

# Aid Instruments in Fragile States

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## Acronyms

ARTF	Afghanistan Reconstruction Trust Fund
CAP	Consolidated Appeals Process
CDD	Community Driven Development
CDR	Community Driven Reconstruction
CHAP	Common Humanitarian Action Plan
CPIA	Country Policy and Institutional Assessment
DAC	Development Assistance Committee (OECD)
DBS	Direct Budget Support
DDR	Disarmament, Demobilisation and Reintegration
DFID	Department for International Development (United Kingdom)
DRC	Democratic Republic of Congo
ECHO	European Community Humanitarian Office
FTI	Education for All Fast Track Initiative
GDP	Gross Domestic Product
GFP	Global Funds and Partnerships
GFTBAM	Global Fund to Fight AIDS, TB and Malaria
HIPC	Highly Indebted Poor Countries Initiative
iPRSP	Interim Poverty Reduction Strategy Paper
JAM	Joint Assessment Mission
LICUS	Low Income Countries Under Stress
MDG	Millennium Development Goal
MDTF	Multi-Donor Trust Fund
MTEF	Medium Term Expenditure Framework
NGO	Non-Governmental Organisation
NPP	National Priority Programmes (Afghanistan)
NSP	National Solidarity Programme (Afghanistan)
OCHA	UN Office for the Coordination of Humanitarian Affairs
ODA	Official Development Assistance
ODI	Overseas Development Institute
OECD	Organisation for Economic Cooperation and Development
PRGF	Poverty Reduction Growth Facility
PRP	Protracted Relief Program (Zimbabwe)
PRS	Poverty Reduction Strategy
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
SWAp	Sector Wide Approach
TC	Technical Cooperation
TRM	Transitional Results Matrix
TSP	Transitional Support programme (East Timor)
UN	United Nations
UNAIDS	Joint United Nations Programme on HIV/AIDS
UNDP	United Nations Development Programme

# SUMMARY AND KEY MESSAGES

## Introduction

It is becoming increasingly clear that donors need to work more effectively in fragile states (understood as those states where the government cannot, or will not, deliver core functions to the majority of its people, including the poor). DFID has been working to understand how aid can be increased and improved in these environments, and in particular which aid instruments offer promise for meeting immediate needs, supporting pro-poor political reform, and developing sustainable systems for delivering services and social protection. This note summarises the following paper on aid instruments, it will describe:

- the limitations of the current approach to the selection of aid instruments in fragile states;
- the emerging understanding about the use of aid instruments in fragile states;
- a selection of aid instruments that appear to offer promise for achieving a range of objectives in fragile states;
- and the strengths and weaknesses of different instruments in different contexts.

## Limitations of the current approach to the selection of instruments

The current standard approach to the selection of aid instruments in fragile states emphasises that:

- funds should be restricted;
- most should be disbursed as projects, in particular NGO and humanitarian projects, as this offers donors a way of working 'around' the state;
- there should be a shorter time commitment;
- technical assistance can be used as a way of persuading governments to improve policies;
- that as states move along the notional spectrum from poor to good performance, there should be a shift by donors away from projects and towards budget support;
- that alignment is not realistic without strong government leadership and capacity; and the more limited goal of donor coordination, rather than harmonisation, is all that is possible.

This model is, in effect, the reverse of the current consensus for selecting instruments in 'good performers'. It has some value as a default, risk-reducing, starting point. However, it does not provide a strong enough basis for meeting the policy challenge of working more effectively in fragile states:

- There are, in fact, an increasing number of examples of the successful use of aid instruments contrary to this approach.
- It does not capture the wide variety of situations in fragile states, and so of opportunities for innovative programming. Its assumptions about change are too linear, and it relies on an overly simplistic 'state/non-state' understanding of implementation and absorptive capacity.
- It does not reflect recent research and understanding of aid effectiveness. In particular, it does not accommodate the possibility that aid could be a cost-effective means of preventing conflict and further instability, nor the negative consequences of instability for neighbouring countries. It also assumes absorptive capacity is limited to governments, and does not include other actors.

### **Towards an improved approach to the selection of aid instruments**

An improved approach to the selection of aid instruments is needed. The working paper emphasises that:

*There is no single approach:* Fragile state contexts are too varied, and opportunities are too specific; instruments 'behave' very differently in different contexts and development actors should avoid 'one size fits all' proscriptions such as 'budget support is inappropriate in fragile states' or 'civil society organisations are the answer'. Experience in a growing number of cases shows that a long-term commitment, a focus on context and policy objectives, and an imaginative and flexible use of various instruments, can have a significant impact on poverty reduction.

*Risk can be reduced, but not eliminated:* Concerns over state legitimisation and fiduciary risk will continue to be a strong determinant of the choice and balance of aid instruments in fragile states. For this reason, instruments that limit state control and fiduciary risk – such as humanitarian aid, technical cooperation and projects – will remain key. Minimum conditions for budget support will typically not be fulfilled. However, trust funds, pooled funding and social funds are being used in innovative ways that can manage these concerns, and also meet other objectives such as meeting immediate needs, institutional development, and political change. An approach is needed that acknowledges high risk, but also the possibility of high returns.

*Think nationally and programmatically, not in terms of projects:* Rather than thinking in terms of 'scaling up' from a series of local, often short-term and projectised approaches, it is important to think and plan long-term and programmatically from the outset, and then work out implementation methodologies. The National Priority Programmes in Afghanistan, for example, are based on national plans, with implementation through government, NGOs, and private sector, depending on what is available.

*Programme implementation will involve many actors, state and non-state:* Programme implementation will typically involve partnerships between state, UN, civil society and the private sector, not one or the other; this makes programmes complex, but flexible. It is not possible to ‘avoid’ the state, and anyway not sensible if the long-term goal is to rebuild it. Interventions should be seen as having differing degrees of alignment with the state, rather than an all or nothing approach. Programmatic approaches, as above, are more likely to be successfully absorbed by the state at some time in the future than localised and projectised approaches, in particular if programmes are designed with this in mind. As the Burma HIV/AIDS programme shows, it is possible to engage with the state even in the most inauspicious circumstances.

*Improved coherence requires better frameworks.* Greater coherence between security, development and diplomatic interventions is necessary to ensure impact on poverty reduction, particularly where aid may be less significant for donor states than their military and political interventions. This will require better thought through and more standardised strategic frameworks. Frameworks such as Consolidated Action Plans and Transition Result Action Matrices have been developed to prioritise and plan donor interventions in the absence of developed state planning structures, such as national development plans and budgets. The choice of framework is closely related to the nature of aid instruments. But frameworks are often too ad hoc, too unrelated, and there is often competition between institutions as they champion different approaches.

*General principles of aid effectiveness should also be applied to fragile states.* Coordination is no substitute for harmonisation and alignment. A number of instruments, notably multi-donor trust funds and pooled funding for joint programmes, offer more opportunities for greater levels of harmonisation, predictability, and where possible alignment, than are often achieved. The Zimbabwe multi-year Protracted Relief programme, for example, aims to ensure predictability through multi-year funding. The idea of ‘shadow alignment’ – working with parallel but state-compatible planning and budgeting systems – is emerging as a promising donor strategy to minimise state legitimisation in difficult development partnerships. Where alignment is not possible, selectivity, sequencing and harmonisation of activities is important.

*Supporting political reform is difficult, but possible:* The choice of instruments should be based on broader political strategies and a political economy analysis of potential winners and losers. Budget support through a trust fund in Afghanistan, for example, supported the legitimacy of a weak government after the Taliban and supported the restoration of state systems and capacity development.

*Experiment:* Working in fragile states requires experimentation and flexibility based on local knowledge. Many of the most interesting instruments now being used have evolved through several cycles of reform and adaptation. This requires a long-term commitment, good monitoring and evaluation, money, and above all dedicated staff. Donors need to adjust human and

financial resource allocation procedures to facilitate this, such as delinking programme and staffing budgets.

### **Some promising aid instruments in fragile states**

*Budget Support.* In countries where there is little political will to invest in and account for pro-poor expenditure, programme aid instruments such as budget support will remain inappropriate. However, budget support has been provided with some effect, specifically in two kinds of circumstances: (i) budget support via Trust Funds in the early stages of state formation (e.g. East Timor, Afghanistan), (ii) budget support, direct to government, in more established post-conflict countries with new regimes (e.g. Rwanda, Sierra Leone). Debt relief to countries such as Rwanda and Sierra Leone has also resulted in increases in poverty-reducing public expenditure.

*Social funds:* An instrument used widely by the World Bank, social funds can be a very useful as way of getting money directly to communities for small investments, and can set up systems in many differing relations to government. They can strengthen local accountability and so contribute to broader political reform. There can be problems of linking social funds to government structures, for example in the development of service delivery systems. They can also promote harmonisation and alignment. The Yemen social fund has attracted £225 million for 2004 from several donors; it has been most successful where it has aligned with the priorities of the education ministry, and least successful where it has worked independently of the health ministry.

*Pooled funding:* Various ways of pooling funds, such as multi-donor trust funds and joint programmes, offer a number of advantages. They can promote a more programmatic and long-term approach to, for example, service delivery. They reduce the tendency to projectisation and they promote harmonisation and, where possible, alignment.

*Projects* are conventionally seen as insulated instruments, best suited for service delivery, immune to the broader policy and institutional environment, and contrary to conventional principles of aid effectiveness. In fact, projects are almost infinitely variable in their design and in degrees of alignment to government systems; projects can meet a range of development objectives; the productivity of projects may be strongly influenced by the quality of policies and institutions; and projects, within a strategic framework, can demonstrate principles of aid effectiveness such as alignment, harmonisation and predictability.

*Humanitarian aid:* There are opportunities to redesign the content of humanitarian aid, without undermining humanitarian principles, in order to make it more effective and facilitate the transition from relief to development. This would involve making humanitarian aid better planned and financed through pooled funds under UN OCHA control, and making it more demand-

led by moving away from commodity-driven interventions towards cash-based, social protection approaches.

### **Using aid instruments in different contexts**

An improved understanding of the use of instruments in different contexts is needed, in particular their sequencing and their relationship to political processes. One of the main messages of DFID's work on instruments in fragile states is that there is no single approach. However, taking DFID's understanding of fragile states as a starting point, (i.e the notion of state capacity and state commitment to poverty reduction), it is possible to make some broad-brush suggestions for different contexts:

*Where there is state capacity, but no commitment to poverty reduction:* Consider off-budget, joint, national or regional programmes with pooled funding, perhaps with the UN having oversight as a legitimate, neutral intermediary. Use humanitarian projects, but in response to humanitarian need. Partner with non-state actors, and state actors where possible, such as local government or reformist elements in central government. Shadow align with state systems. Support key reformers in government, perhaps with selective technical cooperation focusing on a few key 'zero generation' reforms.

*Where there is both little capacity and little commitment:* Similar to above, but a lack of state capacity can mean there are more opportunities to work with local government, communities, civil society and the private sector. Focus on strengthening the capacity of vulnerable communities.

*Where there is commitment, but little capacity:* Ensure an overarching strategic framework is in place between government and donors covering political, security and development strategies. Establish multi-donor trust funds for budget support, large investment projects, security sector reform, etc. Provide technical cooperation for capacity-building, but ensure it is government-led, not donor-led. Align behind government budgeting and planning by ensuring all donor projects and programmes are 'on budget', even if not 'through budget'. Complement with social fund/social protection arrangements to get resources to communities and begin to build from the bottom up. Use direct contracting of UN and NGOs where national programmes are insufficient, but 'on budget', not 'off budget'.



# 1. INTRODUCTION

## 1.1 Context of the paper

This paper is one of a series of DFID Working Papers on increasing the effectiveness of development aid in fragile states.<sup>1</sup> International policy on fragile states is an issue of growing interest and concern, for DFID and for many other actors; fragile states are home to 16% of the world's population, but 35% of the world's poor, 44% of maternal deaths, 46% of children out of school, and 51% of children dying before the age of five.<sup>2</sup> The MDGs will not be achieved without significant progress in these countries. The choice and use of aid instruments is a key aspect of donor policy and programmes.

## 1.2 Objectives of the paper

The purpose of this paper is to support policy development and programmes in fragile states in DFID and other development agencies by contributing to a better understanding of the use of different aid instruments. In particular, the paper will review:

- What kind and mix of aid instruments are being used and might be appropriate for difficult environments?
- What kind and mix of aid frameworks (frameworks for planning, coordination and resource mobilisation) are being used and to what effect?
- What are strengths and weaknesses of different aid instruments and frameworks in different environments and for different development objectives?

## 1.3 Methodology and structure

The paper has drawn primarily from the following sources:

- general review of literature, primarily studies written by or commissioned by development agencies;
- detailed review of fragile states case studies, particularly studies produced by the DFID Policy Division and World Bank LICUS initiative;
- review of DFID statistics on development assistance (1993/94 – 2003/04) and associated project documentation;
- review of OECD / DAC statistics on development;
- interviews with staff from DFID, other development agencies, think tanks and academics.

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<sup>1</sup> The other papers in the series are: 'Fragile states: defining difficult environments for poverty reduction', Working Paper 1, 'How important are difficult environments to achieving the MDGs?' Working Paper 2, 'Approaches to improving the delivery of social services in difficult environments' Working Paper 3 and 'Improving the development response in difficult environments: lessons from DFID experience', Working Paper 4.

<sup>2</sup> Based on available data for the 46 countries in the bottom 2 quintiles of the World Bank CPIA ratings (used here as a proxy for fragile states), see 'How important are difficult environments to achieving the MDGs?' Working Paper 2 for details.

The paper will initially outline a conceptual framework and criteria for examining the use of aid instruments and frameworks in fragile states (Section 2); then review a number of frameworks and instruments against these criteria (Section 3); draw together these findings, (Section 4); and finally offer some answers to the questions raised above, and propose recommendations to guide future policy development and programmes (Section 5).

## **2. CONCEPTUAL FRAMEWORK**

### **2.1 Defining ‘instruments’, ‘frameworks’ and ‘fragile states’**

There are many ways of defining state fragility.<sup>3</sup> For the purposes of this paper, ‘fragile states’ are understood as states that lack either the capacity, or the will, (or both), to deliver core state functions for the majority of their people, including the poor. The most important functions of the state for poverty reduction are territorial control, safety and security, capacity to manage public resources, delivery of basic services, and the ability to protect and support the ways in which the poorest people sustain themselves.<sup>4</sup> In terms of development cooperation, fragile states may have little capacity to be effective development partners because of state collapse (e.g. Somalia), partial territorial control (e.g. Nepal), armed conflict (e.g. DRC, Sudan), political instability (e.g. Central African Republic), or dysfunctional governance structures (e.g. Nigeria). They may be unwilling to enter development partnerships because they have repressive or isolationist governments (e.g. Zimbabwe), or are controlled by elites with little commitment to poverty reduction (e.g. Angola). In this paper, the term ‘fragile state’ is used interchangeably with ‘poor performer’ and ‘difficult environment’.

‘Instruments’ and ‘frameworks’ have been defined broadly; instruments are taken to be the mechanisms and procedures through which donors channel resources to fragile states, and include, for example, programme aid, including budget support, global funds, social funds, the rather general term ‘projects’, and humanitarian aid. This is a broad category of often dissimilar, often overlapping, mechanisms, but follows conventional usage. ‘Frameworks’ are the mechanisms through which donors coordinate their analysis, strategies and disbursements, with each other, with recipient governments and with other actors such as the UN; it includes, for example, Common Humanitarian Action Plans (CHAP), Transitional Results Matrices (TRM) and Poverty Reduction Strategy Papers (PRSP). The notion of coordination, most commonly used in humanitarian and reconstruction contexts, is understood to be a kind of less rigorous precursor to harmonisation.

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<sup>3</sup> One common way to estimate the level of fragility is derived from the World Bank’s Country Policy and Institutional Assessments (CPIA). CPIA scores divide low-income countries into five categories of performance, the lowest two of which are useful proxies for state fragility. There is a separate group of unranked countries, also deemed fragile. This provides a list of 46 fragile states, containing 870 million people or 14% of the world’s population. Middle-income countries are not included in this list. See also ‘Fragile states: Defining difficult environments for poverty reduction’ DFID working paper, 2004, for a fuller analysis of state fragility.

<sup>4</sup> ‘Why we need to work more effectively in fragile states’, DFID policy paper, 2004.

## Working typology of aid frameworks and aid instruments

<b>1. STRATEGIC PLANNING &amp; COORDINATION</b>	National planning and budgetary framework	Strategic planning mechanisms, typically government-led and with varying degrees of donor influence
	Poverty Reduction Strategy Paper (PRSP; iPRSP)	
	Transitional Results Matrix (TRM)	
	Joint Needs Assessment	Needs assessment
	Common Country Assessment	
	Common Humanitarian Action Plan (CHAP)	Resource mobilisation and operational coordination, at international and national level
	Consolidated Appeals Process (CAP)	
<b>2. FINANCING &amp; DELIVERY</b>	Programme Aid	Financing and operational instruments, with varying degrees of alignment to the state, and harmonisation with other donors
	Technical Cooperation	
	Projects	
	Social Funds	
	Pooled Funding	
	Multi-donor Trust Funds	
	Global Funds	
Humanitarian assistance		

This paper considers both frameworks and instruments as they are closely related, indeed it is sometimes hard to make a clear distinction, multi-donor trust funds, for example, can be seen as both an instrument and a framework. The choice of framework is also closely associated with the context (i.e. lack of state capacity and/or will) and the choice of instrument (the CAP and projects in humanitarian situations, PRSPs and direct budget support in development, for example). Both frameworks and instruments impact on the broader goal of maximising aid effectiveness through increased harmonisation between donors and alignment behind government plans and policies. Strategic planning and coordination mechanisms are considered in greater detail in a separate working paper.<sup>5</sup>

### 2.2 Aid effectiveness in ‘good performers’ and fragile states

In countries with effective poverty reduction approaches, there is a relatively high degree of consensus between donor agencies over policies, instruments, ways of working, and principles of aid effectiveness. Donors are increasingly committed to harmonising and aligning behind country-led development approaches, with budget support emerging as the preferred instrument in support of these approaches, at least in aid dependent countries.<sup>6</sup> This model typically requires a national poverty reduction strategy, sound policies and institutions, and adequate financial management systems. These conditions are typically not met in fragile states; governments frequently lack a

<sup>5</sup> ‘Harmonisation and Alignment in Fragile States’, draft report by the Overseas Development Institute for the OECD, January 2005.

<sup>6</sup> Although ‘Programme Aid’ accounted for only 17% of UK bilateral aid in 2003/04, it is anticipated that this proportion will increase, particularly in the Africa region.

commitment to poverty reduction, and the capacity to implement a PRS if they are committed. Annexe 1 analyses the challenges of applying the aid effectiveness model developed for normal countries to failed states in more detail.

### 2.3 Policy objectives in fragile states

Challenges to the conventional model of aid effectiveness are underpinned by more fundamental challenges relating to the objectives of aid in fragile states, and appropriate entry points for aid. This paper identifies four broad and overlapping objectives of aid in fragile states.

- (i) **Meeting immediate needs and service delivery:** emergency aid, support to livelihoods, and the delivery of essential basic services, in the short- to medium-term.
- (ii) **Building sustainable systems:** development of formal and informal institutions, within and outside government, to formulate policy and deliver services in support of poverty reduction, over the medium- to long-term.
- (iii) **Supporting pro-poor domestic political reform:** peace building, stabilisation, challenging or promoting state legitimacy, supporting local, national and regional 'drivers of change'.
- (iv) **'Good donorship':** effective and efficient aid, harmonisation and coherence, reducing transaction costs, managing fiduciary risk.

Section 3 will review the use of aid instruments against these four objectives and Section 4 will summarise these findings. As will be summarised in section 5, choices about the relative balance between these objectives will depend largely on the context and state capacity and will for poverty reduction.

### 2.4 The 'standard model' for the selection of frameworks and instruments in fragile states

The standard approach to the selection of aid instruments outlined in section 2.2 above gives little guidance for working in fragile states; given low capacity and will as the starting point, the decision tree for choosing aid instruments in one widely cited work on the subject rapidly guides the reader to the fairly limited approach of policy advocacy, TC and projects.<sup>7</sup> This uninspiring menu is the norm and in the context of low capacity, low will and difficult development partnerships, the conventional approach to aid to fragile states has become:

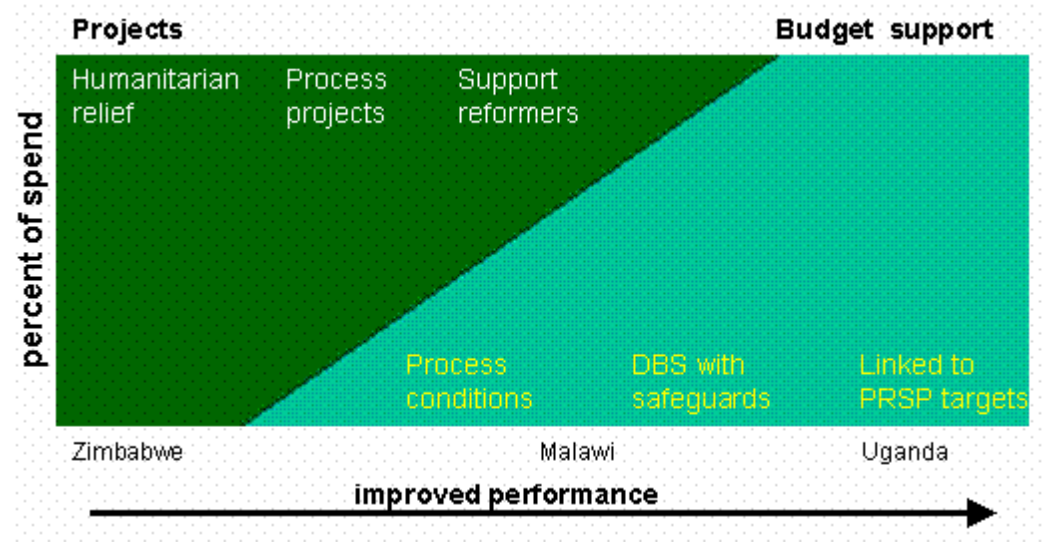
Poorly governed countries should not only receive **less money**, they should receive more of it as **project aid**, it should come with a **shorter time commitment**, should be focused on a **narrower set of activities**, and much of it should be **distributed through NGOs**.<sup>8</sup>

<sup>7</sup> 'The choice of financial aid instruments', Foster and Leavy, ODI, 2001,

<sup>8</sup> 'Aid Effectiveness and the Millennium Development Goals': pp1. S Radelet, 2004, emphasis added.

This 'standard model' also assumes that as a state moves along the transition from 'fragile state' to 'good performer', the types of instrument used will shift from humanitarian aid and project-based instruments to budget support instruments, in support of country-led processes thus:

**Figure 1. Types of aid and instruments, according to country context <sup>9</sup>**



This model also emphasises policy dialogue and knowledge transfer through technical assistance, in order to persuade recalcitrant governments to reform.<sup>10</sup> Humanitarian aid is recommended as a way of working around rather than through the state.

In terms of frameworks, the model assumes a similar linear progression from CAPs in conflict and emergency situations through Transitional CAPs, joint assessments and occasionally TRMs in post-conflict situations, through to PRSPs once the 'normalisation' process is complete. It assumes that a limited approach to coordination based around information sharing etc is the norm for donor action in difficult situations, moving to more ambitious levels of donor harmonisation and alignment further along the spectrum. As follows:

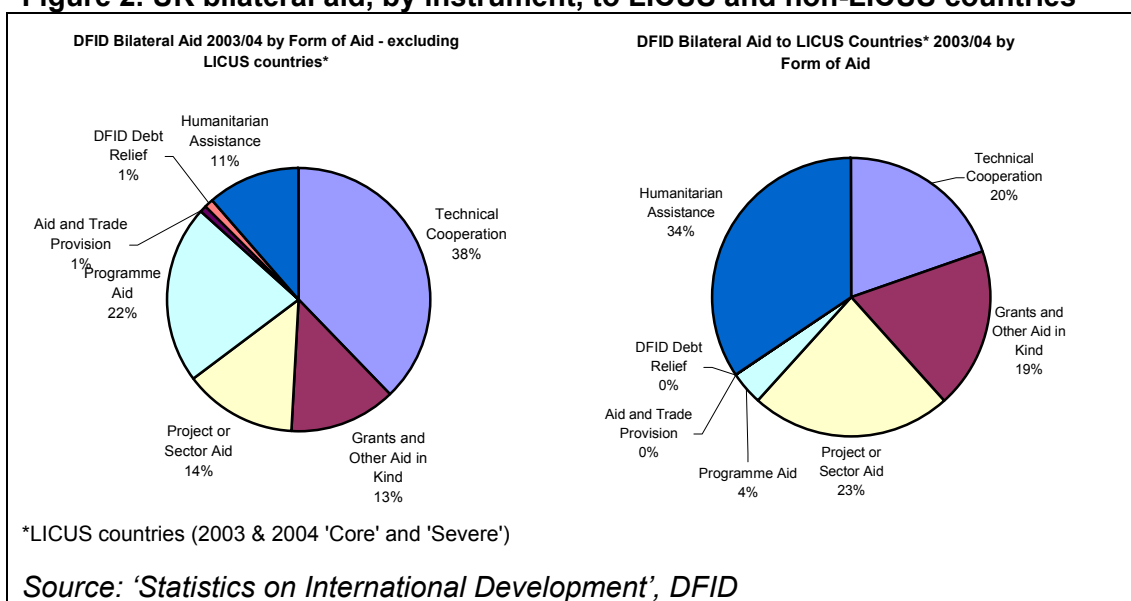
	<b>Conflict</b>	<b>Reconstruction</b>	<b>Development</b>
<b>Frameworks</b>	CAP/CHAP	CAPs, joint assessments, TRMs	(i)PRSP
<b>Instruments</b>	off-budget emergency projects,	off-budget recon projects, tech co-op, social funds, limited budget support, MDTFs	Tech co-op, budget support, SWAps
<b>Donor approach</b>	coordination	coordination, limited harmonisation	harmonisation and alignment

<sup>9</sup> Diagram taken from 'How should DFID respond to PRSPs?', internal DFID discussion document, DFID 2002: p11

<sup>10</sup> 'World Bank Group Work in Low Income countries under stress: A task force report', World Bank, 2002

This model – effectively simply the reverse of the consensus on aid effectiveness for good performers – guides the aid instrument choices made by DFID and other donors.<sup>11</sup> Given the absence of substantive policy on poverty reduction in fragile states, at least until recently, the influence of this model is largely by default. In DFID the influence of the ‘standard model’ can be seen by comparing DFID’s choice of aid instruments in fragile states and in other countries. Figure 2 compares the differing proportions of various instruments for selected LICUS countries compared against ‘non-LICUS’ countries, note the higher use of humanitarian assistance and lower use of ‘programme aid’ (budget support) in LICUS countries.

**Figure 2. UK bilateral aid, by instrument, to LICUS and non-LICUS countries**



The implications of the aid effectiveness consensus on aid to poor policy environments, the widespread acceptance of the ‘standard model’ for aid instruments, and perceptions of high risk and low returns for aid in fragile states, account for low allocations of aid to fragile states, even taking into account weaker performance.<sup>12</sup>

However, there is a growing consensus that this position is unacceptable:

- Fragile states are often where poverty is worst and most intractable,<sup>13</sup> and they are increasingly seen as threats not only to their own citizens but to their neighbours, and even to global security.<sup>14</sup> Collier and

<sup>11</sup> See, for example, ‘World Bank Group Work in Low Income countries under stress: A task force report’, World Bank, 2002; ‘Development Co-operation in Difficult Partnerships’, DAC, 2002.

<sup>12</sup> OECD DAC figures show that percentage allocation to the top 2 CPIA quintile countries rose from 1996 to 2001, while percentage allocations to the bottom 2 CPIA quintile countries fell (Ref to aid allocation working paper).

<sup>13</sup> ‘How important are difficult environments to achieving the MDGs?’ DFID PRDE Working Paper 2

<sup>14</sup> ‘Why we need to work more effectively in fragile states’, DFID policy paper, 2005.

Chauvet, for example, find that a typical neighbour loses 1.6 percentage points of their growth rate if their neighbour is a LICUS.<sup>15</sup>

- Some new research is increasingly challenging the current dominant view that aid is only effective in good policy environments and shows that aid has an impact on growth regardless of the policy environment.<sup>16</sup> And the current notion of absorptive capacity needs to be broadened to include non-state capacity.<sup>17</sup>

Taken together, these developments should lead to a reappraisal of aid allocation between good and bad performers. This will need to be complemented by a more sophisticated approach to the selection of aid instruments and frameworks in fragile states than the standard model currently offers.

A key difference between the use of aid instruments in fragile states and in 'normal' contexts, however, is that they are often used as one element of a broader political and military strategy. Indeed, in fragile states, non-aid instruments such as peace-keeping can assume greater significance in donor decision-making than aid, and can have a significant impact on poverty outcomes.<sup>18</sup> This is not to argue that aid should somehow be put at the service of political processes, rather that poverty reduction is in itself a strategic policy goal, and that achieving this requires an understanding of how aid and other interventions interact. Thus before examining the use of individual instruments in fragile states (section 3.2 below), it will be useful to touch on the relationship between aid instruments and frameworks for strategic coordination.

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<sup>15</sup> 'Development Effectiveness in Fragile States: Spillovers and Turnarounds', Lisa Chauvet & Paul Collier, December 2004

<sup>16</sup> 'Counting chickens when they hatch: the short term effect of aid on growth', Clemens, A, Radelet, S, Bhavnani, centre for Global Development, Working Paper 44, July 2004.

<sup>17</sup> 'Aid allocation and fragile states' Background paper for senior level forum on development effectiveness in fragile states, 13-14 January 2005, McGillivray, M.

<sup>18</sup> For example, according to an IRC survey in eastern Congo in June 2004, there is 'compelling evidence that improvements in security represent one of the most effective means to reduce excess mortality' pp22 in 'Mortality in the Democratic Republic of Congo', International Rescue Committee, June 2004. And according to Collier and Hoeffler, in a ranking exercise of different instruments for conflict prevention, external peace-keeping is far more cost-effective than aid. 'The Challenge of Reducing the Global Incidence of Civil war.' Collier and Hoeffler, 200

### **3. REVIEW OF FRAMEWORKS AND INSTRUMENTS**

#### **3.1 Frameworks for Strategic Planning and Coordination**

##### **3.1.1 The purposes of frameworks**

Effective strategic planning and coordination is arguably even more important in fragile states than in traditional development partnerships, due to the complexity of political and development objectives and activities, and the fragmentation of actors on both the donor and partner side. This particularly applies to the difficulties in linking humanitarian, development, diplomatic and security concerns and so is a broader problem than the more limited concerns of harmonisation and alignment.

Intervention by donors in most fragile states is governed, at least loosely, by some kind of overall framework. These frameworks are important for this discussion as the nature of the overall framework has significant implications for the nature of aid instruments and their relationship to other, non-aid, instruments. These frameworks aim to promote, in different combinations:

- Aid coordination, (not only amongst donors but between humanitarian and development actors, and funding lines),
- Strategic coordination and coherence (linking aid, political and military strategies to increase overall effectiveness),
- Resource mobilisation,
- And an overarching agreement on strategy with a recipient government.

##### **3.1.2 Examples of frameworks at country level**

There are a wide variety of these frameworks, they include:

- Consolidated Action Plans (the 'CAP') produced by OCHA
- 'Transitional' CAPs, sometimes produced by OCHA in post-conflict situations
- The 'strategic framework' developed in Afghanistan under the Taliban
- The Transition Result Matrix (TRM), developed by the World Bank in East Timor and Liberia
- Peace agreements, which often have attached, either formally or not, a substantial reconstruction package, usually as a carrot to the parties to come to agreement, as in Bosnia and Kosovo.



- Joint assessments by multiple donors, often as part of a peace agreement, such as the JAM in Sudan.
- Donor conferences, often after a peace agreement and joint assessment and intended to mobilise resources and coordinate donors behind a plan, as in Berlin for Afghanistan.
- An overarching National Budget (e.g. in Afghanistan, where the budget was conceived as including most aid to the country, even if the monies did not go through the government)
- (I)PRSPs. The standard in most normal situations, but present in a few fragile states as well, and a process governments often want to move to as quickly as possible after conflict as a kind of normalisation process and to access a wider range of funds.

### **3.1.3 Donor frameworks**

In recent years, a number of donors have also created new internal instruments intended to promote similar objectives within their own governments. These instruments are particularly focussed on post-conflict situations. Examples of these instruments would be:<sup>19</sup>

- Norway's Gap fund, created in 2002, is intended to fill the critical resource gaps between acute emergency relief and longer-term development
- The Dutch stability fund, created in 2004, aims to provide rapid, flexible support for activities at the interface between peace, security and development in countries in or at risk on conflict.
- The UK's Global Conflict Prevention Pool, set up in 2001, is an interdepartmental instrument that aims to improve effectiveness of the UK contribution to conflict prevention. It is managed by the Foreign and Commonwealth Office.
- The World Bank has recently set up two trust funds the Post conflict fund and the LICUS trust fund to promote its operations in fragile states.

All these instruments reflect a desire amongst donors for greater flexibility and better integration of interventions, not only between relief and development, but between security and development. These developments also signal a greater concern amongst donors to develop instruments able to effectively intervene in areas of contested legitimacy and in the highly political process of

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<sup>19</sup> From 'Financing countries in protracted humanitarian crisis: an overview of new instruments and existing aid flows', in 'Beyond the Continuum', ODI, 2004.

reform and state-building; the more 'traditional' instruments are built on either full acceptance of legitimacy (such as DBS etc) or its rejection (much humanitarian aid).

### 3.1.4 Aid frameworks in practice

Experience is mixed. However, joint assessment tools and 'pre-PRS' planning and budgeting frameworks such as TRMs, have the potential to promote harmonisation and alignment.

- In **East Timor**, a Joint Assessment Mission between the World Bank, the UN, and the Timorese led to the creation of a prioritised set of policies and corresponding budget. The Timorese National Resistance Council further prioritised these policies, which donors financed through a Trust Fund, thereby aligning their assistance within a country-led development framework.
- In **Sudan**, the Intergovernmental Authority on Development and International Partners (IGAD) includes the government, rebel groups, and international political and development agencies. A Joint Assessment Mission is seeking to develop policies to provide the basis of a Poverty Eradication Strategy, to be supported by donors, conditional upon the signing of a Peace Agreement.
- In **Nepal**, the government has a PRS, and MTEF, and a PRSC, and has also created a Harmonisation Action Plan. However, some donors are peripheral to this plan, concerned about attributing specific outcomes to their own development activities.
- In countries with weak national leadership such as **Liberia** and the **Central African Republic**, a Joint Assessment Mission has provided the basis for a 'Transitional Results Framework'. Envisaged as 'pre-PRS' plans, these frameworks aim to provide a government and donor roadmap for prioritisation, coordination and monitoring.
- In the **DRC**, weak country leadership and the absence of substantive political dialogue with donors has meant that there is currently no integrated framework to plan, prioritise and link economic, social, political and security transitional processes.

### **Harmonisation and Alignment: some lessons from East Timor**

- Financial mobilisation works best when donors work with a comprehensive needs assessment that addresses the overlap of humanitarian assistance and reconstruction financing, and establishes a link between recurrent and development expenditures.
- A coordinated set of reconstruction benchmarks across political, institutional, economic and social fields, together with frequent donor meetings, helps to focus efforts and to maintain momentum.
- Trust Funds can improve coordination even when they channel less than half the available reconstruction funds, but require specific coordination efforts (such as joint donor missions) to achieve this impact.
- The budget provides the best anchor for government-led aid coordination; specific capacity-building efforts need to be made early on, to develop a budget that can function as the coordinating tool for a multiplicity of actors, where all donors dialogue with the government, in a timeframe consistent with the budget cycle, on the prioritisation of resources.

*Sources: 'Harmonisation and Alignment in Fragile States', draft report by the Overseas Development Institute for the OECD, January 2005; 'The East Timor Reconstruction Programme: Successes, Problems, Tradeoffs', World Bank, 2002*

The choice and design of strategic framework is also relatively ad hoc,<sup>21</sup> despite the fact that the choice of instruments and budget lines by donors are often derived from the nature and content of the overall strategic framework. For example, CAPs will often mean a primarily humanitarian, project-led and characteristically not well coordinated set of choices by donors, with little harmonisation. Post-conflict joint assessments have led to multi-donor trust funds, such as in Afghanistan and now in Sudan, even if not that well subscribed to. And PRSPs of course signify a move towards donor confidence and budget support.

The standard assumption is that there is a progression along the scale from 'fragile state'/bad performer, to good performer, with different frameworks being suitable at different times. In fact, frameworks are often simultaneous, in Afghanistan for example, there were transitional CAPs competing with the government's budget.<sup>22</sup> There are also moves to make PRSPs occur earlier along the scale part of moves to make development instruments more accessible in difficult environments,<sup>23</sup> and through the transitional CAP and ECHO's humanitarian plus fund, to take humanitarian spending further into reconstruction. This 'everything all the time' approach is paralleled by the development of the donors specific instruments mentioned above.

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<sup>20</sup> "the decision about *whether* and *how* to engage will be driven as much by political concerns as it will by a technical reading of the process itself." ODI: PRSP in conflict paper, p6

<sup>21</sup> 'Donor/IFI decisions tend to be taken on a case-by-case basis with only limited attention to consistency between them, in policy or in practice.' ODI: PRSP in conflict, p10

<sup>22</sup> Ref to Harmonisation and Alignment working paper

<sup>23</sup> 'Beyond the continuum: an overview of the changing role of aid policy in protracted crisis', p7, ODI, 2004

There are also significant issues of institutional competition in the choice of different frameworks that are not always in line with donor priorities.

- The Bank promotes, TRMs and PRSPs, and Consultative groups,
- The UN promote CAPS, CHAPS and round tables
- Recipient governments promote their own budget/planning process

### 3.1.5 Some recommendations

This brief review raises some areas for further investigation. The ODI Working Paper concludes by offering six recommendations:

- (i) to improve alignment, donors should first ensure that they have a sound understanding of a country's processes and systems, through undertaking the necessary diagnostics;
- (ii) where possible, align donor activities to all stages of the government's strategy, policy and implementation cycle, including its systems;
- (iii) where alignment is not possible, harmonise in order to align;
- (iv) selectivity and sequencing of interventions are critical;
- (v) support policy making and aid management in the partner government;
- (vi) monitoring of progress with alignment and harmonisation should take place.

The paper also makes an important distinction between alignment behind policies and behind systems and structures, and so introduces the important notion of shadow alignment:

#### **'Shadow alignment' in fragile states**

*"In some cases, donors are concerned that to align their policies with those of the recipient would unjustly legitimise a government. This is an important and very real concern. However the question of systems alignment may be addressed separately. Donors could explore the possibility of 'shadow' systems alignment, whereby donors work to be compatible with national systems without subjugating them to government priorities or policies. Possibilities include putting aid 'on-budget' but not 'through budget', working within existing administrative boundaries, and providing information to the recipient in terms that are compatible with their national systems such as the budgetary classifications and cycle...Shadow systems alignment is a state-avoiding approach but one that is 'future-proof'."*

*Source: Harmonisation and Alignment in Fragile States, draft report by the ODI for OECD, January 2005*

In terms of the frameworks, could donors develop greater standardisation in terms of frameworks, in particular for the 'gap' area between humanitarian and development where there is most confusion and variation? The World Bank's TRM, for example, provides an interesting and apparently useful way of

combining all aspects of intervention on one page in agreement it with the recipient government.

Could the various instruments be reviewed and adapted to ensure they cohere together more successfully. For example, could CAPs be improved by more explicit reference to the type of poverty analysis and consultative process that standardly accompanies PRSPs? CAPs could probably also be improved by the application of harmonisation and alignment principles standard amongst donors with PRSPs to the CAP, and putting funds through multi-donor trust funds controlled by OCHA as opposed to a national treasury, for example. Another possible area of agreement across all instruments might be to focus the UN more on political and standard setting roles, and the bank on more technical, analytical and planning roles.

In summary, there may be opportunities for harmonisation and alignment in situations where donors are currently content with the more limited goal of coordination, particularly through greater shadow alignment and more actively supporting the budget of fledging governments. This would be assisted by a set of frameworks that are better standardised, which reference each other in predictable and well understood ways, that can enhance the transitions between frameworks, and reduce unhelpful institutional competition. However, no strategic framework will be able to accommodate differing perceptions of strategic interest amongst donors or regional powers. And this is more likely to be the case in fragile states, where national interests are often perceived to be at stake in ways they are not in other contexts.

### **3.2 Programme Aid: Balance of Payments Support, Debt Relief, and Budget Support**

#### **Description and statistics**

**Balance of Payments Support** consists of foreign exchange transfers to a central bank, in support of policy reform, and with limited accounting requirements. IMF financial support typically takes this form. **Debt Relief** is a form of balance of payments support that reduces the stock of obligations that government is expected to meet in the future. Granting debt relief can be subject to conditionality (HIPC debt relief is linked to the adoption of a PRSP), but once granted it is irrevocable. **General Budget Support** refers to funds provided for the government budget, using government systems, with little or no earmarking. It supports a government programme typically focussing on growth, poverty reduction, fiscal adjustment, and strengthening institutions, especially budgetary processes. **Sector Budget Support** earmarks funds to a specific sector.

Provision of '**Poverty Reduction Budget Support**' (DFID's brand name for budget support) depends on an assessment in three areas:

- (i) the government's budget supports poverty reduction;

- (ii) there is commitment to making the administrative, technical and financial systems robust and reliable;
- (iii) provision of budget support will produce significant benefits relative to other forms of aid delivery (e.g. improved coordination, a more coherent policy and expenditure programme, and lower aid management costs).

Given such criteria, fragile states can have difficulty accessing different forms of programme aid. This is due to donor judgements relating to: macro-economic instability; weak policy, institutional, governance environments; unacceptable levels of fiduciary risk; the absence of enabling conditions, such as a PRS. Of the 34 countries classified by the World Bank as LICUS in 2004, 8 had iPRSPs, 7 had full PRSPs, 10 had PRGFs, and one country had reached HIPC decision point.<sup>24</sup> The IMF has a facility to provide emergency assistance for post-conflict countries. Arrears clearance, paid directly to international financial institutions (IFIs), can also help those fragile states in arrears to access larger-scale concessional financing. DFID paid £12 in arrears clearance to support Afghanistan's reengagement with the IFIs.

In countries where there is little political will to invest in and account for pro-poor expenditure, **budget support** instruments will remain inappropriate. However, in countries of 'low-capacity / high will', budget support has been provided, specifically in two kinds of circumstances:

- (i) Budget support via Trust Funds in the early stages of state formation
  - In **Afghanistan**, £395 million has been committed to the Afghanistan Reconstruction Trust Fund (ARTF) for 2004/5; the ARTF has become the instrument of preference for donors and government, helping to insulate fiduciary risk but build government systems.
  - The multi-donor 'Capacity Building Support Fund' for the nascent administration in **South Sudan** covers recurrent costs of teachers, health workers and administrative staff; it has many of the properties of budget support, but in the absence of formal 'government' systems (this has been called 'quasi budget support').
  - In **Timor-Leste**, the multi-donor Transition Support Programme (TSP), which included general budget support, established a basic framework for service delivery and institution-building at the early stages of state formation.
- (ii) Budget Support, direct to government, in post-conflict countries with new regimes

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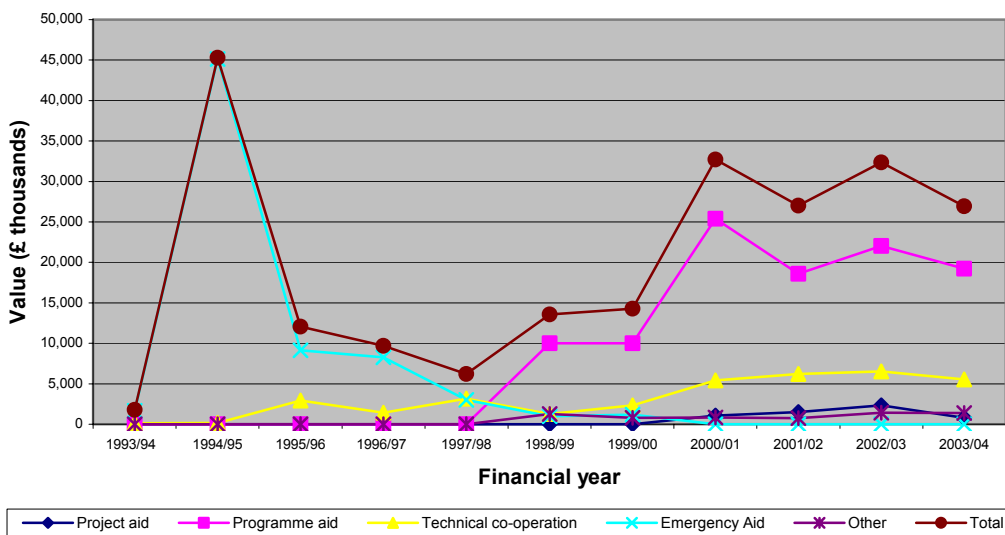
<sup>24</sup> 'PRS in LICUS, Phase 1 Report: Progress & Literature Review', Nigel Thornton & Marcus Cox, 2004. While debt relief is critical in reducing the government's future obligations, it will only impact public expenditure in the short-term if the government is servicing the debt. HIPC debt relief to Rwanda and Sierra Leone has had a positive impact, resulting in increases in pro-poor expenditure (IMF tracking of poverty reducing public expenditure in HIPC's).

- In post-conflict **Sierra Leone** and **Rwanda** (see textbox), DFID adopted high risk strategies, moving quickly into instruments supporting government systems. The early shift to programme aid – combined with large increases in technical cooperation funding – enabled Sierra Leone and Rwanda to improve macro-economic stability, to rebuild institutions, to plan and prioritise public expenditure, and to meet key recurrent costs to support basic services. Traditional ‘post-emergency’ instruments may arguably not have been able to meet these broader objectives. In Sierra Leone, DFID provision of budget support during the conflict arguably contributed to economic stability and post-conflict recovery.

### UK aid to Rwanda – programme aid in a post-conflict context

UK aid to Rwanda is a notable exception to the trend for overall aid to decline in the second 4-5 year period after a conflict (‘post-emergency; pre-development’). UK aid to Rwanda peaked at £45m in 1994/95. This was almost entirely emergency aid. It fell to a low of under £6m 4 years after the conflict. However in the period 1997/98 to 2000/01, UK aid rose from under £6m to £33m, primarily through increases in **programme aid**. The provision of budget support is considered as ‘high risk’, due to (i) weaknesses in financial management, and (ii) controversy over Rwanda’s political transition and its influence over events in neighbouring DRC. These risks have been mitigated through securing government commitment to improvements financial management (supported by technical assistance, and monitored through regular fiduciary assessments), and through policy dialogue.

UK aid to Rwanda (1993/94 to 2003/04)



### Pros and Cons

Programme aid instruments can help fragile states free up a larger portion of the budget for discretionary pro-poor expenditure. The conventional arguments in favour of budget support are equally relevant to fragile states.

The expected benefits of budget support (over projectised support) in the short-term include reduced transaction costs, improved government ownership, improved policy coherence, and a more rational allocation of expenditures. In the medium-term, it is hoped that budget support may result in increased predictability of aid flows and greater accountability of the state to its citizens. At present, however, there is little evidence to support these expected benefits. In 'high will' scenarios, budget support instruments (whether direct or via a Trust Fund), combined with technical assistance, are potentially a useful way to establish or sustain basic services and to build institutional capacity. In 'low will' scenarios, however, projects and externally-managed pooled funding arrangements will be preferable to budget support.

## **Design issues**

Whether in 'high will' or 'low will' situations, high level of fiduciary risks in fragile states will require special attention, and may also mean that donors need to be prepared to accept a higher level of risk. Trust Funds provide one model of reducing risk in fragile states.

Consideration should be given to reducing the conditions for accessing budget support (such as the requirement of a PRS), and to speed up the 'graduation' from projectised to budget support. In post-conflict countries particularly, an accelerated transition to budget support instruments can help transfer resources quickly in the critical post-emergency-aid period, supporting government systems. Research on post-conflict countries suggests that growth peaks in the second four-year period after conflict, but, perversely, that this period is typically where external funding reduces.<sup>25</sup> (UK aid to Rwanda provides a notable exception).

Sector budget support may have advantages over other forms of programme aid: (i) sector budget support can be used even if overall policy, budgetary and institutional frameworks are considered sub-optimal, provided that sector frameworks are viable, therefore isolating and reducing risk (ii) sector budget support may be used to cover key recurrent supply-side costs (e.g. salaries for teachers and health workers, school textbooks, essential medicines) that may complement demand-side financing provided through social funds and other instruments (iii) sector budget support may be used as a pilot and precursor to general budget support.<sup>26</sup>

Budget support is also likely to be a blunter instrument than projectised support. This may mean that a combination of instruments is preferable, including instruments that target specific geographical areas and population groups.

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<sup>25</sup> 'Aid, Policy and Growth in Post-Conflict Societies', Paul Collier & Anke Hoeffler, 2002

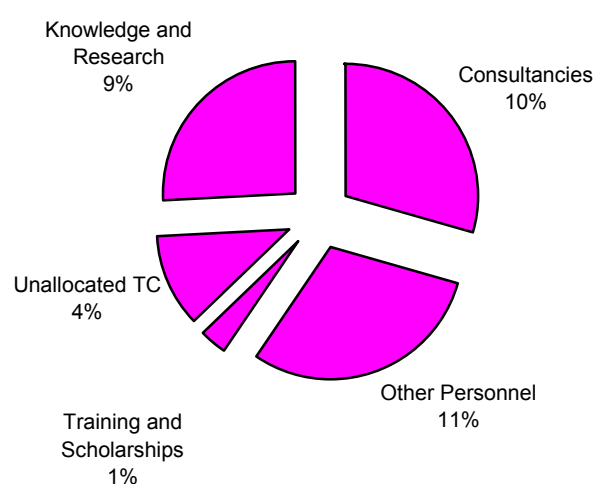
<sup>26</sup> There is also evidence to suggest that in post-conflict societies, social policies become increasingly important, relative to macro-economic policies (although donor priorities have historically prioritized the latter). Collier and Hoeffler conclude that in post-conflict countries, social policies and sectoral policies should be prioritised over macro-economic policies.



### 3.3 Technical Cooperation

#### Description and statistics

Technical Cooperation (TC), or Technical Assistance, is the provision of advice and/or skills, in the form of specialist personnel, training and scholarship, grants for research and associated costs. It covers a broad range of activities. It is therefore difficult to consider TC as a single 'instrument'. TC accounts for over a quarter of global official development assistance. Global TC flows peaked in 1994 at around US\$16 billion, and have since fallen back. Nearly three quarters of bilateral TC is provided by the USA, Japan, Germany and France.<sup>27</sup> TC accounted for 35% of DFID bilateral aid in 2003/04, and 28% of total DAC aid to developing countries in 2003.



**DFID bilateral aid in 2003/04 – breakdown of Technical Cooperation (35%), (Source: 'DFID Statistics on International Development 99/00 – 03/04', 2004)**

TC can take two forms (i) investment related TC, related to a project (ii) stand-alone TC. In recent years, TC's effectiveness has been increasingly challenged. Most TC is still accountable to and procured by donors rather than partner countries. The emerging paradigm, however, is for developing country governments to procure and managing advisory services themselves, preferably through pooled TA accounts, and preferably on budget. Such arrangements usually require reasonably functioning government systems.<sup>28</sup> The absence of a stable or credible government in many fragile states means that TC is typically managed by external agencies. Externally managed TC can be harmonised through pooled TC funds. To varying degrees, it can also be aligned (or shadow aligned) to support the systems and develop the capacity of government.

<sup>27</sup> 'A Vision for the Future of Technical Assistance in the International Development System', Gareth Williams, Stephen Jones, Val Imber & Astrid Cox (Oxford Policy Management), 2003.

<sup>28</sup> See e.g. 'The Pooling of Technical Assistance: An Overview based on Field Research Experience in Six African Countries', Heather Baser & Peter Morgan, 2001; 'A Vision for the Future of Technical Assistance in the International Development System', Gareth Williams, Stephen Jones, Val Imber & Astrid Cox (Oxford Policy Management), 2003.

TC accounted for 14% of UK bilateral aid to FY05 LICUS countries in 2003/04 (against 35% for all countries), and 24% to the same countries over the period 1993/94 to 2003/04. Countries affected by conflict average around 20%. In conflict-affected countries where development partnerships are weak, TC is the natural corollary for emergency aid, with the two sometimes accounting for over 90% of the portfolio.<sup>29</sup> In post-conflict countries where more effective government-donor partnerships have developed, TC also averages 20%. However, the balance of the portfolio is typically much more diversified.<sup>30</sup>

The highest proportion of TC in DFID's aid to LICUS countries is seen in countries characterised by high corruption, poor governance and difficult government-donor relationships; e.g. for 2003-04, Nigeria (76%), Georgia (52%), Cambodia (51%). In these countries, 'influencing' and 'knowledge generation' are seen by DFID as key development strategies, with TC as a significant channel for resources. This reflects a use of more 'projectised' instruments, outside of government management.

The World Bank Group LICUS strategy also foresees a strong role for TC, proposing that in LICUS countries, 'knowledge-based' instruments may be more appropriate and significant than lending operations.<sup>31</sup>

## **Pros & Cons**

TC is likely to remain a key aid instrument in fragile states to help build human and institutional capacity, particularly when used in conjunction with other instruments. This may apply particularly to building basic state functions, such as policy and budget formulation, and public financial management. In post-conflict situations such as Afghanistan and Timor Leste, where state institutions may need to be entirely re-constituted or built for the first time, human and institutional capacity can be built in non-state institutions, with a view to transferring to state institutions as they are built up. TC can also be used to strengthen non-governmental organisations and the private sector. The World Bank LICUS strategy points to the potential of the Bank's private sector financing arm – the International Finance Corporation – to help build small and medium enterprises through TC attached to small financing packages.

However, TC also has the potential to seriously undermine state functions. A World Bank evaluation in Cambodia noted that annual funding for technical assistance by donors in Cambodia exceeded the government's budget for civil

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<sup>29</sup> From 1993/94 to 2003/04, UK aid to Liberia was dominated by emergency aid (73%) and TC (19%). The same pattern can be seen for Somalia: emergency aid (74%) and TC (18%).

<sup>30</sup> See e.g. Sierra Leone, Mozambique, Rwanda, Ethiopia, where a wider range of instruments have been used.

<sup>31</sup> 'World Bank Group work in Low-Income Countries Under Stress: a Task Force Report', World Bank Group, 2002

service salaries.<sup>32</sup> Pooling TA funds, preferably under government management, can be one answer to this problem, helping to rationalise the quantity and functions of TA. A recent ODI report suggests that a more fundamental reform of TA is needed, calling into question the efficacy, costs, management arrangements and internal incentives of Western technical assistance provider.<sup>33</sup> The report also recommends finding better mechanisms for 'South-South' learning from countries that have managed successful transformations.

The emerging empirical evidence on TC also questions the circumstances in which TC is effective in helping fragile states to achieve 'turnaround'. Recent research has suggested that TC has little impact if there is no prior political commitment, and no demand for it.<sup>34</sup> Chauvet and Collier confirm this finding, questioning the conventional LICUS strategy, and particularly the effectiveness of TC in leveraging reform.<sup>35</sup> They conclude that technical assistance is only useful when it is provided to governments that want and need to use it, but that under these circumstances, it can be very useful.

**Results of regression analysis to determine the impact of technical assistance and other kinds of aid on improving policies and institutions in LICUS countries**

"Technical assistance has no discernable effect until after a turnaround has clearly begun. Before that it appears to be a waste: it is not a precondition for reform. However, once there are clear signs that the government has itself embarked upon a turnaround, rapid technical assistance is a highly effective form of aid, increasing the chances that the incipient reform will progress to a substantial and sustained improvement and reducing the chances of relapse. But technical assistance can be excessive and it can continue for too long. Around 4% of GDP appears to be the right amount of technical assistance in early reform environments, although this will obviously have to be nuanced by the particular circumstances. If the incipient reform does not progress towards a sustained turnaround after around a decade, the case for continued technical assistance is weakened, although it still plays some role in averting complete relapse."

*Source: 'Development Effectiveness in Fragile States: Spillovers and Turnarounds', Lisa Chauvet & Paul Collier, December 2004*

## **Design issues**

The following design considerations emerge:

- where possible, TC should be pooled, and identified and managed by government;
- the use of more local consultants should be considered, to help build national capacity, and 'South-South' learning mechanisms;

<sup>32</sup> World Bank OED Evaluation quoted in 'PRS in LICUS, Phase 1 Report: Progress & Literature Review', Nigel Thornton & Marcus Cox, 2004

<sup>33</sup> 'Harmonisation and Alignment in Fragile States', draft report by the Overseas Development Institute for the OECD, January 2005

<sup>34</sup> 'Aid and Reform in Africa- lessons from ten case studies', World Bank Group, 2001

<sup>35</sup> 'Development Effectiveness in Fragile States: Spillovers and Turnarounds', Lisa Chauvet & Paul Collier, December 2004

- donors should not expect TC to influence changes in policies and institutions;
- donors should react rapidly with TC for countries demonstrating political progress;
- the supply of TC should be organized by donor agencies in such a way as to be highly responsive to changes in development circumstances;
- the evaluation of technical assistance needs to take into account that it is intrinsically a high risk investment, characterised by frequent failure, but occasional high returns.

### 3.4 Projects

#### Description and statistics

'Project or sector aid' accounted for 23% of UK aid to LICUS countries in 2003/2004, compared to 14% for UK bilateral countries excluding LICUS. The nature and design of projects vary greatly, and definitions are not consistent.<sup>36</sup> For the purposes of this paper, 'projects' are defined in opposition to budget support instruments, as externally financed discrete interventions, with some degree of removal from government systems and management. Projects are often seen as the default instrument in fragile states:

Projects may be the only way to provide support to poor populations unfortunate enough to live within weak policy and institutional environments.<sup>37</sup>

Degrees of alignment to national and local government systems are almost infinitely variable, and projects can be adjusted to accommodate different contexts and different development objectives.

- Projects offer a way of working in difficult development partnerships, to provide access to public goods: the Social Marketing of Insecticide Treated Nets<sup>38</sup> in **Kenya** is a project implemented by Population Services International (PSI), designed to increase the use of ITNs among pregnant women and children under 5. At the time of project approval, UK relationships with the Government of Kenya were poor, and social marketing was seen an effective way of increasing the coverage of a public good without subsidising a non-reforming government. The social marketing approach also supported the national malaria strategy without putting extra pressure on an already over stretched health system.

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<sup>36</sup> Even within DFID, interpretations of what constitutes a 'project' are not consistent. The category 'project or sector aid' can comprise both conventional projects (excluding technical cooperation) and sector budget support (including, in this case, technical cooperation).

<sup>37</sup> 'The Choice of Financial Aid Instruments', Mick Foster and Jennifer Leavy, ODI, 2001

<sup>38</sup> Marilyn Mc Donagh Health Adviser, DFID Kenya, October 2004; 'Improving the Development Response in Fragile States: Lessons from DFID Experience', DFID, December 2004

- Projects can work effectively with weak governments, to compensate for low capacity: In **Somalia**, the World Bank has partnered with the Red Cross and local health authorities in the Community Health Service Recovery Project<sup>39</sup> to address critical gaps in health service coverage. The project has established a network of integrated health clinics, with an explicit strategy to reduce funding over time. The project seeks to reduce dependence on international assistance, while building a system of ‘community-management’, increasingly aligned to national and regional health authorities
- NGO projects can help provide services, working with a range of partners and funding modalities: Working with the Ministry of Health, Marie Stopes Society **Sierra Leone** (MSSSL) provides reproductive health care services including safe motherhood and obstetrics care, basic curative and preventive primary health care services and community health promotion. MSSSL also provides a programme of training for NGO and government health workers, traditional birth attendants and youth educators. MSSSL is an implementing partner in the World Bank funded Sierra Leone HIV/AIDS Response Programme, and will lead two components of the national Global Fund HIV/AIDS programme.
- Projects can work on a regional basis, to influence political relationships: the **South Caucasus** Parliamentary Initiative<sup>40</sup> (SCPI) is a small project with regional political impact. In partnership with a small British NGO (LINKS), international donors have brought together parliamentarians from Armenia, Azerbaijan and Georgia to improve relationships between the three countries. The international community has played an ‘honest broker’ role, providing seed funding to bring previously distrustful governments around the table.
- Projects can also catalyse policy and institutional reforms: In **Mozambique**, the UNCDF Local Development Fund<sup>41</sup> has supported the delivery of locally managed services, and contributed to building accountability in local government. Its spillover effects include convincing government of popular participation, multi-sectoral programming, and district-level planning. The model piloted in one province has been encoded in law, for extension to other provinces.

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<sup>39</sup> World Bank LICUS Initiative

(<http://www1.worldbank.org/operations/licus/Innovativeelements>)

<sup>40</sup> Dennis Sammut (LINKS); ‘Improving the Development Response in Fragile States: Lessons from DFID Experience’, DFID, December 2004

<sup>41</sup> ‘Decentralized District Planning and Finance in Nampula Province, Mozambique’, Felix Pius Kulipossa and James Manor, paper commissioned by the WB LICUS Initiative, 2004

## Pros and Cons

Projects can allow donor agencies to work through a range of implementing partners and contracting arrangements. The use of external management agents, as opposed to government institutions and systems, can also help limit fiduciary risk. Project interventions can also be better targeted than, for example, budget support, both geographically and in the scope of services that they finance.

The main argument against projectised support is that it is not sustainable. Projects may produce island of excellence, but can have little longer-term impact, particularly if they are dependent on providers and systems outside of government. Recent empirical research has also questioned the degree to which projects are in fact isolated from poor policies and institutions. Isham and Kaufmann argue that the productivity of projects may be strongly influenced by the quality of policies and institutions<sup>42</sup>.

## Design issues

Foster and Leavy distinguish between three kinds of project aid: (i) projects using government systems, (ii) projects using parallel systems, and (iii) projects using NGO / private providers. A recent ODI report<sup>43</sup> makes a similar distinction between projects that are: (i) 'through budget' (government budgeting and delivery systems), (ii) 'on budget' (government budgeting but alternative delivery mechanisms), and (iii) 'off budget' (alternative budgeting and delivery systems). Degrees of alignment to government systems are typically determined by the extent to which these systems are judged to be legitimate, efficient, effective, and with adequate financial management controls. The choice of implementer, and the degree of alignment to the state, should be determined by these judgements, and the degree to which state-building is an explicit objective in the short- or medium-term. Discrete bilateral projects are increasingly giving way to co-financed and pooled arrangements, as a means to reduce transaction costs, expand coverage, and potentially increase government oversight. Joint programmes and pooled funding arrangements are explored later in this paper.

## 3.5 Social funds

### Description and data

Social funds originated in the late 1980s as a emergency measures to alleviate the impact of structural adjustment programmes and economic shock, but have since evolved in many directions and the term now covers a

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<sup>42</sup> 'The forgotten rationale for policy reform: the productivity of investment projects', J.Isham and D.Kaufmann, World Bank Policy Research Working Paper no. 1549, 1995

<sup>43</sup> 'Harmonisation and Alignment in Fragile States', draft report by the Overseas Development Institute for the OECD, January 2005

wide variety of designs.<sup>44</sup> They range from social assistance projects to the provision of block grants to communities to be spent on micro-projects selected by the community, but which have to meet certain criteria (both process criteria, and design criteria). Social funds are growing in popularity generally,<sup>45</sup> and are increasingly being used in fragile state contexts, in particular post-conflict as part of a broader reconstruction strategy.<sup>46</sup> There have been few formal evaluations of social funds in fragile states, but the results of a number of less formal reviews indicate that they can be a useful instrument in fragile state contexts, and deserve wider attention.<sup>47</sup>

## Pros and cons

Advantages of the approach that can make them appropriate in the context of fragile states are:

- They can be effective mechanisms for delivering small-scale infrastructure and because they are demand-driven can promote both allocative efficiency and sustainability.
- They can help form or reform relationships between families and communities and communities and local government to make both local government and local community structures more efficient, participatory and democratic.
- They can help enhance state legitimacy, in that grants are seen as coming from the state. In particular as entitlements are the same nationwide, and not dependent on local NGO decision-making as often occurs.
- They can cope with a wide variety of village contexts, important in, for example, post-conflict.
- They offer a coherent framework for national coordination of donors, even though they work very locally, in contexts where donors are often uncoordinated and prone to using parallel structures.
- They can stimulate the private sector, which can be important especially post-conflict.
- And as national programmes they can absorb quite large budgets in areas where donors often consider it is hard to spend money.

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<sup>44</sup> See 'Social funds: an effective to support local action for poverty reduction?' de Haan, A, Holland, J, Kanji, N, *Journal of International Development* Volume 14, Issue 5, Date: July 2002, Pages: 643-652 for a review.

<sup>45</sup> There are no figures for DFID contributions to social funds, but the World Bank increased funding from USD2.4bn for 66 projects in 42 countries at the end of 1999 to USD3.5bn for 98 projects in 58 countries by May 2001 [source].

<sup>46</sup> See for example what the World Bank calls 'Community-Driven Reconstruction'

<sup>47</sup> This section draws on a number of sources, in particular 'Community Driven Reconstruction as an instrument of war to peace transition', Cliffe, Gugenheim and Kostner, World Bank, 2003; a series of unpublished case studies commissioned by the LICUS unit of the World Bank under the banner of 'Making aid work in fragile states', including studies of social fund-type programmes in Cambodia, Uganda, Afghanistan, Mozambique, and Sierra Leone; DFID experience of the Social Fund for Development in Yemen, see 'Improving the development response in difficult environments: lessons from DFID experience', PRDE Working Paper 4; and 'From subjects to citizens', Besen, I, Afghanistan Research and Evaluation Unit, Kabul, 2004, a study of the NSP in Afghanistan.

There are of course a number of risks associated with social funds in fragile state contexts:

- **elite capture and diversion**, can be a particular risk if communities are weak or divided;
- the potential for undermining the state by the creation of **parallel structures** is a common objection of social funds;
- a number of social funds started of life as smaller, local projects that have been scaled up to a national or regional level. **Scaling-up** has presented a number of problems, in particular finding the right number of qualified staff to facilitate at the local level;
- in some circumstances, it has been argued that social funds are too **politicised** and are in effect an election tool for particular party and have been intended to generate support for that party as opposed to legitimate the state or build local governance;
- being excessively **donor driven** and focused on project outputs and not governance outcomes is also a failing some have observed.

## Design issues

There is a wide variety of project design, variables and issues include:

- **The nature of community governance:** Some sort of community council is common with social funds. How this is elected depends on what is possible in local context, with possibilities ranging from secret ballot elections, as in the NSP in Afghanistan, to specifying stakeholder groups. Community councils are sometimes part of formal government structures, or are informal, but have links to local government structures.
- **The relationship with government structures:** This is a key design issue, at both central and local level, and will depend in great part on the will and capacity of government to engage in poverty reduction and to permit a degree of devolving of authority to communities. Various configurations are possible; in the NSP in Afghanistan the Ministry of Rural Rehabilitation and Development contracts out programme oversight to an international organisation, who then contracts NGOs as facilitating partners. In Sierra Leone a commission separate from government was established, in effect a kind of large PIU, to avoid corruption and inefficacy. The Selia programme in Cambodia is run through government, but is off-budget. It is particularly important that local government has a role to ensure that, at a minimum, officials do not block the programme. More positively, officials can also promote and protect a programme. A stronger role for local government can reduce the danger of creating parallel structures, but on the other hand can also reduce the scope for real participation by communities.
- **The need for basic conditions to be in place:** social funds have been successfully implemented in the most unpromising of circumstances



such as Afghanistan and northern Uganda. However, there are probably some minimum conditions that need to be in place, in particular security and some kind of identifiable, territorially-based community are necessary. If basic administrative infrastructure, such as a payments system, is not in place, implementation will be slow.

One of most attractive features of social funds seems to be the combination of a strong, simple, central concept, with a high degree of design flexibility that allows adaptation to local context; many social funds in fragile states have evolved through several stages of learning and re-design.

Social funds can thus play a role in meeting **immediate needs**, especially reconstruction needs post -conflict, primarily because they are demand driven. However they are probably not as rapid a mechanism as humanitarian action. In terms of **developing capacity and systems**, sensitive design can minimise the danger of parallel structures, but in cases where existing systems are very weak or hostile, parallel systems can in fact be useful. They can also contribute to improved local participation and governance. And in that they use pooled funding, they can promote **donor harmonisation**.

#### **The National Solidarity Programme in Afghanistan**

Two decades of war in Afghanistan has left most infrastructure in ruins and local governance structures dominated by local commanders. The removal of the Taliban and the political settlement reached at Bonn in January 2002 meant that reformers took control of some key ministries. Though political will for poverty reduction was thus high in some parts of government, and the removal of the Taliban unleashed a wave of optimism throughout the country, government capacity was very limited. The National Solidarity Programme (NSP), was designed as a key part of the reconstruction process. Through a facilitated local institution building process and cash grants directly to communities from government, it is intended to assist communities rebuild assets, promote better community governance, and provide a new model of the relationship between state and citizen.

Communities elect a community development council (CDC) through secret ballots. The community is then responsible for designing and implementing projects, for which each community receives training on procurement and financial procedures and then a block grant, based on population size but with an upper limit \$60,000. The programme is managed by an oversight consultant contracted by the Ministry of Rural Rehabilitation and Development. Work at community level is undertaken by facilitating partners under contract to the ministry. Donors contribute to the programme as a whole.

The programme is fairly new so evaluation is tentative, but early findings are that the NSP has dramatically raised the amount of money spent by communities on reconstruction, it has contributed to changing village perspectives on the central state, the CDCs are widely seen as legitimate and democratic local governance structures that offer a viable alternative to the commanders, and in many places have facilitated better involvement for women in decision-making.

### **3.6 Joint programmes and pooled funding**

An evolving and as yet fairly undefined and unexamined 'instrument' is the use of pooled or basket funding for single, but often national, projects,

programmes or agencies. The joint programme on HIV/AIDS in Burma is a good example, as are the basket funding of NGOs in Zimbabwe or the National Priority Programmes Afghanistan.

The Joint programme to tackle HIV/AIDS in Burma operates as a national programme, with the participation of government and funding from a number of donors, despite generally hostile relations between Burma and the international community. It also brings many other actors NGO and civil society, to the table. The UN plays a key role as a kind of neutral intermediary between donors and government and administers the fund. The fund is used to support projects submitted by NGOs, government and private sector.

#### **Joint programme for HIV/AIDS: Myanmar 2003-2005**

The joint programme for HIV/AIDS in Myanmar provides a coordination framework for all development stakeholders (state and non state) working on HIV/AIDS in Burma, including the National Aids Programme and several other government departments. A multi-donor fund (the FHAM) has been established to finance projects identified by the joint programme. UNAIDS and UNDP play a key role in coordinating and managing the joint programme and the fund. The joint programme and the FHAM have attracted an increased level of resources, they have been efficient at disbursement (70-75% of 7 million spent in the first year) and have made possible a national response at scale. **The following lessons can be drawn:**

- the UN has a comparative co-ordinating advantage in situations where bilaterals cannot work directly with government as it is seen as a legitimate interlocutor by all parties;
- continuous dialogue with government is important, but it does not guarantee policy change in key enabling areas;
- alternative structures for overseeing service delivery are fragile and liable to collapse if strong leadership is not maintained;
- major new funding early on is essential to fuel momentum;
- corodination is a challenge as it may be difficult to convince non-state implementing partners that a joint programme is in their best interests.

The National Priority Programmes (NPPs) in Afghanistan, by contrast, operate in a context of generally good donor/government relations, clear government leadership, but weak government capacity. The twelve NPPs offer donors a way to pool money in government priority programmes. The National Emergency Employment Programme, for example, is controlled by the Ministry for Rural Rehabilitation and Development, but managed by a special programme implementation unit staffed by internationals and Afghans paid considerably more than the normal civil service salaries. It is implemented around the country by NGOs and private sector engineering firms. Such an approach can obviously suffer from the drawbacks commonly associated with project implementation units in other contexts; however in fragile states contexts where capacity is very weak, this may be an acceptable risk to take.

Pooled funds and joint programmes are innovations that can offer donors the advantages of national strategies and approaches, but localised

implementation. As the Burma and Afghanistan examples show, they can be positioned closer or further away from government structures depending on context. They offer opportunities to increase donor harmonisation and in the long-term may be easier to be absorbed into government policy and structures than collections of projects as often characterise, for example the health sector in humanitarian situations.

### 3.7 Multi-donor trust funds

#### Description and data

There are a wide variety of trust funds in use; there are three broad categories of MDTFs that have been used in fragile states:

- Funds for post-conflict reconstruction,<sup>48</sup>
- Funds for humanitarian response,<sup>49</sup>
- And funds for security sector reform.<sup>50</sup>

Most trust funds are country specific, but some are global (e.g. the Central Emergency Reserve Fund), and some regional (e.g. the Great Lakes DDR programme). Details of governance arrangements vary, but typically involve an administrator, usually the World Bank, OCHA or UNDP, and a supervisory council of donors.

Trust funds are less well developed in the humanitarian phase,<sup>51</sup> but are receiving growing interest as well as a mechanism for improving coordination and ensuring, better resource allocation, and better funding according to need, a key commitment of the Good Humanitarian Donorship initiative.

#### Pros and cons

There is increasing interest in MDTFs as they can:

- **raise money:** The Afghanistan Reconstruction Trust funds for example, has gone from \$185 million in 2002 to \$395 for 2004. However, to be attractive to donors, funds need to be able to balance allowing donors to claim their funds are going to things they approve and the precluding strict earmarking

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<sup>48</sup> Post-conflict MDTFs have been established for the West Bank and Gaza, Bosnia, Kosovo, East Timor and Afghanistan, Iraq. And most recently for Sudan??

<sup>49</sup> Emergency trust funds have been set up by OCHA for Angola and DRC. OCHA also manages a global facility intended to speed up response of UN agencies, the Central Emergency Reserve Fund (CERF), but this requires agencies to reimburse funds after they have received money from donors.

<sup>50</sup> Security sector MDTFs include for example the financing of DDR programmes as in Sierra Leone and the multi-country DDR fund for the Great Lakes, and the UNDP managed Law and Order Trust Fund for Afghanistan that paid for police salaries and equipment.

<sup>51</sup> But see speech by the Secretary of State to ODI, London, 15 December, 2004 for proposals for an OCHA-managed joint fund.

- **coordinate donors:** Funds can improve donors coordination and harmonisation behind a government plan or budget, allowing government priorities and plans to lead decision-making
- ensure **more equitable and efficient resource allocation:** Funds can be useful in ensuring that less attractive projects or areas are financed. They can also promote more predictability of funding for recipient government recurrent expenses.
- **reduce transaction costs:** A single fund with a single set of reporting and procurement procedures can considerably reduce transaction costs on both weak post-conflict governments and in emergency situations where the alternative is multiple negotiations between agencies and bilateral donors.

There are some shortcomings with trust funds;

- the most common criticism is **slow disbursement**. DFID has withdrawn money from the Sierra Leone and Great Lakes MTDFs.<sup>52</sup>
- some donors have legal problems that restrict their ability to pool funds in trust funds as they do not allow **sufficient earmarking** and thus enable them to demonstrate accountability to domestic constituencies.

## Design issues

For reconstruction trust funds a recent World Bank review<sup>53</sup> concluded, inter alia, that the key strategic criteria for a trust fund to fulfil its executive function are;

- An agreed programme of reconstruction activities,
- Ownership by both government and donors,
- Transparency,
- Citizens voice.

A realistic and comprehensive government budget is the best way of meeting these criteria. The review also concluded that an MDTF can cover most civil in expenditure, including salaries and pensions, operations and maintenance, non -project TC, and investments except very large flagship projects, and that there should be a presumption in favour of an umbrella fund as opposed to specific ones. It also recommended that an agent should be hired to verify payments and transactions to minimise fiduciary risk.

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<sup>52</sup> Mansfield – check.

<sup>53</sup> ‘Financing and Aid Management Arrangements in Post-Conflict situations’. Schiavo-Campo, S, World Bank, June 2003

### 3.8 Global Funds and Partnerships

#### Description and statistics

A **Global Fund or Partnership (GFP)** is an initiative that transcends national boundaries and involves a group of (public / private) participants working towards a specific global development goal. GFPs support a number of functions, including research and development, capacity building, advocacy, technical assistance, and financing. It is estimated that DFID has invested over £900m in 65 GFPs since 1988, with the largest investments being in environment, health, infrastructure and education.<sup>54</sup> GFPs can be classified according to four primary objectives:

- to enhance the performance of national sector programmes in order to deliver national development goals (e.g. Education Fast Track Initiative; Global Environment Facility);
- to attract, manage and disburse additional finance such as private sector funds to increase levels of aid in pursuit of the MDGs (e.g. Global Fund for Aids, TB and Malaria; Business Link Challenge Fund);
- to generate new strategic thinking and advocacy to achieve the MDGs (e.g. Global Water Partnership; Global Health Forum);
- to develop new products and technology to deliver global & national public goods (e.g. Consultative Group on International Agricultural Research; Medicines for Malaria Venture).

It is difficult to reach general conclusions about GFPs, due to the diversity of their structures and functions. However, they have the potential to:

- (i) generate global public goods;
- (ii) maintain service delivery in the absence of credible government channels;
- (iii) channel resources to 'donor orphans';
- (iv) provide a platform for working in politically difficult environments.<sup>55</sup>

A recent evaluation of health GFPs in **Sierra Leone** concluded that the seven active health GFPs have provided indeed additional funding, but that their effectiveness is limited by the structural weaknesses of the national health system.<sup>56</sup> Transaction costs, including additional reporting, are also high. The evaluation recommends streamlining country coordination mechanisms, increasing levels of technical assistance, and complimenting GFP assistance with health system strengthening.

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<sup>54</sup> 'Global Funds & Partnerships – Mapping Exercise Report', Performance Assessment Resource Centre, September 2004.

<sup>55</sup> [experience from the Global Fund to fight AIDS, TB and malaria on how to minimise the risks of working in weak policy environments – Billy Stewart]

<sup>56</sup> 'Global Health Partnerships Assessment, Sierra Leone Country Case Study', Cindy Carlson & Jennifer Sancho, August 2004.

### How might the Education 'Fast Track Initiative' (FTI) support progress towards Education MDGs in Fragile States?

- FTI is a multi-donor global partnership which aims to harmonise donors behind country-led plans, and raise additional resources in support of the education MDGs; FTI includes an 'indicative framework' to assess country sector plans as a quality assurance mechanism.
- FTI includes multiple facilities within the initiative: FTI funding, mainly through bilateral channels for endorsed countries with credible sector plans embedded in PRSPs; Catalytic Fund for countries with credible plans but limited donor support, to accelerate their education progress and galvanize longer-term donor assistance; Education Program Development Fund to help weak countries put together good sector plans.
- FTI can channel financial support through different frameworks and instruments (e.g. trust funds, budget support, projects), decided at the country level through a donor consortium working with government.
- FTI has the potential to increase resources available to fragile states, with the additionality of increased harmonisation, (shadow) alignment, and quality assurance.
- FTI partners are committed to explore options for the expansion of FTI to fragile states in 2005. Initially the Education Program Development Fund is tasked with exploring ways of working in fragile states. The Catalytic Fund will also explore how it can develop the flexibility to disburse funds to countries where government institutions and alternative actors play a central role in education service delivery.

### Pros and Cons

Some GFPs are able to give profile, financing and operational support through targeted vertical programmes. Some may generate global public goods that may be beneficial to fragile states (e.g. vaccines, agricultural research). At the global level, they have the potential – although it is difficult to say if this borne out by evidence – to contribute to a more rational allocation of financing. Perhaps most significantly, their potential lies in channelling relatively large volumes of financing through different disbursement mechanisms and providers, including non-state providers<sup>57</sup>.

However the more operational GFPs also have the potential to distort national priorities, increase transaction costs, and create separate planning, financing and delivery channels. Their appropriateness for fragile states will depend on their function and use, and the instruments through which they disburse at the country level.

### Design issues

Attention should be given to ensuring that:

- GFP priorities are indeed the priorities of the state or country with whom they are working;
- GFPs do not create large additional transaction costs, through, for example, parallel management and procurement systems;
- GFPs are flexible enough to join pooled funding and implementation arrangements, and to use appropriate providers.
- GFPs are able to align to state systems, where appropriate.

<sup>57</sup> E.g. the Global Fund for Aids, TB & Malaria channels large amounts of money through NGOs.

DFID is currently reviewing GFPs, with a view to producing guidelines for engagement in 2005.<sup>58</sup>

### **3.9 Humanitarian assistance**

#### **Description and data**

Humanitarian assistance is a popular instrument in fragile states, for DFID and for other donors. But it is different from other instruments in that it is more a way of working, in that it has a specific limited set of objectives (usually around life-saving) and its own set of 'humanitarian principles', which are contained in international humanitarian law. From 1999-2001, donors on the DAC allocated about \$5.5bn a year to humanitarian aid, around 10% of ODA. If other sources are included, such as money from western publics to NGOs and aid to post-conflict peace activities, the figure doubles to 10bn. Global humanitarian aid has grown, both in overall terms and as a share of aid.<sup>59</sup> Much of this humanitarian aid goes to fragile states.<sup>60</sup> From the graph in section 2 it can be seen that in 2003/04, humanitarian aid was the single largest DFID instrument in LICUS countries at 34%, whereas the proportion is 11% for non-LICUS countries.

Humanitarian assistance is a popular choice for two broad reasons. Firstly, countries suffering from conflict and bad government are more likely to produce humanitarian disasters, and less likely to respond to them effectively. And secondly, humanitarian aid is often used by donors as a way of bypassing the state in badly governed countries. Indeed some donors deliberately reclassify as humanitarian activities that would in other contexts be development in order to circumvent policies or laws that forbid development work in countries with, for example, bad human rights records.<sup>61</sup> In many circumstances, the distinction between chronic poverty and humanitarian need will always be blurred, but the choice of instrument should not blur the analysis of the nature of poverty.

#### **Pros and cons**

There are two reasons why humanitarian action has a tendency to become the catch-all solution in fragile states.

- Firstly, humanitarian actors are often the only external aid actors present, in particular during high-profile emergencies. Humanitarian agencies are used to working in instability and insecurity and have

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<sup>58</sup> Aid Effectiveness Team and Global Health Partnerships Team.

<sup>59</sup> 'Global Humanitarian Assistance', Development initiatives, p 1, 2003.

<sup>60</sup> For the years 1995-2001, ten countries received just under half of all humanitarian aid: Bosnia-Herzegovina, Palestine Administrative Area, Kosovo, Iraq, Rwanda, Afghanistan, Sudan, Angola, Ethiopia, and Jordan. Source: 'Global Humanitarian Assistance', Development initiatives, 2003.

<sup>61</sup> 'Financing countries in protracted humanitarian crisis: an overview of new instruments and existing aid flows', Randal, J, in 'Beyond the Continuum: the changing role of aid policy in protracted crises', ODI, London, 2004.

developed security and management procedures to minimise risks to staff. Together with donors, agencies have evolved flexible and rapid funding instruments and procedures. Humanitarian agencies can thus often access populations and provide services and social protection when other agencies - government, NGO, or UN - are unable to do so.

- Secondly, in the 'humanitarian principles' of neutrality, impartiality and independence, humanitarian actors have an ethical framework that assists them in navigating the moral minefield of working with or alongside warring, hostile or incapable authorities, state or non-state. This can mean that they are less likely to be co-opted than development actors that tend to assume state legitimacy. The humanitarian principles of neutrality and independence also mean, as pointed out above, that humanitarian agencies will often operate 'around' the state. This provides donors with a means of working in a country without working through or with the government, for example in Afghanistan under the Taliban, or in Zimbabwe currently, where that would be politically unacceptable, even if needs are not strictly 'humanitarian'. The humanitarian approach to health in particular has defined it as a 'neutral' space in which otherwise warring parties can occasionally come to an agreement. The normal paradigm for this is the work of ICRC during conflict, but the HIV/AIDS programme in Burma shows that this 'neutral' characteristic of health interventions can be expanded beyond conflict and can bring donors and an otherwise isolated government to the same table.

However, this largely ad hoc adaptation of the humanitarian instrument to address poverty reduction in fragile states also has significant drawbacks. What is often, in effect, long-term chronic poverty requiring long-term service delivery and social protection is redefined as humanitarian need as that is the instrument being used. Thus in many situations of chronic instability, supposedly rapid response short-term agencies have been providing services for a decade or more. This is unhelpful conceptually and administratively, for the following reasons:

- Humanitarian assistance is often short-term, in culture, staffing, and funding arrangements, whereas poverty reduction in fragile states requires a long-term approach.
- It also tends to be highly projectised, local and difficult to coordinate resulting in a patchwork of service provision and differing entitlements, depending on a series of separate negotiations between individual donors and agencies.
- The humanitarian approach also resists engagement with the state and capacity-building on the grounds that it breaches humanitarian independence and neutrality, whereas a long-term approach to poverty in fragile states requires engagement with the state and in particular capacity-building.
- And the range of instruments that humanitarians habitually use tend to be limited and often commodity driven, whereas a broader, more flexible social protection approach may be more suitable.



The resistance of these issues to resolution is demonstrated by the persistence of calls over the last decade or so for a better-managed 'humanitarian to development' transition. The reason for this obstinacy is that what the seemingly reasonable demand for a smooth transition fails to take into account is that a number of these issues are inherent to the nature of the instrument itself. It is contradictory, for example, to expect an instrument designed to work around the state, and that is frequently used by donors for precisely this reason, to also play a role in state-building.

## Design issues

The design of humanitarian projects is a large issue that can only be dealt with in passing here. But a more effective relationship between humanitarian and development funding will require a recognition of what is negotiable as it were, and what is not. *What* humanitarians do, in terms of local service delivery, providing welfare safety nets etc, can be improved to promote both greater effectiveness and an easier transition. There is nothing inherent to humanitarian action about the use of food aid, for example, and the use of cash-based social protection may be both more efficient for poverty reduction and more transferable to longer-term, government-run safety nets.<sup>62</sup> *How* humanitarian agencies work however, in particular in terms of their independence from both donors and local administrations, is less susceptible to change, and capacity-building of state systems, for example, will always be something that humanitarian agencies will be wary of with given the principle of neutrality.

The funding of humanitarian action also could be substantially reformed. At the moment the project-based pattern of competition between agencies and multiple donor-agency contracts means much humanitarian response is fragmented and un-strategic. Greater use of pooled funding and more trust funds could enhance response, and ensure it is more impartial, programmatic and strategic.<sup>63</sup> A second issue is the tendency for humanitarian fund raising mechanisms such as the CAP to compete with government-led initiatives post-conflict.<sup>64</sup> The recent proposals by the Secretary of State on reform of the humanitarian system would move the system in this direction.<sup>65</sup>

In short, humanitarian aid is a good instrument for meeting **immediate needs** and to an extent longer-term needs, but much less good at **developing sustainable systems**. It's fragmentary nature and the independence of humanitarian agencies also makes it an instrument that donors find it difficult to align and harmonise behind.

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<sup>62</sup> 'Cash and vouchers – Lessons from recent experience', Draft ODI Discussion paper, 2004

<sup>63</sup> 'What type of funding models best support funding according to need?' Development Initiatives, Oct 2004

<sup>64</sup> 'Harmonisation and Alignment in Fragile States', draft report by the Overseas Development Institute for the OECD, January 2005

<sup>65</sup> Speech by the Secretary of State to ODI, London, 15 December, 2004.

## 4. MEETING DEVELOPMENT OBJECTIVES

This section draws together the conclusions in section 3 about the extent to which the various instruments can meet the four policy objectives laid out in section 2.

### 4.1 Meeting immediate needs and delivering services

The standard model arranges aid instruments in fragile states along a spectrum from relief projects implemented by agencies at one end to budget support to government at the other. The strengths and weaknesses of each are commonly assumed to be as follows:

#### *Relief/projectised aid*

Strengths: flexible, responsive, community-focussed, able to work in insecure environments, can work outside government where government is weak or unwilling, high accountability to donors.

Weaknesses: fragmented, lack of strategy and common analysis, undermines state, makes harmonisation or alignment by donors difficult, high transaction costs, small scale/limited disbursement

#### *Budget support*

Strengths: promotes harmonisation behind government leadership, low transaction costs, very strategic, high disbursement.

Weaknesses: little control over implementation, weak government capacity makes implementation uncertain, high fiduciary risk.

In other words relief projects and budget support are a mirror image of each other in terms of their strengths and weaknesses. But to work better in fragile states, we need instruments that combine the advantages of both, instruments that are specifically designed for use in 'transitions' or 'grey areas', contexts where state capacity and legitimacy is doubtful and changeable. In other words instruments that are strategic in approach, but ensure effective project level implementation, and which promote harmonisation and alignment amongst donors. It is probably more important that instruments in fragile states are average along all three dimensions rather than good at some and bad at others.

Some of the most promising instruments in this respect from recent experience in a number of countries seem to be social funds, CDD approaches, and joint programmes using multi-donor trust funds. This is an ungainly set of instruments without a common name but they seem to be able combine the strengths of both ends of the spectrum. They can take a national approach, based on pooled donor funding, thus enabling a national analysis

and strategy, identical entitlements across a whole country, and donor coordination, but at the project level they have strict rules for grant allocation and project implementation, often based on criteria that ensure high levels of community involvement in project selection and planning, and often rely on contracting out to NGOs and the private sector.

These instruments can be 'positioned' closer to government (for example the Seila programme in Cambodia which is off-budget, but implemented through state structures) or further away (for example the HIV/AIDS programme in Burma which is implemented by largely by NGOs but central government is represented in overall planning) depending on context and the nature of government. They are often in effect parallel systems, but in that they are national they could be moved back to state control more easily than the fragmented project level approach of relief projects. They are similar to the idea of Independent Service Authorities, which is based on the success of Independent Revenue Authorities.<sup>66</sup> Achieving shadow alignment would be easier for this type of programme than for the more usual a projectised approach to social protection. In that they work on a national scale and have multi-donor backing, they can also disburse quite large sums of money compared to the project approach, but as it is through parallel systems implementation can be better controlled.

## **4.2 Building sustainable systems**

Building sustainable systems for poverty reduction in the long-term is particularly difficult in fragile states as this above all other objectives requires at least political will, if not capacity. Objectives must be realistic given difficult and predictable contexts. However, there would seem to be greater opportunities here as well. The experience of direct budget support with weak but committed post conflict regimes in, for example, Afghanistan is broadly positive. Similarly, the provision of technical cooperation in these contexts too has been shown to be effective.<sup>67</sup> MDTFs have been useful as a means for providing DBS, and the idea of a 'Technical Assistance Account' would also provide a means of both promoting greater harmonisation and alignment with weak but committed governments.

In fragile states however, it may be that the least worst option for building systems is to work with non-state actors or instruments that mix state and non-state in innovative ways, CDR programmes for example, can promote local planning and accountability as well as strengthening NGOs and the private sector.

## **4.3 Supporting pro-poor political reform**

Promoting pro-poor political change is perhaps the most difficult objective, but it is still possible. In some contexts some aid instruments can make this task

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<sup>66</sup> 'World Bank Group Work in Low Income countries under stress: A task force report', World Bank, 2002

<sup>67</sup> 'Development Effectiveness in Fragile States: Spillovers and Turnarounds', Lisa Chauvet & Paul Collier, December 2004

more difficult, (e.g. a projectised approach can reduce state-citizen accountability and build parallel systems, budget support can legitimise bad governments, and allow them to spend more on conflict). But some aid instruments can contribute ('drivers of change projects'; South Caucasus example; DBS in Rwanda and Afghanistan strengthening hand of reformist government; project support to 'zero generation' governance and accountability reforms; TC supporting reformers in Uganda).

The choice of instrument needs a sophisticated political economy analysis, donors need to examine how different aid instruments are likely to influence the bargaining process between actors in the country, rather than seeing recipient governments as unitary agents to be manipulated with carrots and sticks.<sup>68</sup> The choice of aid instrument also needs to be part of and coherent with broader strategies (development-diplomatic-security mix). However, there are potential problem if these broader political strategies are not pro-poor.

At the strategic level, there is a need for further work to develop and standardise frameworks such as the TRM that allow joint donor and recipient government planning across all sectors, including political and military, and that can reduce the institutional competition between different actors.

#### **4.4 Good donorship**

One of the primary lessons of the aid effectiveness debate, that the quality of aid matters as much as the quantity, is just as relevant for fragile states, maybe more so. The forces against harmonisation and alignment are often more powerful in fragile states:

- the range and number of instruments and actors (aid and non-aid) is greater than in 'normal' situations,
- some of the instruments used in fragile states mitigate against coordination by their nature (project-level aid and humanitarian aid especially)
- and there is a lack of strong, legitimate government leadership.

But so are the arguments for it:

- Absorptive capacity is low, and is made worse by unharmonised and unpredictable aid, it is even easier to overwhelm a fragile state government than in other circumstances
- political pressure for reform from donor governments requires high levels of coordination to avoid recipients playing governments of against each other,
- as many people are closer to the edge of survival, the costs of failure are higher,

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<sup>68</sup> 'Increasing the effectiveness of aid to poorly performing countries: an issues paper' p7, Background paper for the Africa Commission, McKinnon, 2004.

- and the arguments about transaction costs etc, apply equally to relations between donors and UN/non-state-actors as to between donors and recipient governments.

More importantly, there are greater opportunities for harmonisation and alignment in fragile states than may often be understood, in particular through using the notion of shadow alignment.<sup>69</sup> Achieving this depends in part on the instruments that donors choose to use, and some instruments seem to promote harmonisation and alignment more than others. The various types of pooled funding – MDTFs, social funds and joint national programmes – can all promote harmonisation, and to a lesser extent alignment, whereas project-based and humanitarian aid can play heavily against it. It would also seem that technical cooperation should be more demand driven than is often the case in fragile states, the type of ‘Technical assistance account’ recommended by Collier and Chauvet could provide an opportunity for greater donor harmonisation and alignment behind recipient priorities.

These conclusions can be presented in tabular format thus:

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<sup>69</sup> ‘Harmonisation and Alignment in Fragile States’, draft report for DAC, ODI, 2004.

<b>Instrument</b>		<b>Immediate needs/service delivery</b>	<b>Building sustainable systems</b>	<b>Political reform</b>	<b>Good donorship</b>
<b>Programme aid</b>	Pro	Government has quick access to un-earmarked funds, which it may channel to meet immediate needs, dependent on policy choices and capacity ( <i>ARTF in Afghanistan; TSP in Timor Leste</i> )	More predictable revenue helps government control fiscal policy better; can build capacity and insulate fiduciary risk when channelled through Trust Fund ( <i>e.g. Timor Leste, Afghanistan, Sudan</i> )	Can help legitimise state and political process; better macro economic. stability can lead to better social and political stability	Strong on alignment; potentially strong on harmonisation
	Con	Can be slow, blunt instruments; unlikely to provide quick, targeted, flexible responses to urgent needs; capacity problems.	No guarantee that it will lead to improvements in policies & institutions; fiduciary risk	Government determines use of funds, so unlikely to support other reformers; fungibility (military spending may make conflict worse)	Predictability depends on use of conditionality ( <i>e.g. DFID budget support to Rwanda currently suspended</i> )
<b>Projects</b>	Pro	Can be quick, targeted and flexible.	Can support systems development, particularly when linked to TC	Can help catalyse reform directly; or indirectly through demonstration effects of alternative ways of working	Project aid can be aligned and harmonised, but it may be harder due to excessive external management control
	Con	My be driven by external and national, rather than local, interests	May rely on external management agents; can focus on delivery, rather than long-term institution building	Excessive external influence and control may limit involvement in domestic reform processes	Much project aid is not well aligned or harmonised or long-term
<b>Global Funds</b>	Pro	Can provide additional finance for a range of instruments, including service delivery instruments	Research, advocacy, TC functions may help build systems and capacity; potentially useful demonstration effects of alternative service delivery	Potential to influence political / institutional reform through policy dialogue, advocacy	Some GFPs are being oriented to support country-led approaches ( <i>e.g. FTI, GFATBM</i> )

	Con	Many GFPs not designed for this; earmarking limits flexibility	Risk of creating parallel structures and high transaction costs	Little evidence on supporting political change; most GFPs not designed for this	Risk of creating parallel structures and high transaction costs
<b>Technical cooperation</b>	Pro	May be useful if used with other instruments.	May be very useful to support policies and systems development post 'turnaround'; can play a role in averting 'relapse'.	TC to agencies outside government may support domestic reform.	TC can be provided on-budget, aligned or shadow-aligned; pooled TC funds support harmonisation.
	Con	Designed for advisory services, rather than service delivery.	Recent evidence suggests not effective without government will and commitment; diminishing returns in the mid- to long-term.	Unlikely to help catalyse change within government; not effective without government will and commitment.	Frequently donor-driven; may be unpredictable.
<b>Multi-donor trust funds</b>	Pro	Could be used to promote rapid, more coordinated response	Can be focus for DBS, with supervision and TC to reduce risk and promote capacity building	Widely used for DDR.	Promotes harmonisation, and maybe alignment or shadow alignment
	Con	Fear that too slow and cumbersome			
<b>Social funds, CDD</b>	Pro	Demand driven means meet community needs	Can strengthen local participation and planning	Can promote local accountability	Pooled funding promotes harmonisation. If outcomes government priority can promote alignment
	Con	Can be slow, requires facilitation, and existing community	Can lead to parallel structures	Elite capture could reinforce local power holders	
<b>Humanitarian aid</b>	Pro	Rapid, good access, can work around state, can secure 'neutral' space	Can support state institutions	Not usually relevant	Pooled fund under OCHA could enhance harmonisation
	Con	Short-term focus, commodity-driven	Often parallel structures, un-strategic, uncoordinated, not sustainable	Not usually relevant	Project focus and competitive fund-raising can encourage or justify lack of harmonisation
<b>Joint programmes</b>	Pro	National and strategic approach more possible	Can engage with gvt, or be led by gvt		Promotes harmonisation, and maybe alignment or shadow alignment
	Con	Many stakeholders			

## 5. CONCLUSIONS

This section will first make some comments on the use of the ‘standard model’ for the selection of aid instruments, outlined in section 2 above, present some recommendations as to how the standard approach can be modified, and suggest some changes to donor institutions that could facilitate this.

### 5.1 Problems with the ‘standard model’

To recap, the current ‘standard model’ for the choice of aid instruments in fragile states advises:

- Less money, and for shorter time periods,
- Policy dialogue rather than money,
- Projects rather than budget support
- NGOs rather than state implementers,
- And humanitarian aid and agencies over development.

And assumes that as a state moves along the notional spectrum from ‘fragile state’ to ‘good performer’, there will be a shift from project-based humanitarian aid through NGOs at one end of the spectrum to budget support at the other.

It is hoped that this review of the actual use of instruments has demonstrated that, while this model may be useful as a ‘default’ starting point for discussion, it does not capture the reality of what is actually happening, nor provide a complete picture of the range of possibilities for the creative use of different instruments in fragile states.

For example:

- Budget support can be very useful in some fragile states if sufficient safeguards are put in place (Afghanistan);
- Innovations such as the NPPs in Afghanistan or the joint HIV/AIDS programme in Burma show that it is possible to develop instruments for national service delivery projects in even the most inauspicious of places;
- On the other hand, TC is not much use if there is not a prior political commitment;<sup>70</sup>
- And humanitarian aid may avoid the state but is not suitable for long-term service-delivery or capacity building.

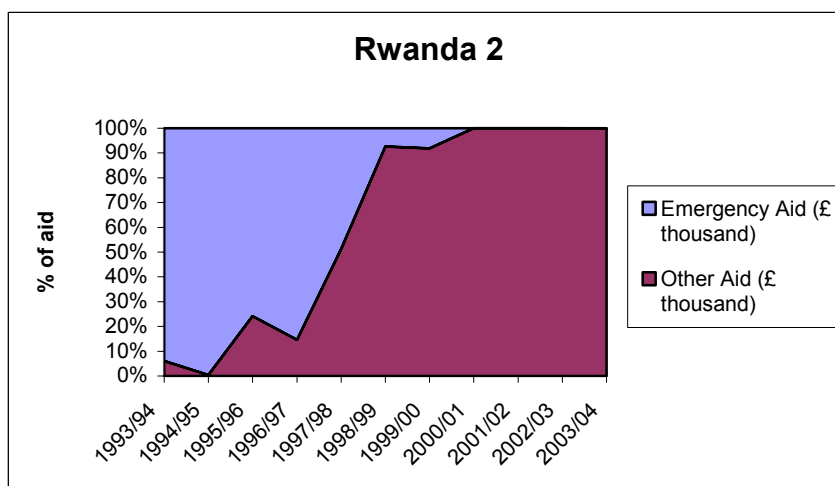
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<sup>70</sup> Ref to ‘Reform in Africa’

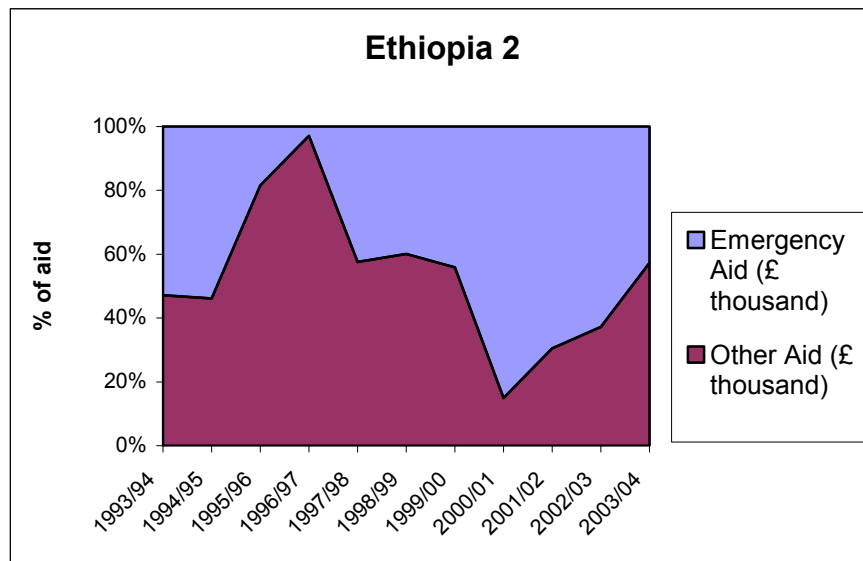


In good performers, the primary motive behind the selection of aid instruments is to support local ownership and strategies for PRS, and the best instrument for this is budget support. But in fragile states because of the complexity of the situation and the multiplicity of objectives there is a much looser association between instruments and objectives. In other words the standard model's 'approved' instruments (humanitarian aid, NGO projects) are not always as useful as they are meant to be, and its 'unapproved' instruments (budget support, social funds) are not as bad. Reality, naturally, is much more complex than the standard model will allow. The reality in fragile states is that donors are likely to be using a large range of instruments all at same time, rather than use a predefined set of instruments that change according to how a state moves along some kind of notional spectrum with different instruments at each end.

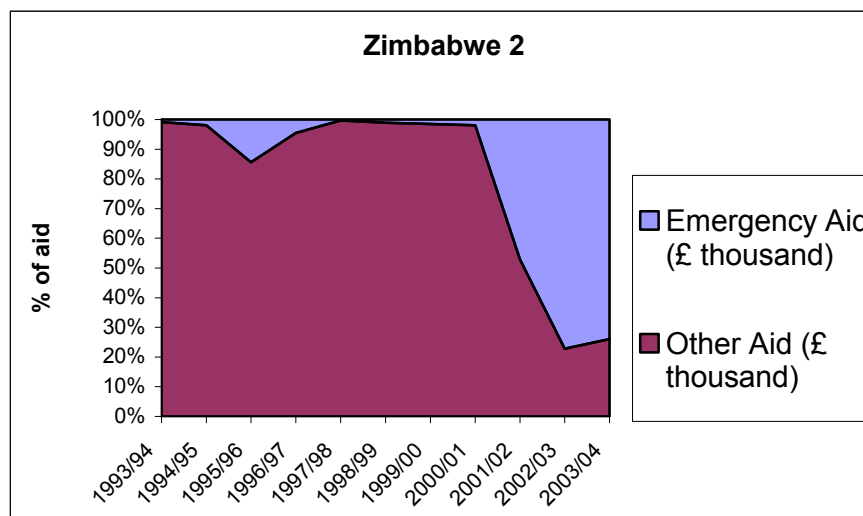
Thus, assuming the proportion of humanitarian aid as a proxy indicator for state capacity and legitimacy, and referring back to the 'standard model' diagram in section 2.1, DFID's experience shows that whereas some fragile states will move along the spectrum in the predicted way:



Others will not:



and some will go 'backwards':



Therefore, in most fragile states, rather than choosing instruments according to their position on a notional continuum of performance, a broad mix of aid instruments will be appropriate. For example, In DRC, DFID's current programme includes supporting immediate needs through humanitarian aid, policy frameworks for poverty reduction through a multi-donor Trust Fund, and political transition through technical assistance to the Ministry of Justice, pooled funding for elections support, and project funding through UNDP to NGOs.

One problem with the standard model is that it is based on the assumption that fragile states are moving simultaneously along three linear processes, each producing a 'gap' or 'transition' or 'grey area'. These are from:

- relief to development,
- poor performer to good performer,
- and war to peace.

These transitions tend to be unhelpfully conflated (e.g. through the use of humanitarian aid as 'state-avoiding' aid, rather than in response to humanitarian need), but they are not in fact the same. And experience shows that change in fragile states is not linear;<sup>71</sup> states can perform well and badly at the same time in different policy areas (Afghanistan), can perform well in some regions and not others (Uganda, Sri Lanka), and can go backwards (Zimbabwe).

Whereas most current instruments and architecture are designed for each end of the various spectrums, the 'grey area' or 'transition' is in fact the predominant focus for intervention. This leads to a tendency to 'bodge' instruments for aims and contexts they were not meant for (humanitarian aid as a means of long-term service delivery, TC as a means of generating support for reforms); not surprisingly, they often fail to deliver. What is needed is a set of instruments and an architecture that is designed specifically for the transition. That this has been the case for some of the CDR projects, social funds and joint programmes backed up by MDTFs discussed above, may account for their relative success.

A second problem with much of the instrument discussion in fragile states is that it is often presented in terms of the ability of the instruments to work 'through' (budget support) or around (humanitarian aid) the state. This dichotomy is over-simplistic and not very helpful. Governments in fragile states are rarely homogenous, and reformers and pro-poor constituencies will exist both within and without the state. Increasing absorptive capacity in weak policy context will require using whatever mechanisms are available, be they government, civil society or private sector, and combining them in an overall programme. This is why many of the most interesting instruments in fragile states in fact rely on a mix of state, civil society and private sector.

Both these ways of thinking are not helpful in the selection of instruments in fragile states. Rather, there is a need for flexibility and to select and design instruments according to objectives and context rather than to preordained notions of suitability; one of the implications of this review of instruments is thus to stop thinking in terms of instruments.

The standard approach also does not reflect recent research and understanding of aid effectiveness. In particular, it does not accommodate the

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<sup>71</sup> 'Aid to poorly performing countries: a critical review of the debates and issues', ODI, 2004

possibility that aid could be a cost-effective means of preventing conflict and further instability, nor the negative consequences of instability for neighbouring countries. It also assumes absorptive capacity is limited to governments, and does not include other actors.

The following table presents the analysis according to the state capacity and will understanding to fragile states used in this paper.

	<b>Capacity, no commitment</b> (Zimbabwe, Burma, North Korea)	<b>Little capacity, no commitment</b> (Taliban Afghanistan, Somalia)	<b>Commitment, little capacity</b> (Post-Bonn Afghanistan, East Timor, Mozambique)	<b>Capacity and commitment</b>
<b>Frameworks</b>	OCHA plan (UN as lead), CAP	OCHA plan (UN as lead), CAP		
			Peace agreements	
		(TRM)	TRM – clear benchmarks for progress	
			(I)PRSP	PRSP
			National Budget as overarching planning and resource allocation tool	National budget
<b>Instruments</b>	Off-budget social protection, joint national progs where possible, usually through NGOs, UN oversight.	Off-budget social protection, joint national progs where possible, usually through NGOs, UN oversight.	Through-budget, long-term social protection, joint national progs gvt where possible, also NGOs and UN. Gvt oversight.	On and through budget development projects
	Humanitarian projects only in response to clear humanitarian need	Humanitarian projects in response to clear humanitarian need	Reduce humanitarian	
	Occasional TC and policy dialogue, focus on few key reforms, support to reformers	Occasional TC and policy dialogue, focus on few key reforms, support to reformers	TC, esp for capacity building and support to key reforms	TC
	OCHA-controlled joint fund. Pooled funding for joint progs.	MDTFs, esp DDR. Pooled funding for joint progs.	MDTFs for reconstruction	
			CDR/social funds	CDD/social funds
			Limited DBS, with strict fiduciary controls	DBS, Debt relief
			Global funds	Global funds
<b>Donorship</b>	Harmonisation and shadow alignment. Good Hum Donor	Harmonisation and shadow alignment. Good Hum Donor	Harmonisation and alignment	Harmonisation and alignment

## 5.2 Emerging lessons

There is still much to do in terms of learning more about the use and selection of aid instruments in fragile states, however from the review above it is possible to point to a few emerging lessons:

*There is no single approach:* Fragile state contexts are too varied, and opportunities too specific; development actors should avoid ‘one size fits all’ proscriptions such as ‘budget support is inappropriate in fragile states’ or ‘civil society organisations are the answer’. Experience in a growing number of cases shows that a focus on context and policy objectives, combined with an imaginative and flexible use of various instruments, can have a significant impact on poverty reduction.

*Risk can be reduced, but not eliminated:* Concerns over state legitimisation and fiduciary risk will continue to be a strong determinant of the choice and balance of aid instruments in fragile states. For this reason, instruments that limit state control and fiduciary risk – such as humanitarian aid, technical cooperation and projects – will remain key. Minimum conditions for budget support will typically not be fulfilled. However, trust funds, pooled funding and social funds are being used in innovative ways that can manage these concerns, and also meet other objectives such as meeting immediate needs, institutional development, and political change. A ‘venture capital’ approach is needed that acknowledges high risk, but high returns. Public communication on aid in fragile states may also need to be reviewed; as aid is inherently more risky in fragile states, more will be ‘lost’ and diverted than in normal contexts, but the returns should be greater in terms of stability and security. Publics in donor countries may need to be convinced that aid with higher risks is not ‘wasted’.

*Think nationally and programmatically, not in terms of projects:* Service delivery and social protection are important as preservers of human capital. But rather than think in terms of ‘scaling up’ from a series of local and projectised approaches, it is important and often possible to think and plan programmatically from the outset, and then work out implementation methodologies. The National Priority Programmes in Afghanistan, for example, are based on national plans, with implementation through government, NGOs and private sector depending on what is available.

*Programme implementation will involve many actors, state and non-state:* Programme implementation will typically involve partnerships between state, UN, civil society and the private sector, not one or the other; this makes them complex, but flexible. It is impossible to avoid the state, and anyway not sensible if the long-term goal is to rebuild it. Programmatic approaches, as above, are more likely to be successfully absorbed by the state in the future than localised and projectised approaches, in particular if programmes are designed with this in mind. As the Burma HIV/AIDS programme shows, it is

possible to engage with the state even in the most inauspicious circumstances.

*Improved coherence requires better frameworks.* Greater coherence between security, development and diplomatic interventions matters, and this will require better and more standardised strategic frameworks. The choice of framework is closely related to the nature of aid instruments and frameworks such as Consolidated Action Plans and Transition Result Action Matrices have been developed to prioritise and plan donor interventions in the absence of developed state planning structures. But frameworks are often too ad hoc, too unrelated, and there is often competition between institutions as they champion different approaches.

*Contrary to convention, the use of aid instruments in fragile states can promote principles of aid effectiveness.* Coordination is no substitute for harmonisation and alignment. A number of instruments, notably multi-donor trust funds and pooled funding for joint programmes, offer opportunities for greater levels of harmonisation, predictability, and where possible alignment, than are currently achieved. The Zimbabwe multi-year Protracted Relief programme, for example, aims to ensure predictability through multi-year funding. Even in the most difficult cases it should be possible to 'shadow align' with state systems, if not government policies.

*Supporting political reform is difficult but possible:* The choice of instruments should be based on broader political strategies and a political economy analysis of potential winners and losers. Budget support through a trust fund in Afghanistan, for example, supported the legitimacy of a weak government after the Taliban and supported the restoration of state systems and capacity development.

*Experiment:* Instruments are developed to meet objectives; SWAPs and budget support have been developed in recent years as more traditional instruments did not deliver on newer policy objectives that stress local ownership. Working in fragile states requires experimentation and flexibility based on local knowledge. Many of the most interesting instruments now being used have evolved through several cycles of reform and adaptation. This requires a long-term commitment, good monitoring and evaluation, money and above all dedicated staff. One way of encouraging the development of new instruments may be to put up the money first, rather than wait for the instruments to be developed. Donor organisations also need to put in place better incentives to attract good quality staff to work on fragile states, and for much longer periods of time.<sup>72</sup> This will ensure the higher levels of experimentation and local knowledge on which creative solutions depend. There is also a need for greater clarity about reporting on instruments to the

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<sup>72</sup> This is a recommendation of 'Why we need to work more effectively in fragile states', DFID, 2004. See also, e.g., 'Developing Poverty Reduction Strategies in LICUS countries', Thornton and Cox, January 2005, where it is argued that there are better PRS where there are more World Bank staff.

DAC to enable donors to better analyse instruments they are using. In particular humanitarian aid is often under-analysed and has very different objectives to development aid, but is a significant instrument in fragile states.



## Annex 1: Challenges to applying the emerging consensus on aid effectiveness to fragile states

Principles of Aid Effectiveness <sup>73</sup>	Challenges in applying principles of aid effectiveness to 'fragile states', as opposed to 'good performers'
1. Country ownership & leadership	Fragile States may lack <u>capacity</u> and/or <u>will</u> to deliver core state functions, particularly for the poor
2. Budget alignment with PRS	Fragile States may not have an established budget or budgetary process, or may have a budget that donors would not want to support; most lack PRSPs (see 6.).
3. Delivery through effective institutions	Fragile States are likely to have ineffective institutions (low capacity) and/or institutions that lack legitimacy (low will)
4. Results orientation	Capacity may not be there to measure and account for results
5. Aid allocation focused on the poorest	'Poverty-efficient' aid allocation criteria limit fragile state eligibility for aid; as a proportion of global aid, allocations to fragile states has reduced.
6. Donor policy alignment with PRS	Of the 34 countries classified by the World Bank as LICUS in 2004, only 8 had iPRSPs, and 7 had full PRSPs <sup>74</sup> .
7. Harmonisation between donors	Fragile states can be characterised by multiple instruments, delivery and reporting systems, and poor frameworks for coordination (policy and programming); harmonisation can be harder, but not impossible.
8. Aid which is predictable and untied	Insecurity and political instability may lead to disruptions in aid flows, and increased use of conditionality by donors (see 9.).
9. Aid conditions minimal and based on country policies	In 'low will' countries, a disjunct between government and donor policies and priorities may result in an increased use of conditionality by donors; 'low capacity' countries may struggle to formulate sound policies; 'low will' countries may have policies that are not considered by donors to be pro-poor.
10. Aid instruments strengthen accountability to citizens of developing countries	Chains of accountability between citizen and state can be weak or non-existent.

<sup>73</sup> Developed by the DFID Aid Effectiveness Team, based on commitments made in Monterrey and Rome.

<sup>74</sup> 'PRS in LICUS, Phase 1 Report: Progress & Literature Review', Nigel Thornton & Marcus Cox, 2004