Costs typically comprise a combination of recurrent and investment costs, while prudent budgeting will also factor in contingencies to respond to shocks and unforeseen needs.

Even when a full costing is not feasible, it may be possible to cost elements within a financing strategy based on known recurrent costs, calculations of unit cost “drivers”, costing of “big ticket” infrastructure investments and probabilistic or experience-based budgeting for contingencies.

A financing strategy is an opportunity to look beyond immediate financing gaps to consider the potential contribution of a range of financing actors and flows to strategic development, peacebuilding and resilience goals over a medium- to long-term timeframe. Establishing ambitions for the contribution of a range of public and private financing flows and actors can then inform the design of policies, structuring of incentives, investments in capacity strengthening and technical support, and building monitoring mechanisms.

Practical steps in this stage include:

- **Costing key elements of the plan.** Undertake a phased costing exercise against prioritised results to be delivered in a known timeframe. The timeframe should be determined based on the period where actors have reasonable certainty (perhaps a maximum of 3-5 years in a fragile context)
- **Sequencing of actions.** Sequence programmes and investments in terms of what is critical to begin on day 1, what can be put off until the medium term, and what investments could be considered if a major milestone is met (for example sanctions are lifted, the exchange rate is stabilised, oil prices increase, a regional trade agreement is concluded, etc.)
- **Forecast key financing flows.** Undertake analysis of the intended contribution and trajectory of domestic and international public and private financing sources. Note that the predictability of forward estimates of financing flows can vary enormously, and assumptions should be clearly noted. Different financing scenarios should be considered if the economic context is evolving rapidly and/or if there are a large number of assumptions in place. Where precise information about some potential investments is not available, for example investments by non-OECD donors in productive sectors, consider assuming that those productive sectors will be fully covered by those actors, and do not include them in the financial plan.
- **Identify enablers of growth in key financing flows.** Develop policies and strategies to guide investments in enabling growth and effective management of domestic revenues, domestic and international private sector investment and growth.
- **Identify key risks, opportunities and contingencies.** Risks and shocks may



result in the need for rapid re-prioritisation. Similarly the removal of blocks, such as establishing IDA eligibility, or dropping of sanctions, may present major opportunities which would require reprioritisation. Developing robust analysis of the political economy of constraints and risks and building in flexibility to respond to changing circumstances is therefore key. Identifying these risks, opportunities and agreeing up-front the key elements of the collective financing response to these can help to facilitate a more timely and effective response.

- **Identify large-scale investments with significant preparation lead-times.** Invest in the identification and preparation of large-scale investment projects which can be activated and launched as opportunities emerge. (Investments that are “ready to launch”)
- **Take a pragmatic approach to costing and budgeting, calibrated realistically against available information and capabilities.** Invest in institutional skills, expertise and tools to undertake costing exercises. Avoid pressing ahead with advanced budgeting processes if the basic costing building blocks are not yet in place.

Effective sequencing of financing flows, investments and actors should be matched against priorities over time

Experiences from developing national financing strategies and pathways for climate finance indicate that establishing strategic milestones staggered over a longer-term timeframe and scenario-building can help to guide sequencing exercises (Naidoo et al., 2014). In addition, we should expect the role of different financing flows, including ODA, to shift over time. In Lebanon, the principal priority for external financing in the first 2-3 years of the refugee response was primarily to meet the immediate needs of refugees, where government revenues and ODA grants were the primary sources of finance. Over time however, the political and economic impact of hosting the refugee population and pressure on social service provision has prompted a shift (driven in part by popular pressure from Lebanese citizens) towards a wider set of priorities which places meeting the needs of refugees alongside a wider set of stabilisation priorities, which include support to the provision of basic services and generation of economic opportunities, which also benefits the wider host population. The broader stabilisation and economic growth priorities, which include infrastructure investments and private sector-led job-creation, have been matched with increased use of concessional loans, and in future, guarantees through the Global Concessional Financing Facility.

In particular, at critical points, official domestic and international funds will be necessary to create incentives, including offsetting or sharing risk and subsidising the entry of other financing actors (primarily private financing) into areas that may be risky or commercially unappealing in their early stages. Countries undertaking DFAs in the Asia-Pacific region all indicated a transition in the role of ODA financing from poverty reduction to trade and from financial transfers to post-aid development partnerships (UNDP, 2015). The Philippines, for example, is considering shifting the focus of its ODA investments to play a more catalytic role in mobilising private sector investments to finance public goods through credit enhancements such as loan guarantees (ibid.).

Financing strategies should therefore establish specific roles, trajectories and responsibilities for different types of finance over time.

The sequencing and trajectory of financing flows should be supported with targeted policy reforms, technical capacity supplementation and strengthening to enable the mobilisation and effective use of domestic and international public and private finance

A comprehensive financing strategy can help to develop change narratives and corresponding supporting policy actions that target financing actors and a wider range of flows and over a longer planning timeframe (UNDP, 2016). The CAR RPBA for example includes a national action plan to reduce dependence on ODA during the five-year implementation period, which incorporates fiscal reforms, increased revenue collection and improved national resource management, supported and monitored by the IMF (EU, UN and World Bank, 2016). Each of the DFAs reviewed by UNDP in the Asia Pacific region identified a range of regulatory reforms needed to unlock key flows, including foreign direct investment, public-private partnerships for infrastructure investment, and inclusive finance (UNDP, 2015).

Developing co-ordinated policies which support higher-level economic growth, revenue generation and management goals can be challenging in practice however, not least because decision-makers and technical specialists may be dispersed across government ministries and technical areas of development financing partners. Tools enabling shared analysis of capacities and constraints in key policy areas and institutions can help to focus policy reform and capacity investments. The International Monetary Fund (IMF) for example has developed a range of diagnostic tools to enable more objective and comparable assessment of fiscal environments (Box 2.3).

Box 2.3. Development financing actors' investments in supporting revenue collection and management

The 2015 AAAA identified the necessity and challenge of increasing domestic revenue generation and stimulated the development of the Addis Tax Initiative (ATI), initiated by the governments of Germany, the Netherlands, the UK and the US. The purpose of the ATI is to generate significantly increased resource investments in domestic revenue mobilisation, greater national ownership and more than 45 governments, regional and international organisations have now joined the ATI and committed to:

- Collectively double their technical cooperation in the area of domestic revenue mobilisation / taxation by 2020.
- Restate their commitment to step up domestic revenue mobilisation as a key means of implementation for the SDGs and inclusive development.
- Restate their commitment to ensure Policy Coherence for Development.

Multilateral and bilateral development financing actors are upgrading their tools and approaches, increasing their investments and developing new partnerships in response to the challenge of increasing domestic resource mobilisation. The IMF for example has developed a range of tax diagnostic tools:

- The **Tax Administration Diagnostic Assessment Tool (TADAT)**, provides a standardised assessment of tax revenue performance helping to guide capacity-strengthening, reform and engagement. TADAT, has been piloted in nine very different countries (for example, Côte d'Ivoire, Malawi, and Norway), and will be rolled out from 2016.
- The **Revenue Administration Gap Analysis Program (RA-GAP)**, identifies the factors underpinning actual versus potential outcomes in tax revenues and then designs corrective actions. This tool has been applied for technical assistance in revenue administration in a number of countries (for example, Jamaica, Philippines and Uganda).
- The **Revenue Administration Fiscal Information Tool (RA-FIT)** is being developed in collaboration with the OECD, IOTA and CIAT and is a web-based platform for compiling comparative fiscal data helping to benchmark and compare the operational performance of revenue agencies across countries.
- The IMF and World Bank also committed to develop a **tax policy diagnostic tool** allowing countries to assess broader elements within the overall tax system, and design reform strategies; and development partners to target technical assistance—likely with a particular focus on international tax issues.

Bilateral government donors are also investing in their policies and commitments alongside the ATI initiative. The Australian government for example has established a strong policy commitment to supporting tax policy and administration, publishing a new policy framework in 2016, which includes a commitment to doubling investments in strengthening developing countries' tax systems from AUD 16 million in 2014-15 to AUD 32 million in 2020.

Australia's approach includes recognition of a thorough political and economic analysis, including identifying the constraints to reform as the foundations of analysis,

prioritisation and design of response. Australia’s approach also includes a commitment to work closely with governments to strengthen their tax systems, facilitating access to technical support, or in some cases providing direct technical support. In Papua New Guinea for example, Australia sent senior Australian Tax Office (ATO) advisers to the Papua New Guinean Internal Revenue Commission (IRC) to assist with revenue administration. The Australian government also commits to use its engagement in international tax norm setting processes to advocate for inclusion and engagement of partner countries in the Indo Pacific region. In Myanmar, Australia’s support to tax reform includes support, alongside a range of donors, to the Myanmar’s implementation of the Extractive Industries Transparency Initiative (EITI), including providing support to reform of the mining law.

Sources: IMF (2015); Commonwealth of Australia, DFAT (2016); www.addistaxinitiative.net

The sequencing of investments remains in part contingent upon external factors and opportunities; therefore readiness to take advantage of opportunities is critical

In practice optimal sequencing of reforms and investments varies widely across different contexts and may be contingent on a range of internal and external factors (Glanville et al., 2016). For instance, while the World Bank identifies a series of priority reforms for Myanmar’s business sector and groups these into “first priority and quick wins” and “reforms with longer time horizon”, the same study also notes that political support for reforms (and its corollary, obstruction from interest groups threatened by these reforms) will have the greatest influence on their implementation (World Bank, 2015). In the Ukraine, the EU, UN and World Bank joint RPBA identifies the pre-existing economic crisis and ongoing conflict as major constraints to economic recovery, noting that restoring macroeconomic and banking sector stability, reducing structural disincentives to investment, managing problems in the gas sector and curbing widespread corruption are preconditions for economic recovery. Developing robust analysis of the political economy of constraints and risks and building in flexibility to respond to changing circumstances is therefore key. The Ukraine RPBA recommends, for example preparing a set of projects “ready for launch” when conditions change and opportunities open up (EU, UN and World Bank, 2015).

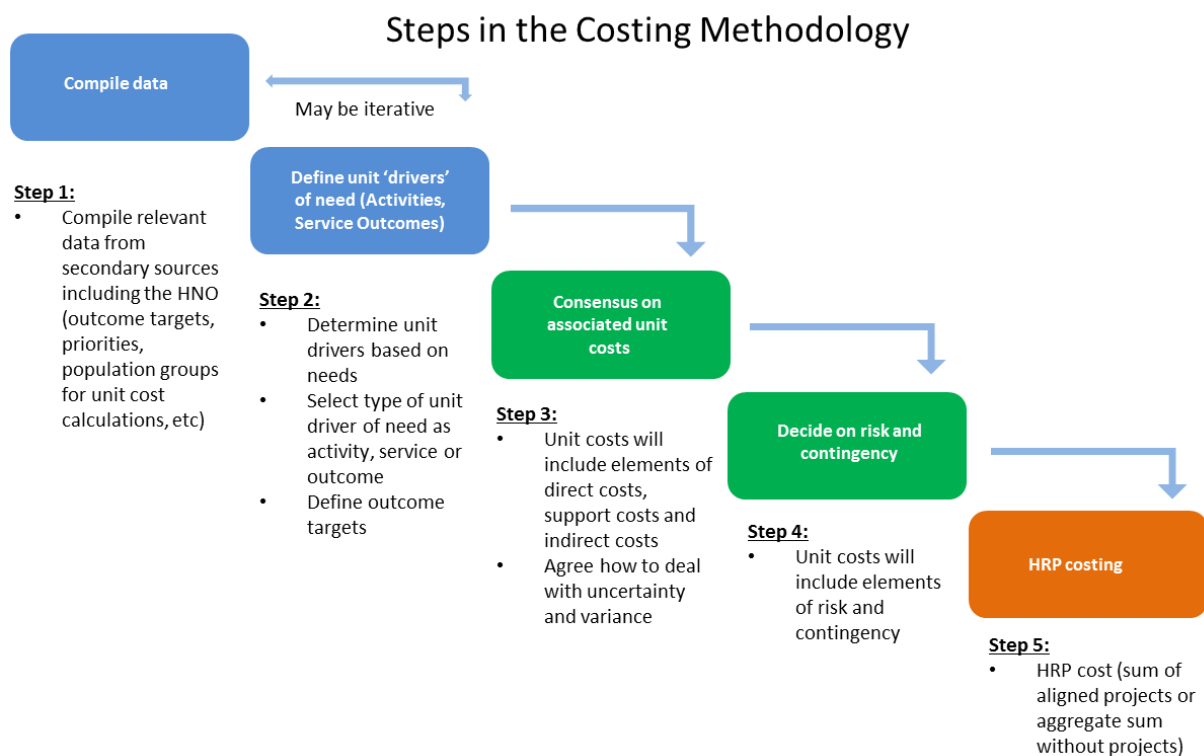
The costing of funding needs is a vexed issue, which is often bound up with agency fundraising considerations, but there may be significant scope for improving the objective basis of costings

Costing is very difficult in practical terms, and the promise of funding can have a powerful conditioning effect on costing exercises, particularly where financing needs are derived from project costs. The costings put forward in Humanitarian Response Plans for example are often considered a fundraising figure rather than a credible costing of the resources required to meet needs (Baker and Salway, 2016).

However, in principle, large-multi-stakeholder planning exercises can take a range of practical steps to increase the objectivity of costing exercises, as indicated by the recently proposed roadmap for development of more objective costing of HRP by the end of 2019 (IASC, 2016). The proposed new approach to costing HRP includes a range of actions to arrive at a transparent costing for specific activities and services

including: the identification of needs, programming actions (activities, services and potentially outcomes) to meet those needs, the quantification of unit costs (including material inputs (direct costs), as well as delivery agency support and indirect costs), and factoring in probable risk to build in contingent costs (Figure 2.3).

Figure 2.3. Proposed steps in Humanitarian Response Plan costing methodology



Source: Baker and Salway (2016).

It may be possible to insert costed elements of a plan using a range of techniques and data sources even when a full comprehensive costing exercise is not feasible. Similar unit-cost based approaches to those proposed in the new HRP costing approach are already commonly in use in budgeting for public service provision in the health and education sectors (Savedoff, 2003). Similarly, support to payroll, stipends and social protection systems may be relatively straight-forwardly costed using known or agreed unit costs and target beneficiary numbers plus support costs and contingencies. Technical assistance and capacity-strengthening may continue to rely on project or programme costs developed by third-party implementers. Discrete “big ticket” infrastructure projects may be costed during the project development stage and based on other comparable projects and contexts.

Even in relatively fluid situations, where macro-level prioritisation and costing has not (yet) been agreed, it may be possible to invest in “instrumental” sectors, such as education, health and infrastructure, which are considered to be relatively non-controversial public goods. For instance, in Lebanon and South Sudan, the education

sector is considerably more advanced than other major sectors in terms of developing a prioritised and costed investment strategy and in attracting development financing. Progress in these sectors may also help to build a body of transferable approaches and to build confidence in investments in other sectors (Box 2.4).

Both at the country and institutional-level, the technical skills and tools to carry out costing exercises are in short supply. It is notable for example that the common budgetary framework element of the UN's Standard Operating Procedures was only completed by 33% of UN Country Teams in 2016 (UNDG, 2017b). Baker and Salway argue that international humanitarian actors can become progressively better at costing, drawing on experiences from the commercial sector, including social impact investing, where complexity and contingency are regularly factored into bidding processes.¹⁰ This is likely to take time however, including testing and piloting of approaches and methods, investments in technical capabilities and building institutional support.

Box 2.4. Financing for education in Lebanon and South Sudan

In Lebanon and South Sudan, international support to the education sector has progressed more rapidly than other sectors.

Despite the extremely challenging security, fiscal and capacity constraints of South Sudan, the UK Department for International Development (DFID) funded Girls Education South Sudan (GESS) programme has rolled out a successful programme of support to primary and secondary education, which includes provision of capitation grants direct to schools, with a package of capacity strengthening support, and cash transfers/stipends provided direct to girl students.

The GESS programme uses a combination of simple technology-enabled accountability measures to enable provision of funding direct to education providers, via a private sector managing agent, in a highly decentralised and transparent model, which is aligned with government plans and priorities, if not flowing through central government systems. Early investments from the Ministry of Education in management information systems as they took on responsibility for administering their own payroll demonstrated a willingness and capacity for transparency and accountability, which provided a foundation for donor confidence. Building on this foundation, the GESS programme put in place a series of accountability measures to ensure traceability and accountability for funds and monitoring of programme performance, including submission of admission registers and attendance reports by mobile phone SMS which are compiled in a publicly accessible database, and the requirement to set up a bank account, presenting a budget and reporting on grant spending.

In Lebanon, development financing actors have faced huge challenges in supporting government-led development and refugee support programmes, owing to profound political divisions in government, which result in cascading challenges including extremely limited scope for governance reform, fiscal dysfunction, elite capture and corruption, poorly performing public services, weak infrastructure and severe macroeconomic vulnerability, including extremely high levels of public debt. Yet, by 2016, the government had developed a comprehensive, costed five-year package of development and stabilisation priorities presented at the London Conference in February 2016. The Ministry of Education and Higher Education (MEHE) meanwhile, was an early leader within government in signalling a commitment and developing a strategy to provide education to refugee children, issuing a memorandum in 2012 instructing schools to enrol Syrian children irrespective of their legal status and to waive fees. With the support of development partners, the MEHE developed a clear, transparently costed and fundable multi-year strategy and programme, the Reaching All Children with Education (RACE) in Lebanon, which was launched in 2014.

RACE identified the need to mobilise predictable external financing as fundamental to moving beyond piecemeal emergency support to education, and has attached substantial donor support, channelled in part through a World Bank administered MDTF. RACE includes detailed activity costings including infrastructure investments and programme costs for a range of service levels, based on agreed unit costs, including costs-per enrolled child, negotiated between the MEHE and donors, which are derived from historic actual government and programme expenditures. By 2016, when RACE launched its second cycle, with a target of enrolling 440,000 Syrian children in formal education by 2020/21, RACE was receiving support from 19 donor countries and funds, the World Bank, UNICEF, UNHCR, UNESCO, and more than 60 local and international NGOs.

Sources: DFID (2014); DFID (2015); Hart, Hadley and Welham (2015); Charlie Goldsmith Associates and Forcier Consulting, 2016; MEHE, (2014).

Step 4: Build contingent financing capacity for risks

Step 4: Anticipate and build contingent capacity against risk

Crisis-affected, at-risk and fragile settings are often vulnerable to multiple risks and shocks and yet development planning and prioritisation processes rarely plan for and build contingent financing capacity against risk.

Although analysis of risks and opportunities is foreseen as part of the analysis and prioritisation process, the consistent tendency to deprioritise risk in planning, prioritisation and budgeting indicates the need for separate and deliberate consideration in order to ‘risk-proof’ the financing strategy.

Practical steps in this stage include:

- **Risk mapping and assessment of impact.** Identify potential risks, likely impacts and estimated financing needs to respond to shocks.
- **Identify sources of contingent or crisis-response financing** accessible at the local and global level. Remember that financing for contingencies does not need to be overly sophisticated, and may merely include the ability to call on funds such as the Central Emergency Response Fund, and/or the ability to divert funds from development to humanitarian programming in times of crisis.
- **Identify mitigating actions.** Identify areas where programmes would be suspended or altered if the fiscal situation degenerates or if risks materialise. Consider using the prioritisation criteria to help in this identification exercise.
- **Identify options to increase provision for contingent financing.** Develop a set of actions to increase access to contingent financing. Remember that the fiscal conditions, and the level of inherent risk, may make some risk financing and risk transfer options impossible.



Despite the high likelihood of shocks, few planning processes seriously consider planning and making provision against risk

Efforts to develop comprehensive financing strategies at the country level have not yet incorporated a robust analysis of risk or included recommendations for building contingent financing capacity. Existing financial analysis of climate risk and climate change mitigation prevention exist as separate disciplines. Analysis of risk financing needs has been an area of rapid growth, with the World Bank’s Disaster Risk Financing and Insurance (DRFI) programme offering governments a range of analytical and planning support, including for example from carrying out cost-benefit analysis of national disaster risk financing strategies, to supporting governments to develop and put in place comprehensive disaster risk financing strategies with technical support to develop and access contingent credit and risk-transfer instruments. A number of governments have already put in place or are developing national financial protection strategies, including Colombia, Kenya, Indonesia, Peru, the Philippines, Serbia and Viet Nam (World Bank, 2016). And risk financing instruments have been successfully

applied to fragile and at-risk settings, notably the African Risk Capacity sovereign disaster risk financing pool, which helps governments to assess and make financial provision for disaster risks. However, such analytical approaches and planning tools have yet to be integrated into emerging tools supporting the development of country level financing strategies.

The OECD's Resilience Systems Analysis (RSA) tool provides a convening process and analytical framework for identification of key risks, a shared vision and prioritised investment areas and actions to build resilience (Box 2.5), to which guidance to develop financial analysis and strategic financial planning is currently being added.

Box 2.5. Resilience Systems Analysis - a tool to build risk into planning and analysis

The OECD's RSA tool was developed in 2014 at the request of the OECD-led Experts Group on Risk and Resilience, to serve as a simple "how-to" guide to allow actors at country level to identify what is needed to boost resilience of specific groups, systems and programmes to known risks. The participatory process of developing a RSA contributes to establishing a shared analysis of risk, a shared vision and priority actions to build resilience. In practical terms, the RSA approach is designed to provide actors at country level with:

- a shared view of the risk landscape;
- an understanding of the assets and capacities that people and institutions need to maintain their well-being in the face of identified risks and stressors;
- an analysis of how the risk landscape affects critical assets and which components are resilient, which are not, and why;
- a shared understanding of power dynamics, and how the use or misuse of power helps or hinders access to assets; and
- a shared vision of integrated humanitarian, development and peace and statebuilding actions to boost resilience and how to integrate these aspects into policies, strategies and development efforts at every layer of society.

The RSA has been used in more than a dozen contexts to support OECD-DAC members and their partners in the development of common risk-informed context analysis, strengthened cross-sectoral and integrated programming and improved coherence between development, humanitarian and peace and state-building approaches.

The RSA approach has included significant support to Sweden across all aspects of their programme cycle in Syria, Jordan and Lebanon, Somalia, Sudan, South Sudan, Kenya and Ethiopia. The RSA approach has also been applied to support UN planning processes in South Sudan, Lebanon, DRC and elsewhere. During 2017, the RSA will be used to integrate common-risk informed context analyses into UNDAF planning processes in the Sahel; and to support commitments to the New Ways of Working that emerged from the World Humanitarian Summit.

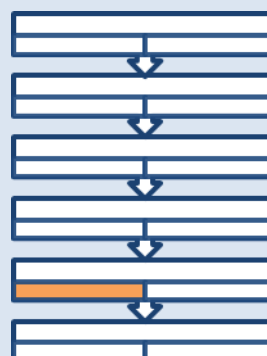
Source: www.oecd.org/dac/conflict-fragility-resilience/risk-resilience.htm

Step 5: Develop a resource mobilisation plan

Step 5a: Match tools and instruments to priorities, timelines and capabilities

Matching the right instruments with financing needs is key to making optimal use of scarce resources and to making effective use of the potential for development finance to crowd in other financing flows.

The properties of financing tools and actors and the needs, priorities and capabilities of national actors need to be carefully weighed. The financial capability of governments to meet loan repayments and to maintain a sustainable level of public debt is a major consideration when selecting loan instruments. The capacity of national actors to evaluate and manage blended finance instruments also needs to be carefully considered.



Different financing actors and instruments also vary significantly in their tolerance of risk, their timeliness, flexibility, predictability and duration, their choice of delivery channel and their ability to align with or work through national public finance systems. Understanding the capabilities of development financing actors and agreeing a division of labour are critical to ensuring optimal use of the different comparative advantages of financing actors.

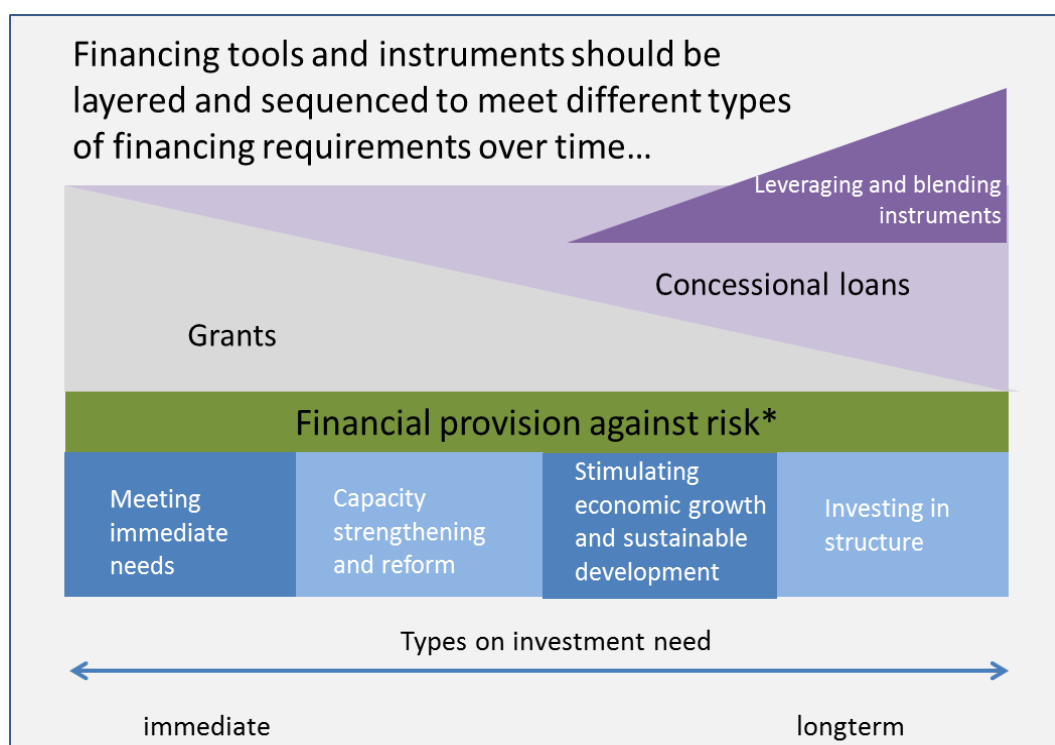
Practical steps in this stage include:

- **Agree a financing ‘division of labour’.** Agree in principle, which investment needs will be best met through grants, loans or mobilised/blended finance – or through private investment or domestic public resources. Identify the key properties and comparative advantages of external financing actors and agree where possible, a division of labour based on financial capabilities, risk tolerance, specialised tools, skills and expertise.
- **Highlight desirable properties of development finance tools and instruments.** For grant-funded investments, identify a list of desirable criteria per investment area, including predictability, flexibility, responsiveness, speed, ability to work with and through government systems and degrees of risk tolerance.
- **Identify potential risk factors, opportunity costs, and flags for monitoring risk.** For loan-financed investments, including mobilised and blended finance, identify possible risk factors, including debt sustainability, government capacity to understand and manage investments, and identify responsibility for assessing and monitoring investments against these criteria. Evaluating the costs and benefits of financing decisions before the point of commitment, including assessing opportunity costs, potential for harm, and policy coherence, can help to ensure the most efficient use of financing, and to reduce the risk of doing harm.

Matching financing instruments with financing needs is key to making optimal use of scarce resources and to making effective use of the potential for development finance to crowd in other financing flows.

Aid financing instruments vary widely in their properties and comparative advantages, most notably in their degrees of concessionality (from grants, to loans along a spectrum of concessional terms) but also in their capacity to catalyse funds from other financing actors. Meeting immediate needs of vulnerable populations, responding to shocks, and investing in peacebuilding in most developing countries are mostly financed on a grant basis, though in middle-income countries, these activities can be financed through concessional loans where governments are assessed to have an immediate liquidity problem, but to have the financial capacity to meet these costs themselves over the longer-term. Longer-term investments in capacity-strengthening of public sector institutions, and investing in public goods to enable more efficient market functioning may be financed through a variety of instruments, though most typically grants and loans (Figure 2.4). Investments in infrastructure and efforts to attract private sector investment to stimulate job and revenue creation may be financed through a range of instruments, including leveraging and blending instruments, such as guarantees, collective investment vehicles.

Figure 2.4. Matching development finance instruments against types of financing need



Note: *Financial provision against risk includes disaster risk financing tools such as contingent financing, insurance and risk transfer, as well as shock-responsive development finance instruments.

In each case, the properties of financing tools and actors and the needs, priorities and capabilities of national actors need to be carefully weighed. The financial capability of governments to meet loan repayments and to maintain a sustainable level of public debt is a major consideration when selecting loan instruments. The capacity of national actors to evaluate and manage blended finance instruments also needs to be carefully considered. And different financing actors and instruments also vary significantly in their tolerance of risk, their timeliness, flexibility, predictability and

duration, their choice of delivery channel and their ability to align with or work through national public finance systems.

Ensuring flexibility in approaches and instruments and being realistic about the timeframes within which instruments will deliver remains critical, irrespective of the instruments selected.

Policy studies and evaluations consistently make the case for flexibility in tools and approaches, since plans rarely unfold as expected. In Lebanon for example, the need to achieve parliamentary approval for loans severely delayed the disbursement of concessional loans over a period of years. Challenges were also experienced in establishing the World Bank managed multi donor trust fund, which substantially delayed disbursements (DFID, 2016). And in 2016, expectations that development financing instruments would come online and meet stabilisation financing requirements led to a gap in delivery of funds targeting stabilisation in the Lebanon Crisis Response Plan, with the majority of funding within the plan still originating from humanitarian sources. Key lessons from the World Bank's engagement in Lebanon include the need for flexibility and active management of investment portfolios, that includes critical review and in some cases cancellation of poorly performing projects (World Bank, 2016). International development financing actors have adapted to the particular financing challenges Lebanon faces to a certain extent, including with the creation of the Global Concessional Financing Facility, the creation of the Madad Fund, and bilateral donors such as AFD (France) have increased the grant element of their funding portfolio. Nevertheless, critical financing gaps were experienced not only due to a lack of funds, but due to a lack of flexibility and risk tolerance in existing instruments.

A variety of donors have internal instruments and approaches which afford them a higher degree of flexibility and risk tolerance however, which may be used to fill and bridge critical gaps. Examples of donor financing approaches and comparative advantage are described in Boxes 2.6, 2.7 and 2.8.

Box 2.6. Norway's flexible "Gap Funding"

Norway has an unusual degree of flexibility and risk tolerance in funding channelled through its "Gap Funding" window.

In 2013, at a critical moment in Somalia's political transition, Norway provided targeted financial support to the Federal Government of Somalia (FGS) to pay civil servant salaries and fund a range of projects, while other bilateral and multilateral donors were unable to reconcile their demands for joint management of direct funding through government with the FGS position that this would undermine public perceptions of its independence and competence. The Government of Norway and the FGS established a Special Financing Facility, which was operational within eight months and enabled the FGS to project its authority and ability to deliver at a sensitive moment in the political transition. The Special Financing Facility also served as a bridging mechanism to maintain the flow of funds for civil servant salaries until multi-donor trust funds became operational.

Norway has also used this flexible financing to provide targeted support to the peace process in Colombia, where Norway has served as one of two international guarantors to the peace process since 2012.

Source: Donor interviews.

Box 2.7. JICA's flexible partnerships with governments

The Japan International Cooperation Agency (JICA) has several characteristic ways of working, which enable it to work in close cooperation with governments, at a very practical technical level. Firstly, JICA partners closely with recipient country governments – all requests for funding must be initiated from the partner country government, and JICA has a strong commitment to using government systems whenever possible.

Secondly, JICA is both a donor and an implementer and works closely with partner governments on technical cooperation, including carrying out procurement of goods and services and monitoring and evaluating programmes directly.

Source: Donor interviews.

Box 2.8. Germany's Transitional Development Assistance and Special Initiatives

The German Federal Ministry for Economic Co-operation and Development (BMZ) established an instrument to enable flexible financing in transitional situations in the early 2000s with the intention of providing a bridge meeting immediate humanitarian needs and investing in longer-term development cooperation.

In 2011, an inter-ministerial agreement between the Federal Foreign Office (FFO) and BMZ established a new division of responsibilities between the two ministries with a clearer delineation of responsibility for the Federal Foreign Office over humanitarian response. Transitional development assistance (TDA) therefore also serves as an important tool in linking and synchronising humanitarian and longer-term economic development efforts across the two ministries and ensuring consideration of transitional issues across both portfolios. Funds channelled through the TDA have increased from EUR 190 million in 2014, rising to a peak of EUR 940 million in 2016, with an anticipated spend of EUR 875 million in 2017.

BMZ's 2013 strategy identifies the primary aim of transitional development assistance as to "increase the resilience of people and institutions to withstand the impact and consequences of crises, violent conflict and extreme natural events, while improving the prospects for sustainable development." BMZ's transitional development assistance is typically provided in situations of fragility and protracted crisis; in high-risk countries exposed to natural hazards and climate change; and in recovery situations. Transitional development assistance focusses on activities including reconstruction and rehabilitation of basic social and productive infrastructure; disaster risk management; reintegration of refugees; and food and nutrition security.

From 2014, BMZ also launched a number of Special Initiatives on Crisis and Fragility, developed to address emerging challenges including:

- **Tackling the root causes of displacement, reintegrating refugees** This initiative, provides both short-term support to refugees and host communities, as well as investing in addressing the long-term structural causes of displacement including poverty, inequality and lack of food security. This initiative received EUR 170 million in 2014, EUR 160 million in 2015, growing to EUR 406 million in 2016 and is expected to further increase in 2017.
- **Stability and development in the MENA region** This initiative seeks to respond to support political transition in the region through investing in peacebuilding, and in activities that will foster economic stability (including training and job creation) and democracy.
- **ONE WORLD – No Hunger** This special initiative takes a longer-term approach to addressing the causes of hunger and malnutrition, including job creation and income generation, giving people fair access to land and protecting natural resources.

Sources: BMZ (2013); BMZ and FFO (2013).

Matching instruments with financing needs must also take into consideration opportunity costs and risks.

Selecting financing tools and instruments is not without costs or consequences. Debt sustainability is a major consideration with any loan-based product. But there may be other considerations. In Lebanon for example, competition between donors reportedly led to a situation where a project which would have been financed through concessional loans, was funded by another donor with grants, but without the technical assistance package which formed part of the loan offer, and which was designed to promote institutional reform. Other concerns flagged include whether investments, job-creation programmes, and institutional capacity-strengthening and reform efforts were supportive of longer-term aspirations to diversity and grow tax revenues. Evaluating the costs and benefits of financing decisions before the point of commitment can help to ensure the most efficient use of financing, and to reduce the risk of doing harm. The IMF, for example, is developing a range of new diagnostic tools to help better understand the fiscal and macro-economic impacts of scaling up investments through a range of loan instruments (Box 2.9).

Prioritising investments in the domestic private sector is further complicated by demand-side constraints, including the risk appetite of investors, the investment environment and the capacity of domestic actors. In contrast with grants, external financing which requires a return on investment is likely to favour better-performing sectors and less risky environments. Many international investors only enter into relatively large-scale financing packages, which may be well beyond the absorptive capacity of domestic private sector actors, and there is often a shortage of investment-ready projects and partners. Capacity-strengthening work with private sector actors and support to the enabling environment may in many cases be a necessary precondition for scaling up investment in the private sector. In fragile and conflict-affected settings, links between business and politics may be particularly strong, and partners may require additional vetting to avoid inadvertently doing harm. In Lebanon for example, the IFC uses their internal guidelines and Integrity Due Diligence checks to ensure private sector actors seeking investments do not receive special benefits or privileges due to political investment or involvement with Politically Exposed Persons (World Bank, 2016).

Box 2.9. Analytical tools to evaluate the costs and benefits of financing decisions

The IMF already carries out a range of diagnostic and analytical work to help governments and development financing actors better understand the implications of public investment, fiscal policy and debt sustainability. The IMF's Debt Sustainability Analysis (DSA) for example helps to guide borrowing decisions while maintaining sustainable debt levels. The DSA is supplemented by the Medium-Term Debt Management Strategy (MTDS), which helps to take into account the "cost-risk trade-off" of a range of different funding strategies to help guide governments to ensure they are making prudent financing choices.

The IMF has developed a range of new models including the Debt-Investment-Growth (DIG) and DIGNAR variant (for natural resource exporters), which focus on the relationship between public investment, growth and public debt under different financing options and country circumstances. These tools help to highlight the trade-offs which might exist in country development plans. For example, in Senegal, the analysis illustrated that while new investment in low-cost hydroelectric power and a phased contraction of the oil-based sector would have positive effects on the supply of energy, private investment, real wages and real GDP, in the short-term these investments would create fiscal deficits which would need to be financed by increased borrowing.

The DIG and DIGNAR models are being adapted to incorporate uncertainty about parameters, and shocks to help assess how uncertainties interact and determine the risk of unsustainable debt.

In 2015, the IMF developed the Public-Private Partnership Fiscal Risk Model (P-FRAM) to quantify the macro-fiscal implications of PPP projects and the Public Investment Management Assessment (PIMA) tool, to identify strengths and gaps in institutional capabilities for planning, allocation and implementation of public investment.

Source: IMF (2015).

Step 5b: Align the financing architecture to support results

The aid financing architecture should be consciously designed to support the alignment of investments against priorities, to incentivise co-ordination, and to support national leadership.

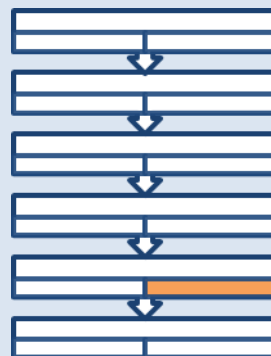
In particular, it is useful to think about how the architecture can create the right incentives for development actors to move beyond the social sectors, where they often congregate, and enable investment in political and security activities, as well as the productive sectors. In addition, development finance actors should ensure that the architecture is not disincentivising government investments – for example a major investment in social sectors as part of a humanitarian response may lead to a misperception that government investment is no longer needed in those sectors.

Integration of key decision makers and policy influencers, including government, donor, multilateral and civil society actors, into the governance structures of the major financing instruments helps to build platforms and scheduled opportunities for strategic dialogue on policy issues and to ensure that major financing decisions are aligned with agreed priorities.

Consider also the scope and scale of funding mechanisms, including the requirements of multi-partner trust funds. Anecdotal evidence suggests that some donors and investors are put off by overly large plans and mechanisms, where they feel that their investment will not be significant, and their influence will be limited. At the same time, the advantages of pooled multi-partner trust funds may only materialise if they are of sufficient size to enable them to operate as centres of gravity and the locus for strategic dialogues.

Practical steps in this stage include:

- **Review opportunities to align financing architecture to support leadership and results.** Review existing and proposed new multi-stakeholder financing instruments to synchronise decision-making forums with agreed leadership and governance of the overall financing effort. Consider focusing multi-stakeholder instruments in areas where there is currently limited donor investment.
- **Align accountability mechanisms to support strategic priorities.** Ensure multi-stakeholder financing tools and instruments are aligned with and held accountable against strategic priorities and results.
- **Identify opportunities for using financing to incentivise investments in under-served areas.** Review the full range of aid architecture to ensure that existing and planned tools are providing the right incentives for investment across all the dimensions of fragility.
- **Identify opportunities for development finance to leverage and crowd in financing.** Consider the potential for innovative mechanisms, and ways in which ODA can be used as a catalyst to crowd in or unlock other funds, including international and domestic private sector investment.



Financing architecture can be designed as a tool to manage structural disincentives to a rational division of labour among financing actors, and targeted monitoring tools can be deployed to incentivise collaborative behaviour.

Co-ordination of donor efforts remains a major barrier to effective financing of collective priorities and results. In Myanmar, the incentives for governments to establish bilateral partnerships with the government of Myanmar, including interests in establishing trade relations and geo-political relationships, outweigh incentives to be team players supporting the delivery of collective outcomes. In a number of settings, development financing actors have sought to influence this perennial problem through designing a financing architecture which promotes participation, strategic debate and alignment of investments.

Pooled funds in particular have been used to focus investments in support of key investment priorities and to provide platforms for strategic dialogue on financing issues, in addition to supporting a range of aid effectiveness principles. In Somalia, as part of the New Deal process, a new aid architecture was designed to support the delivery of the Somali Compact. This aid architecture for Somalia was centred around the Somalia Development and Reconstruction Facility (SDRF), which is aligned to support the priorities identified in the Somali Compact and designed to collect and channelling donor contributions towards priorities, as well as a platform for policy dialogue and decision making (Box 2.10). Ensuring donor earmarking practices to not undermine the flexibility and responsiveness of partners and funds should also be a key consideration for donors. For example, 95% of contributions to the Somalia UN MPFTF have been earmarked to particular Peace and Security Goals, thematic ‘enablers’, or capacity-building, restricting the ability of the fund to ensure rational coverage of priorities and adapt to changing circumstances.

The Central African Republic RPBA process reviewed the ability of the existing aid financing architecture to contribute to the country’s high-level priorities and to its financing strategy. Pooled financing instruments are central to the aid architecture in CAR, and the governance of existing pooled funds has been fully integrated into the revised aid governance structures. As is the case in Somalia, integration of key decision makers and policy influencers, including government, donor, multilateral and civil society actors, into the governance structures of the major financing instruments helps to build platforms and scheduled opportunities for strategic dialogue on policy issues and to ensure that major financing decisions are aligned with agreed priorities.

Similarly, the Global Concessional Financing Facility has been credited with fostering dialogue on both strategic and practical decisions in Lebanon across government and development financing actors, which would otherwise have taken place in a series of bilateral discussions behind closed doors.

Box 2.10. Designing financing architecture to deliver against priorities and financing strategy

As part of the New Deal process, the Federal Government of Somalia and international development partners reviewed and redesigned aid financing architecture to better support critical investment priorities and to operationalise effectiveness commitments. The aid architecture is designed to support leadership of the development process by Somali institutions, facilitate a transition towards the increased use of national public finance systems, increase transparency and accountability, reduce transaction costs and harmonise results reporting.

The Somali Development and Reconstruction Facility (SDRF) comprises complementary pooled funds under a harmonised governance structure, where each fund represents specific thematic and technical “windows” and is led by multilateral institutions with corresponding comparative advantages.

- **UN Multi-Partner Trust Fund (MPTF) for Somalia:** The Somalia MPTF was established in 2014 with an expected 10-year life-span. The MPTF supports priority activities across the Peacebuilding and Statebuilding Goals (PSGs) of the Somali Compact, with a focus on supporting immediate delivery, building resilience and capacity-development. The MPTF channels funding to eligible UN agencies and national entities via the Government Co-ordinating Entity.
- **World Bank Multi-Partner Fund (MPF).** The MPF for Somalia focusses on support to areas under PSGs 4 and 5 – Economic Foundations and Revenue and Services, plus the crosscutting priority of institutional capacity development. The four key areas of thematic focus include: core government functions, infrastructure, productive sectors and natural resource management and resilience. The MPF is also committed to using and strengthening country systems, including through focusing on recipient executed projects.
- **African Development Bank Somalia Infrastructure Fund:** Expected to become operational in 2017, the Somalia Infrastructure Fund will target investments in infrastructure, particularly in energy, water and sanitation, transport and Information and Communication Technology (ICT). The AfDB brings specialised experience in convening policy and institutional dialogue and acting as an intermediary in development finance, including with private sector investors. The bank has conducted infrastructure needs assessments and has developed a five-year pipeline of projects, which support the infrastructure of the National Development Plan 2017-19 and which have an estimated value of USD 350 million.

Sources: afdb.org; www.somaliampf.org; UN, (2014).

Step 6: Establish indicators to monitor progress

Step 6: Identify key indicators to monitor progress, challenges and risks

Scaling up investments can have negative as well as positive impacts, at the macro-economic and fiscal levels, but also in creating unintended negative, social and environmental impacts, including increasing inequality and increasing the risk of conflict.

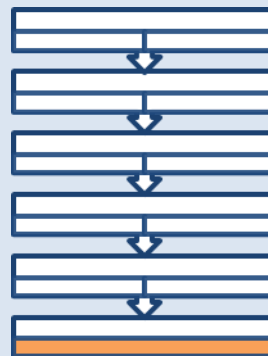
In order to ensure that financing investments are contributing effectively to desired change, and actively managing possible negative impacts of investments, a set of core indicators for regular monitoring and review can help to identify risk early and enable course-corrective actions.

Existing statistics and indicators can provide insights into the direction of change in volume and qualitative terms, including indications of progress on reforms, are in many cases already routinely produced. These can provide a basic set of possible “zero-cost” indicators for monitoring financing strategies, which can be later supplemented with specific tailored indicators.

Financing actors themselves should also be monitored against their commitments and standards of behaviour.

Practical steps in this stage include:

- **Identifying what needs to be monitored and what already exists.** In many areas data will already be routinely collected and indicators may be selected from existing datasets. Key indicators are likely to include:
 - a set of core macro-economic and fiscal progress and risk indicators;
 - a set of key investment standards and codes and corresponding monitoring mechanisms;
 - key issues and indicators of unintended socio-economic and environmental impacts
 - indicators of good donor behaviour and finance quality, including assessments of fragmentation, rational coverage of priorities, burden-sharing, and transparency, and identify a forum for periodic performance review.
- **Design a monitoring and analysis approach that is realistic and functional.** Keep the monitoring as simple as possible, and ensure that only the most critical issues are being monitored: it is not important how much finance was mobilised, for example, just that enough was mobilised. Accordingly, simple monitoring indicators, showing just what is on track, what needs attention, and what will not be reached, are probably sufficient – and more comprehensible for many development actors who will not understand complex financial data.
- **Decide on the frequency of monitoring** – perhaps annually – and base this on simple indicators (see above).
- **Establish the directions and culture of accountability desired, including inclusion in the monitoring process.** Decide on who should be accountable to



who – and consider mutual accountability mechanisms. Local civil society can play a useful role in supporting or leading accountability on results and financing – however this will often require an investment in capacity building. Governance structures of financing instruments may also provide appropriate forums for dialogue and responses to monitoring information and elements of the monitoring process can be aligned with and built into their existing accountability functions and processes.

- **Cost and make financial provision for monitoring work.** Provide finance for the resources required to deliver on the monitoring.

The commitment to work towards shared collective outcomes requires careful monitoring and assessment to ensure alignment and enable course-correction

There are many historic instances in which planning assumptions and theories of change have failed to match realities and failed to adapt to new information or new circumstances. In South Sudan for example, a system-wide evaluation conducted by 15 donors and development partners in 2010 found that underlying assumptions and theories of change were flawed, that development partners had little understanding of complex political dynamics, and were implementing disparate, unsustainable, programmes, which did not target fundamental peacebuilding priorities, and which were unresponsive to changing circumstances (Bennett et al. 2010 in Norad, 2016a). Evaluated purely on their own terms however rather than in terms of their contribution to higher-level outcomes, individual actors can report success at the same time as the collective effort is failing.

Similarly, in Afghanistan, development actors relied heavily on direct execution of programmes, and rarely undertook sector-wide or thematic assessments of impact, such as the impact on poverty reduction, peace-building or the consequences of international investments on the political economy (Norad, 2016b). The importance of understanding and reflecting on the impact of investments is highlighted for example, by the findings of a UNDP study, which indicates that despite huge international investments, poverty rates in fact increased from 33 percent in 2005 to 35.8 percent in 2015 (ibid.)

In Lebanon the complex political operating environment, deep structural macro-economic vulnerabilities – particularly the large public debt – the risk of instability, high degree of vulnerability of the population and large volumes of external financing all indicate the need for very careful monitoring of the impact of investments as well as critical risk indicators.¹¹ Regular monitoring of key indicators of progress against collective outcomes, and the trajectory of financing flows and investments against a financing strategy, as well as the potential unintended consequences of investments are therefore key to ensuring that external financing remains effectively targeted, and avoids doing harm. The Global Partnership for Effective Development Cooperation undertakes routine monitoring providing insights into partner behaviour change, across institutions, transparency and predictability of development cooperation, gender equality, involvement of civil society, parliamentarians and the private sector in development. These may provide useful indicators of quality and commitment, and are expected to be more closely tailored to fragile settings in future.

Mobilising private sector finance may require a range of additional considerations and complementary investments to avoid an inappropriate transfer of risk and debt from the private to the public sector.

The capacity of domestic actors to enter into investment financing arrangements with the private sector should be carefully considered in selecting financing instruments. Public-private partnerships, for example, have been entered into even in advanced economies without full understanding on the part of the client of the complexity of the deal or the debt burden incurred. There are real risks that information asymmetries and limited capacities of clients to understand complex financing packages may work in the favour of private sector actors, potentially leading to public sector subsidy of private investors, and on the client side an unsustainable debt burden and inappropriate projects that cannot be sustained (UNDP and AFD, 2016). Public private partnerships are often arranged “off budget” and are therefore not reflected in official debt statistics, making their contribution to debt sustainability difficult to detect and monitor. The OECD’s guidance on these partnerships, for example, recommends that governments should “establish a clear, predictable and legitimate institutional framework supported by competent and well-resourced authorities” (OECD, 2012b). In many fragile and crisis-affected settings, these conditions and safeguards will often not be in place.

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Notes

¹ The 2014-15 Ukraine RPBA for example set out financing needs with proposed financing options that included budgetary resources, targeted ODA investments, loans, and support for the mobilisation of international and domestic private sector finance. However, a recent review noted that work on the financing element of the RPBA did not in fact start until the last day of the main substantive process in December 2014, leaving little scope for dialogue or negotiation (Garrasi and Hall, 2016). The more recent 2016 EU, UN and World Bank RPBA for CAR in contrast places “financial arrangements” among the higher-level objectives identified by the assessment and included discrete analysis and a chapter on financing.

² The UNDG advises that a full DFA typically takes around six months, at a cost of USD 50-100,000, while a preliminary DFA, a three-week process including two weeks of desk work and a one-week mission, would cost around USD 15,000 (UNDG, 2017a).

³ Garrasi and Hall (2016) argue, for example, that Post-Conflict Needs Assessments (PCNAs) in Libya and in the early stages in Iraq “overlooked the fact that the government did not require financing for medium- to long-term reconstruction, but rather needed immediate technical assistance and limited funds to address urgent priorities, such as focusing immediately on the demobilisation of militia in Libya”.

⁴ NORAD’s 2016 South Sudan evaluation similarly concludes that “At present external actors are divided in their approach.”, with approaches to working with the government a major source of disagreement (NORAD, 2016).

⁵ A recent country evaluation of South Sudan commissioned by NORAD of concludes that “Donors lacked an overall strategic and prioritised plan for recovery and development. Where strategies were crafted, they were mostly fragmented and not part of an integrated vision.” (Norad, 2016).

⁶ Poul Nielson, European Commissioner for Development and Humanitarian Aid, for example, said in a speech at the launch of the 2002 UN Humanitarian Appeal that many would argue that the appeals were “a shopping list, a document completely deprived of strategic thinking”. Despite successive overhauls and reforms, the “shopping list” criticism has continued up to the present.

⁷ The Commitment to Action was signed by the UN Food and Agriculture Organisation (FAO), Office for the Co-ordination of Humanitarian Affairs (OCHA), UN High Commission for Refugees (UNHCR), the UN Development Programme (UNDP), the UN Children’s Fund (UNICEF), the UN Population Fund (UNFPA), the World Food Programme (WFP), World Health Organisation (WHO) and International Organisation for Migration (IOM) and endorsed by the World Bank.

⁸ The CAR National Recovery and Peacebuilding Plan 2017-21 argues, for example: “At the heart of a new partnership framework between the government and international partners should be agreement on a limited number of priorities and an associated government commitment toward a set of milestones. Lessons from other transition situations suggest that these need to be extremely selective and should reflect support at the highest political level. Progress against milestones should be reviewed regularly and can serve as a useful basis for political and policy dialogue.” (EU, UN and World Bank, 2015)

⁹ Reported by a bilateral donor supporter of the UMFCCI Myanmar Business Forum in a semi-structured interview, October 2016.

¹⁰ Baker and Salway (2016) describe for example how unit cost estimation can factor in complexity and risk by using a combination of approaches including: using benchmarks or reference costs; using cost ranges; weighting costs for different contexts; and weighting for risk and contingency.

¹¹ The World Bank (2016) notes “stronger arrangements are needed to improve the monitoring of country strategies’ results and... continued attention to Lebanon’s debt overhang is critical as the country continues to struggle with its fiscal imbalance.”

Conclusion

Responding to the challenge of Agenda 2030 will require a completely new approach to financing, including new approaches at the country-level to help navigate growing complexity in the financing landscape and an expanded scope of ambition.

Responding to the Agenda 2030 calls to leave no-one behind, to bridge the humanitarian-development-peace nexus, and to scale-up financing resources for sustainable development will require delivering the right amount of financing, with the right tools, at the right time, providing the right incentives. Coupled with this, the approach to financing at the country level needs to change. New approaches to financing for development will bring in a more diverse cast of actors, with different interests and experiences, as well as unfamiliar tools and approaches. In addition, there are many long-standing challenges in mobilising, targeting and co-ordinating the right financing for peacebuilding and sustainable development for fragile, crisis-affected and at-risk settings. Navigating this growing complexity and a host of existing challenges will require a major change in the way financing is managed at the country level.

Financing strategies are likely to become a key element of planning and prioritisation packages at the country-level but will require a range of incentives and targeted investments to ensure their routine use in fragile, crisis-affected and at-risk settings.

Since financing strategies have not been a regular feature of planning and prioritisation processes, technical capabilities and in-house expertise are currently somewhat limited. Consequently both national and international actors frequently have only a narrow and incomplete understanding of the nature and full range of financing requirements, challenges and opportunities. In addition, the more widespread application of comprehensive financing strategies is likely to require targeted investment in skills and knowledge at the country level as well as at higher-institutional levels, and ongoing investments in the development of tools and guidance. Of particular note, at both country and institutional levels, the technical skills and tools to carry out costing exercises are in short supply.

Indeed, delivering effective financing strategies will require investment of funding and political capital from INCAF members, together with strong leadership and backing in-country, to ensure that financing strategies for fragility live up to their potential as a truly strategic tool.