

OG 3.41: Finance and Budgeting

Objectives

This module will:

- ✓ provide an overview of results-based budgeting and the costing of DDR requirements;
- ✓ explain key aspects of resource mobilization for DDR; and
- ✓ offer guidance on financial management for DDR.

1. Introduction

Early, adequate and sustainable funding, and effective and transparent financial management structures are vital to the success of DDR programmes. Funding and financial management should be combined with cost-efficient and effective strategies. Strategies containing poorly conceived eligibility criteria, an exclusive focus on individual combatants, up-front cash incentives and weapons buy-back schemes are a financial drain and do not lead necessarily to sustainable DDR.

DDR practitioners should be familiar with results-based budgeting and the costing of DDR requirements. They should also know how to mobilize resources from a range of sources. In the context of UN peacekeeping operations, they should become familiar with the peacekeeping assessed budget, as it is a predictable and reliable source of funding. Finally, DDR practitioners should be aware of the financial management structures that can be created to manage the use of funds that will be received.



Programme managers should be aware that the following problems have in the past been encountered when securing funds for DDR programmes:


- *Funding gap: Most programmes experience a gap of about a year from the time funds are pledged at a donors' conference to the time they are received. Payments may be further delayed if there is lack of donor confidence in the peace process or in the implementation of the peace agreement;*
- *Late submissions: The peacekeeping assessed budget is a predictable and reliable source of funding. However, late submission of requests for funding may delay disbursements. Moreover, a lack of knowledge about what can or cannot be financed may cause problems with funding. Reintegration in particular cannot be financed through this source, but only through voluntary contributions;*
- *Poor planning: In the past, poorly planned and synchronized resource mobilization activities, combined with unnecessary duplication of administrative structures, led to confusion among DDR planners and implementers, decreased donor confidence and made donors unwilling to contribute the required funds.*

2. Results-based budgeting

The costing of DDR requirements should be included in a single budgeting framework, the results-based budgeting (RBB) framework, which ideally forms an integral part of the results-based framework.

RBB is an essential tool of results-based management that helps shift the focus from output accounting to results-based accountability. It ensures that inputs identified in the budget will actually contribute to the results (outcomes and impact) identified in the overall results-based framework of the DDR programme.

 **Do you know how to create an RBB framework? See Annex D.1 in IDDRS 3.41 on Finance and Budgeting.**

 **Do you want to see what results-based frameworks/RBB frameworks for DDR look like? Annex B.1 in IDDRS 3.41 on Finance and Budgeting contains the results-based framework prepared for Liberia, while Annexes B.2 and D.2 show the RBB framework used in Sudan.**

Box 3.41.1: Key guidance for developing DDR programme budgets

- DDR programme requirements should be accurately costed during the assessment/programme design phase. In the absence of concrete information, the UN shall make the assumptions/estimates needed. The planning and budgetary process shall take into account realistic worst-case scenarios, and build in sufficient financial flexibility to deal with contingencies.
- The costing of DDR activities should be carried out within a single results-based framework. This framework should be coherent with and linked to other funding frameworks (Consolidated Appeals Process [CAP], joint assessment missions [JAMs], post-conflict needs assessment [PCNA] processes).
- The budgeting process for funding DDR requirements should be based on a clear understanding of the division between national and international implementation responsibilities, and should be closely coordinated with the development and funding of the national DDR framework.
- A donor group should be established during the programme development phase to ensure donor involvement.
- The identification of funding requirements, sources and methods should be integrated with broader post-conflict recovery strategy and funding frameworks.

 **Section 7 of IDDRS 3.41 on Finance and Budgeting explains the typical process used within the UN for developing the overall budget for a peace-keeping mission for submission to the General Assembly.**

3. Resource mobilization (getting funding)

A key element of the resource mobilization strategy is to draw on different donors and funding sources, depending on the DDR requirements they can fund at different phases in the DDR programme cycle.

3.1. Funding sources

Funding for DDR usually comes from six main sources:

1. rapid response funds;
2. the peacekeeping assessed budget of the UN;
3. voluntary contributions from donors;
4. in-kind contributions from UN agencies, programmes and funds;
5. World Bank grants and loans; and
6. post-conflict government contributions.

1. Rapid response funds

Rapid response funds are particularly useful in the initial planning and launch phase of DDR programmes, because of their immediate availability, quick disbursement and flexibility. Such funds provide up-front capacities and resources to finance all those activities that cannot wait for voluntary donor contributions, which are usually dependent on lengthier procedures for authorization and disbursement.

The following are examples of rapid response funds:

- the United Nations Development Programme (UNDP) Conflict Prevention and Recovery Thematic Trust Fund (CPR/TTF) and 'TRAC 1.1.3' funds;
- the European Commission Rapid Reaction Mechanism; and
- the World Bank Post-Conflict Fund.



See section 9 of IDDRS 3.41 on Finance and Budgeting for more detailed information on rapid response funds.

2. The peacekeeping assessed budget of the UN

The peacekeeping assessed budget is normally established for one year. Based on the note of the Secretary-General on DDR definitions (A/C.5/59/31) adopted in May 2005 and General Assembly resolution A/RES/59/296, the following disarmament and demobilization requirements may be funded by the peacekeeping assessed budget:

- personnel costs (international and local staff members, consultants, etc.);
- equipment for disarmament and demobilization sites;
- infrastructure and logistics;
- operational costs (logistics and limited programme implementation costs);
- transportation (air and ground);
- rations (food supply);

- civilian clothing and other non-food items;
- small arms and light weapons (SALW) control projects;
- DDR training;
- quick-impact projects;
- information and sensitization activities in support of the DDR programme; and
- reinsertion support for demobilized combatants for up to one year after disarmament.

3. Voluntary donor contributions

Voluntary contributions from UN Member States are the main source of funding for DDR programmes, as they can be used to fund all DDR requirements, including reintegration activities that cannot be funded from the UN peacekeeping assessed budget. These contributions can originate from various sources, including foreign affairs and defence ministries, but mainly from overseas development assistance (ODA).¹

4. In-kind contributions from UN agencies, programmes and funds


Certain UN agencies might be in a position to provide in-kind contributions for some activities in a DDR programme. These could include, for instance, the provision of food assistance to ex-combatants during cantonment or while being received by mobile teams or in DDR offices, supplies and equipment for medical health screening, or HIV/AIDS sensitization and counselling. The availability and provision of these contributions should be discussed, identified and agreed upon during the planning and programme design phase.

5. World Bank grants and loans

The World Bank also provides grants and loans to national governments in support of DDR. In addition, it manages a regional DDR programme for the Greater Lakes region in Central Africa – the Multi-Country Demobilization and Reintegration Programme (MDRP).

6. Post-conflict government contributions

Post-conflict governments also contribute towards the cost of national DDR programmes, given their importance as a national priority. These contributions play a key role in establishing and making operational national DDR institutions and programmes, and help to generate a sense of ownership of the DDR process. However, these funds are not generally used to finance UN-implemented activities and operations.

 **Annex E in IDDRS 3.41 illustrates how different sources and kinds of funds may be combined to finance DDR requirements within a four-year implementation period.**

3.2. Fund-raising mechanisms

After a DDR programme manager is clear on which funding source can be used, the next step is to consider which fund-raising mechanisms to use in order to mobilize resources.

Table 3.41.1: Fund-raising mechanisms generally used to mobilize resources for DDR programmes

<p>Consolidated Appeals Process (CAP)</p>	<ul style="list-style-type: none"> ■ CAP is the common, inter-agency planning, coordination and resource mobilization mechanism for the humanitarian response to a crisis, managed by the UN Office for the Coordination of Humanitarian Affairs (OCHA). ■ CAP is often developed and financed during the crisis period or immediately following the end of hostilities, providing a limited means to obtain up-front funds for DDR <i>before the main disbursement of voluntary contributions</i>. ■ Funding is agency specific. ■ Demobilization and reinsertion activities could be included in this framework. ■ It should be clear that projects support or are linked to humanitarian objectives and institutions.
<p>Transitional appeals</p>	<ul style="list-style-type: none"> ■ Transitional appeals are developed in post-conflict countries where a PCNA has not been carried out. ■ Transitional appeals focus on both humanitarian and immediate post-conflict needs, including transition gaps linked to longer-term requirement for sustainable peace and development. ■ Government is given a larger role in design and implementation. ■ Transitional appeals are more rapid and flexible than a full-blown donor conference based on a PCNA.
<p>Post-conflict needs assessment (PCNA) and international donor conferences</p>	<ul style="list-style-type: none"> ■ The PCNA is a development-oriented process led by national authorities and supported by the international community. ■ The aim of the PCNA is to shape the short-term (12–24 months) and potentially medium-term (24–60 months) recovery priorities, as well as define their financial implications on the basis of a long-term (5–10 years) goal. ■ International donor conferences are organized by the UN and World Bank, and are based on the PCNA document. At this conference, individual donors make their pledges of funds.

4. Financial management structure

A single financial management structure should be established to manage DDR funds. This structure should draw on the national DDR institutions that will be established. The structure should include an independent financial management unit, which may be housed within the national DDR institution or entrusted to an international partner.

Box 3.41.2: Financial functions of the national DDR institutions (DDR funding structure)

- *The national commission on DDR* provides overall strategic guidance on DDR financing, ensures coherence with DDR strategy and ensures coordination among key bilateral and multi-lateral stakeholders.
- *A national/international technical planning and coordination agency* ensures coordination on the technical level with bilateral partners and non-governmental organizations (NGOs), monitors the coherence of activities and funding, and ensures programmes are coordinated with broader frameworks and processes (e.g. recovery and security sector reform [SSR]), provides general technical advice, carries out technical reviews of funding proposals and eligibility, and provides recommendations on funding suitability.
- *A project approval committee* examines and approves eligible funding proposals submitted to the DDR funding facilities, and provides strategic guidance on the use of funds in line with national priorities.
- *An independent financial management unit* supports the work of the above committee through administrative and secretarial responsibilities, and ensures adequate reporting. In certain cases, the secretariat may also be tasked with financial services, e.g. procurement and contracting.

To ensure that the DDR funding structure reflects the overall strategic direction and substantive content of the integrated DDR programme, DDR planning and programme officers should participate at all levels of the fund management structure, and common information management systems should be used. Changes to programme strategy should be immediately reflected in the way in which the funding structure is organized, and approved by the key stakeholders involved.

4.1. Fund allocation criteria

Funds should be allocated on the basis of a set of criteria dealing with programme goals/impact, outcomes, outputs, activities and inputs, which will be used by the technical and project appraisal committees in the review of funding submissions by UN agencies and other implementing partners. Criteria may vary depending on the funding mechanism, but generic (typical) categories of criteria can include:

- links to the general thematic sector and/or programme objectives;
- the capacity and demonstrated results of the organization submitting the proposal;
- the strength of the technical proposal;

- the cost-efficiency of the proposal;
- the involvement of national and local stakeholders; and
- the results that can be achieved.

4.2. Monitoring and reporting

To avoid duplication and overlap in monitoring and reporting, the members of secretariat should maintain close links with the monitoring and evaluation staff of the integrated DDR unit/ team, and use the same methodologies, frameworks and mechanisms as much as possible.



DDR programmes shall establish rigorous oversight mechanisms to ensure a high degree of accuracy in monitoring, evaluation, transparency and accountability. The use of funds must conform to both UN financial rules and regulations and those of donors.

4.3. Linking parallel funding mechanisms

Given the complexity and scope of DDR interventions and the range of stakeholders involved, parallel initiatives (i.e. initiatives running at the same time), both UN and non-UN, are inevitable. Links shall be created among these initiatives to ensure that they do not duplicate efforts or otherwise affect overall coherence.

Normal parallel funding mechanisms include the following:

- *Mission financing:* Although the UN peacekeeping mission is a vital component of the overall UN integrated structure for DDR, its main funding mechanism (assessed contributions) is managed directly by the mission itself in coordination with Department of Peacekeeping Operations (DPKO) Headquarters, and cannot be integrated fully into the DDR funding facility. Therefore, it should be considered a parallel funding mechanism, even though the way in which funds are used and managed can be decided by the DDR funding facility;
- *Parallel agency funds:* Certain agencies might have programmes that could support DDR activities (e.g. food aid for ex-combatants as part of a broader food aid programme), including DDR projects that fall outside the overall integrated programme framework;
- *Bilateral assistance funds:* Some donors, particularly those whose bilateral aid agencies are active on post-conflict and/or DDR issues, might choose to finance programmes that are parallel to integrated efforts, and are directly implemented by national or subnational partners. In this context, it is important to ensure that these donors are active participants in DDR and respective funding facility structures.

4.4. Fund management mechanisms

Even when a single financial management structure is established, it may be necessary to deal with multiple fund management mechanisms, particularly if funds

are coming from many sources. Table 3.41.2 highlights several mechanisms for managing funds:

Table 3.41.2: Fund management mechanisms	
Pooled funding	<ul style="list-style-type: none"> ■ Participating UN organizations pool funds together within one UN organization, chosen jointly by the coordination committee of the DDR financial management structure. ■ The chosen UN organization assumes responsibility for administering the funds, and is known as the administrative agent (AA), supporting partners authorized to manage and implement the joint programme of activities. ■ This fund management option is the most effective and efficient when participating UN organizations work for common results with a common national or subnational partner.
Pass-through funding	<ul style="list-style-type: none"> ■ This takes place when donors and participating UN agencies, funds and programmes agree to channel funds through one of the participating UN agencies, funds or programmes (which becomes the AA). ■ The AA should be jointly selected by the DDR coordination committee. Programmatic and financial accountability should rest with the participating UN agencies, funds and programmes and (sub)national partners that are managing their respective components of the joint programme. ■ This approach has the advantage of allowing DDR funding on the basis of an agreed-upon division of labour within the UN system.
Cost-sharing	<ul style="list-style-type: none"> ■ This is a method for sharing the costs of a <i>specific</i> project or set of activities (as opposed to a more open-ended method such as a trust fund) between two or more entities. ■ It should be used exclusively for: specialized projects not foreseen in the initial programme document; smaller projects for implementation before the establishment of the main funding mechanisms; funding with special arrangements; and projects that serve as a bridge to other processes and programmes. ■ Its use should be governed by the DDR technical planning and coordination agency and the applicable common criteria, procedures and reporting requirements.
Trust funds	<ul style="list-style-type: none"> ■ A trust fund is a mechanism used to receive and manage donor funds for a broad thematic area, as opposed to a specific project. It is established as a separate accounting entity with a designated trust fund manager (an AA in this case), as well as a governance structure that decides on the allocation of received funding, and is responsible for monitoring and evaluating how funds have been used. ■ Trust funds allow for unified donor coordination and funding structures in order to avoid funding gaps, duplication and policy inconsistency. They also create transparency and accountability.

5. Summary of key guidance on finance and budgeting for DDR

- ✓ The funding strategy, structure and mechanisms of a DDR programme should be integrated. DDR managers should avoid duplication and overlapping in the DDR process, not only to improve the cost-effectiveness of DDR programmes, but also to improve their coherence.
- ✓ Securing funding for DDR programmes is a vital task, as donors sometimes withhold funding until there is enough confidence in the peace process. In this context, DDR programmes cannot afford the slow arrival of funding resulting from late submissions and poor planning.
- ✓ To improve planning, DDR managers should have a clear understanding of funding sources and fund-raising mechanisms so as to be able to draw on them, depending on the type of DDR requirements and timing that will be needed.
- ✓ DDR programmes should have a single financial management structure to manage DDR funds. Oversight mechanisms should be established to ensure efficiency, transparency and accountability in the allocation and use of funds.