

Transition Finance and Peacebuilding: Emerging lessons from Somalia

Following the 2 November 2015 meeting of the Peacebuilding Commission (PBC) on predictable financing for peacebuilding in Somalia, the PBC Chair has captured the following emerging lessons, practices and ideas on essential mechanisms and instruments important for predictable financing for peacebuilding.

- 1. The Partnership Principles agreed between the Federal Government of Somalia and its development partners are guiding the process of stabilization, peacebuilding and State-building in Somalia. They enhance national ownership by empowering and respecting Government's lead role in decision-making and strategy formulation, and enable donors to commit and deliver on their pledges using agreed mechanisms and structures.**

The Federal Government of Somalia (FGS) decided in 2013 to adopt the New Deal as the overarching framework to enable transition and structure international engagement in Somalia. As part of the New Deal, a Compact was developed and approved, with milestones and coordination structures around five Peacebuilding and State-building Goals (PSGs), and a Somalia Development and Reconstruction Facility (SDRF) as the main vehicle for collective decision-making, policy dialogue and the channelling of international funds to Somalia. The SDRF is both a coordination framework and a financing architecture for implementing the Somali Compact. Closely aligned with the Somalia Compact principles, it serves as a platform for government and development partners to provide strategic guidance and oversight for development activities in Somalia over the next ten years, with key objectives to:

- i. Align resources behind critical priorities;
- ii. Develop sustainable institutional capacity by placing Somali institutions in the lead;
- iii. Facilitate a transition toward increased use of country public finance systems;
- iv. Increase transparency and accountability; and
- v. Reduce transaction costs and risks by pooling funds and harmonizing results reporting across funding windows.

In addition, the SDRF brings together several multi-partner trust funds (referred to as “windows” in the context of the SDRF) under common governance arrangements to ensure: (i) Coordination across activities; (ii) Wide coverage of the PSGs; and (iii) A combination of instruments that can deliver on urgent needs as well as laying the foundations for longer-term institutional development.

The windows are administered by three institutions based on comparative advantage: the United Nations, the World Bank (WB) and the African Development Bank (AfDB). To-date, the capitalization of the Somalia UN-MPTF stands at USD 116 million and World Bank MPF at USD 100 million. The PBF has committed USD 11 million to programmes approved by the SDRF Steering Committee. USD 69 million in pre-existing programmes have been brought under the Somalia UN MPTF framework, which means that they will be reported through the Compact structures.

	<i>African Development Bank Somalia Infrastructure Trust Fund</i>	<i>United Nations Multi-Partner Trust Fund</i>	<i>World Bank Multi-Partner Fund</i>
PSG 1 Inclusive Politics			
PSG 2 Security			
PSG 3 Justice			
PSG 4 Economic Foundations			
PSG 5 Revenue and Services			
Capacity Development			

2. Streamlining and rationalization of financing streams and their alignment to agreed priorities and targets and reduction of previous 25 funding streams into 3 MPTF Trust Funds under the SDRF to deliver on the agreed Peacebuilding and State-building Goals (PSGs).

The SDRF serves as the emerging evidence of increased aid effectiveness achieved by enhancing the capitalization and coherence of country-led development pooled financing mechanisms. This is achieved by optimizing the capitalization of the pooled financing mechanism by consolidating the large number of small funds into a smaller number of larger funds. The Federal Government of Somalia, in partnership with the international community, has brought together several different recovery funding instruments under the common SDRF. The SDRF is a key element of the joint vision to create a critical mass of resources that can be channelled more strategically, coherently and effectively to ultimately ensure a greater impact of international assistance.

A consolidation of the large number of small recovery streams and individual programmes supported by development assistance into a larger pooled fund has created a critical mass of resources that can act as a gravity centre, and improve coordination and alignment of peacebuilding and State-building activities supported by different sources of finance. This provides good evidence that a well-capitalized pooled fund can act as a strategic and unifying tool by creating positive externalities, economies of scale, and greater incentives for governments, donors and development partners to ‘opt-in’ rather than ‘opt-out’. Other benefits for government partners include lower coordination and transaction costs, greater transparency, and easier access to comparable and timely aid data, which can more easily be reflected ‘on-budget’.

3. Use of jointly agreed risk management and mitigation measures to respond to the Federal Government of Somalia’s priorities under the Somali Compact. The adoption of joint risk management has also enabled a broader approach to risk management that goes beyond fiduciary risk to include security, financial, political, strategic and governance, operational and reputational risks.

As the UN’s experience in numerous crisis and conflict contexts has demonstrated, financing instruments can have significant impact — both positive and negative — on the peacebuilding process. This recognition of the multiple ways in which the UN-MPTF, along with the other two trust funds under the SDRF structure, can either strengthen or undermine the Somalia peacebuilding process led to the design of a comprehensive risk management strategy common to all three funds. The purpose of the Somalia Risk Management Strategy is to support the delivery of the SDRF strategic objectives, within the risk context in which the funds operate. To maximize the impact of the funds, the strategy promotes fiduciary accountability, conflict sensitivity and informed decision-making for portfolio management, and addresses risks that extend across or beyond individual projects. This strategy was designed jointly the UN Risk Management Unit (RMU), the World Bank team in Somalia, the AfDB and the Federal Government of Somalia, with external support from ODI between December 2014 and April 2015. Based on local context analysis and consultations, as well as an assessment of global practices, its overarching goal is enhance the funds’ contribution to the implementation of the Somali Compact with a focus on three specific objectives: (i) Guide SDRF trust fund decision making; (ii) Protect the funds’ resources and the fund administrator’s reputation and integrity; and (iii) Do no harm, with a specific focus on ensuring that fund activities

do not exacerbate, but rather redress, existing vulnerabilities faced by specific constituencies such as women and youth, and/or local grievances. As part of the institutional arrangements, it was agreed that each Fund Administrator would provide dedicated trust fund risk management expertise to support implementation of the strategy. Within the UN, the PBF supports a dedicated UN MPTF Risk Manager to contribute to this institutional arrangement.

4. Strategic use of the PBF niche (fast, flexible and risk-taking) as a catalytic and leveraging instrument to help the Federal Government to seize peacebuilding opportunities in a risky environments, especially in the South-Central region.

As part of the UN's support to the FGS to deliver on its peacebuilding and State-building priorities under the Somali Compact, the PBF has committed a total of USD 11.2 million to help sustain momentum through immediate and mid-term peacebuilding support to the 'newly recovered' areas of South-Central Somalia. PBF supports selected Compact priorities jointly endorsed by the FGS and the SDRF Steering Committee, and where the Fund's comparative advantages are maximized. An example of the Fund's risk-taking and catalytic potential is in its response to President Hassan Sheikh's request to SRSN Nicholas Kay to support the Government's stabilization strategy in South-Central Somalia to complement joint Somalia National Army and AMISOM military offensives to retake control of territory by fielding and installing — in a manner intended to build local legitimacy and trust — interim caretaker and local governance structures in the areas liberated from Al-Shabaab. In addition, PBF support has been made available to help implement the SDRF's joint risk management strategy. In addition, the Fund is prioritizing ways to build and reinforce the evolving planning and financial mechanisms that the Government and partners have put in place, with a view to channel funds to the Interim Regional Administrations (IRAs) directly through Government financial systems, an approach that is being pursued collaboratively with the World Bank.

5. Implementation of the Somali Compact has helped to reinforce partner coherence using jointly agreed framework strategies, goals and targets. In addition, the systems in place help to cut across fragmented delivery by development partners, and are proving to be an effective tool for aligning and reinforcing coherence among development partners and within the UN system.

The MPTF is a key feature of the UN's commitment to the transition in Somalia, and to the implementation of the Compact in particular. Above and beyond the financial side, the UN-MPTF is a vehicle for greater UN coherence behind national priorities and greater transparency, including when it comes to adherence to the Federal Government's new way of doing business in Somalia: "Behind the authorities, not without the authorities". In addition, programmes funded by the MPTF have significant Somali ownership — from FGS, regional actors and civil society — from the design phase, in the PSG Working Groups, during implementation and all the way to reporting, through the SDRF structures. In all, the UN-MPTF in Somalia is innovative for a number of reasons: (i) It shares the same governance structure as the World Bank and AfDB funds, all under FGS leadership and Compact architecture; (ii) It has a complementary National Window, where funds go directly to national entities, using the Ministry of Finance as the coordinating agent and with reliance on national systems (*e.g.* procurement) with several additional safeguards only if/where truly relevant; (iii) It is equipped with a comprehensive risk management strategy, developed and implemented jointly by the UN Risk Management Unit, the World Bank and FGS. The Somali case means that that financing for peacebuilding is not just a technical process but also addresses political issues with appropriate risk management in place. The arrangements in place also facilitate collaboration with the World Bank. The UN and World Bank Fund Administrators worked very closely in helping the government design the architecture, develop the procedures, and now jointly manage implementation. This collaboration is critical to form what can be called a multilateral centre of gravity, with financing instruments at its core, as it has positive spill-overs for many peacebuilding and State-building elements through coordination of portfolios, joint approaches for risk management, the use of national systems, and designing reforms that are necessary to enable optimal impact of Fund.
