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Aiding Stability: Improving Foreign Assistance in Fragile States

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Introduction

On July 9, South Sudan not only became the world's newest country, but its newest fragile state.

In the half-century leading up its birth, South Sudan was officially at war during three out of every four years. This created a cycle of conflict and instability that has fed distrust among its different ethnic groups and devastated its infrastructure and economy. Much emphasis has been placed on the 2005 peace accord with Khartoum, of which a number of key elements remain unresolved, including the fate of the three areas of Abyei, South Kordofan and Blue Nile along the north-south border, and an oil revenue-sharing agreement which represents the south's lifeline. The new nation is characterized by weak institutions, which are a mishmash of old rules that have largely been forgotten and dubious practices carried out during the civil war that need to be unlearned (Chandy, 2008).[1] The state has very limited capacity to deliver services, reflected in the country's appalling human development indicators (SSCCSE, 2010; World Bank, 2011a). Three out of four household heads never attended school and 84 percent of women cannot read or write. The maternal mortality ratio is possibly the highest in the world at 2,054 per 100,000 live births. Half the population lives in poverty and food insecurity is currently at crisis levels in five of the country's 10 states (USAID, 2011).

What is an appropriate role for foreign aid in a country such as South Sudan? Fragile states pose a dilemma for the development community. These countries present not only some of the most serious and urgent development needs in the world, but the most difficult environments in which to deliver aid effectively.

This policy paper outlines an agenda for making aid more effective in fragile states. It examines how aid agencies can better support countries like South Sudan to develop into stable, resilient and prosperous countries in which conflict is avoided, confidence and trust within society are strengthened, and citizens view the government as capable, responsive and accountable. It then set outs some steps the development community can take later this year at the fourth High Level Forum on Aid Effectiveness in Busan, Republic of Korea, to move this agenda forward.

Fragile States Matter

Depending on the measure used, there exist between 30 and 40 fragile states, which together contain around a billion people. These countries are geographically dispersed although more than half can be found in sub-Saharan Africa.

The term "fragility" captures a range of different country conditions, but in each case there is a failure of the state to perform some of its most basic functions either due to a lack of political will, capacity or a combination of the two, creating significant challenges for development. These failures are typically observed in terms of one or more persistent deficiencies of the state: its authority, its legitimacy as perceived by the country's citizens, or its provision of services (Stewart and Brown, 2010).

Importantly, the development failures of these countries cannot be explained in economic terms alone. While most fragile states are extremely poor, some are not. In recent years, a group of fragile middle income countries has emerged, a number of which can draw on vast natural resource wealth (Chandy and Gertz, 2011a).

Nevertheless, in the space of a few years, fragile states have moved from the periphery of the international development agenda—one defined largely in terms of economic and social outcomes—to a focus of global aid efforts. Helping fragile states has become inseparable from a commitment to fighting poverty reduction, achieving the Millennium Development Goals (MDGs), and assisting low-income countries:

- *Fragile states account for a growing share of the world's poor.* As global poverty levels fall, driven by progress in more stable developing countries, the share of the world's poor living in fragile states has doubled from 20 percent in 2005 to 40 percent today. More than half the world's poor are expected to live in fragile states by 2015 (Chandy and Gertz, 2011b).

- *No fragile country has yet achieved a single MDG.* Fragile states are home to half of all children not in primary school and half of all children who die before reaching their fifth birthday (DFID, 2009). The remarkable success of many stable developing countries in achieving the MDGs has drawn attention to the lagging performance of fragile states.

- *Two-thirds of low-income countries are fragile*. The past decade has seen a wave of 30 (mostly stable) countries graduate out of low-income status. Of the 35 countries still classified as low-income, less than a dozen are stable.

The combination of these trends will have a significant effect on how donors allocate resources.

Since the late 1990s, donor agencies have looked to concentrate their aid on countries that bear two characteristics: critical development needs and good governance. Satisfying these two conditions simultaneously was possible since at the time an estimated 75 percent of the world's poor people lived in very poor countries whose governments had good policies (Collier and Dollar, 1999). This led to a focus on stable low-income countries—an environment in which the international development community is comfortable working and has established significant experience. It also meant devoting relatively few resources to fragile states. Analysis of aid flows over the 1990s found that aid to fragile states was low, even after accounting for country performance (Levin and Dollar, 2005).

As the group of stable low-income countries diminishes in size and the needs of fragile states loom ever larger, this approach to allocating aid is no longer feasible. The aid community is being forced to recognize the growing tension and competition between the two allocation criteria of critical development needs and good governance.

At the same time, there is a growing awareness among donors and the broader foreign policy community of the negative external effects associated with fragility, conflict and state failure. Donor governments are increasingly cognizant of the cost effectiveness of preventing state collapse or conflict and the need to balance the risk of action and inaction.

When the Paris Declaration was agreed six years ago, fragile states were little more than afterthought, occupying three paragraphs under the section on harmonization. At the upcoming High Level Forum in Busan, the question of how best to deliver aid in fragile settings will have to feature much more prominently if the aid effectiveness agenda is to remain relevant.

Aid to Fragile States Works

Donors' historical preference against aiding fragile states was informed by research indicating that the impact of aid on growth and poverty is diminished in countries with poor policies and institutions (Burnside and Dollar, 1997; Collier and Dollar, 1999). This research has been enormously influential in shaping donor views, even though serious doubts have been cast on the reliability of its findings (Easterly et al., 2003).

In 2001, the World Bank established a taskforce to decide the institution's policy toward Low-Income Countries Under Stress (LICUS)—a predecessor to the fragile states epithet—which rejected a significant role for aid in fragile settings and called for greater reliance on other instruments. Its landmark report stated bluntly that "aid does not work well in these [fragile] environments because governments lack the capacity or inclination to use finance effectively for poverty reduction." (World Bank, 2002 p.1)

There is a broad theoretical basis for believing that aid shouldn't work in fragile settings. In stable environments, aid in the form of both financial and knowledge transfers is traditionally thought of as a means for addressing market failures, such as the provision of public goods and the regulation of externalities. Most of the development challenges that occur in these settings are seen through this lens. In contrast, aid to fragile states is predominantly concerned with addressing government failures—that is, market failures which have government action or inaction at their root.

In other words, many development challenges in fragile states are strictly political, as opposed to technical.[2] Donors in fragile states often find themselves in the difficult position of trying to convince governments to pursue a different policy direction rather than simply supporting the existing efforts of the recipient government. Using aid to "buy" better policies in recipient countries is unlikely to succeed since policy formation is driven primarily by the domestic political economy (Devarajan et al., 2001). All this makes for "difficult partnerships", where donors question both the willingness and reliability of recipient governments to engage in a successful assistance program (OECD DAC, 2001).

There is undoubtedly something to these arguments. But at the same time, they have to be stacked up against considerable project and program based evidence of aid interventions being successful in even the most complex and unstable environments.

For instance, the World Bank's annual evaluation report for this year found that outcome ratings for its projects in fragile states do not score significantly lower than those in other countries, with a 70 percent satisfactory rating compared to an institution average of 76 percent (IEG, 2011).

Similarly, a recent report based on the experience in fragile states of the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) found that their grants performed well across all measures (Bornemisza et al., 2010). GFATM's active grants in fragile states achieved 83 percent of their targets on average, which is only a fraction lower than the 88 percent average for stable countries. The report concluded that "this indicates that successful large-scale health programs, and the accountability and transparency that this requires, can be achieved in fragile states." (Bornemisza et al., 2010 p.5–6)

The claim that aid does not work well in fragile states is ill-founded since it implies that all aid is homogenous and cannot be adapted to different country settings.

Other studies have drawn attention to successful donor interventions in fragile states across a range of different sectors and settings, and using a variety of different aid modalities (Manor, 2007; Chandy and Linn, 2011). Significantly, many of these interventions achieved results at scale, indicating that success need not be achieved at the expense of scope and that country-level, transformational change through aid is feasible.

A more general defense of aid to fragile states is the remarkable improvements that have been achieved in human development indicators throughout the developing world over the past half-century, an area in which donors have been particularly active and so can claim some responsibility (Kenny, 2011). Since the start of the new millennium, the number of polio-endemic countries has been reduced from 125 to four. The world's most fragile state, Somalia, was struck from this list in 2003. Over the same period, maternal and neonatal tetanus (MNT) was eliminated from 19 countries, including Bangladesh, Burundi, Congo, Eritrea, Malawi, Myanmar, Nepal, Rwanda and Zimbabwe.

All this is not to say that aiding fragile states is straightforward. On the contrary, good results are undoubtedly harder to achieve than in stable environments. This is evidenced by the lower success ratings recorded for projects in fragile states by the World Bank and the Global Fund. And it is no coincidence that three of the four remaining polio-endemic countries and 22 of the 37 countries that have yet to eliminate MNT are fragile. Furthermore, while there is evidence of successful aid across different sectors and in interventions that operate at a large scale, success is partly a function of scope and it remains unclear whether the bulk of aid-sponsored efforts in fragile states are sufficiently targeted and responsive to the development needs of recipient countries.

This brings us closer to a synthesis of the above arguments and evidence. An adequate account of the effectiveness of aid to fragile states should acknowledge the characteristics of both the recipient country and the aid that is provided. The claim that aid does not work well in fragile states is ill-founded since it implies that all aid is homogenous and cannot be adapted to different country settings.

In fact, aid is capable of achieving excellent results in fragile states when it is appropriately targeted, designed and delivered. Successful aid in fragile states requires moving away from a stable country analysis and approach to address different kinds of development challenges and to establish alternative forms of partnership with recipient countries.

The Right Focus

The development challenges facing most fragile states are not only severe, but numerous. In addition to the economic and social weaknesses typical of other developing countries, fragile states must contend with acute administrative and political failings. Thus, when donors subject fragile states to a standard needs assessment, the outcome is an exhaustive list that is not particularly helpful as a guide for their engagement.

There is increasing recognition that if donors are to succeed in addressing the challenge of fragility itself, they would do best to take a different approach that narrows their resources to a few specific sectors. The 2011 World Development Report (WDR) recommends a focus on establishing security, justice and jobs and the institutions which are responsible for their provision. This June, the g7+ group of fragile states and the network of donors with whom they partner, the International Network on Conflict and Fragility (INCAF), defined a core set of objectives for peacebuilding and statebuilding which closely mirrors this list, with a few additions including public finance and revenue management.

These sectors share some common features. A number represent core functions of the state which are essential to each nation's overall viability and sovereignty. Each are concerned with strengthening citizen-citizen and citizen-state trust, which when absent fuel grievances, instability and conflict. In addition, each is a strategically important area for fostering the state's legitimacy based on demonstrable performance rather than on the basis of ideology or exchange.

Implicit in this approach is the notion of sequencing. Recording successes in these key sectors provides a strong foundation upon which other development efforts can later be built. When donors choose to prioritize other sectors, successes may be achieved but these can easily be reversed, not least during destabilizing episodes when governance deteriorates or violence flares up.

Ironically, many of the sectors identified by the WDR and g7+ as initial priorities are those where the international aid community has the least expertise. The WDR points out a handful of examples of successful programs but notes that even these "are not in the mainstream of diplomatic, security, or development thinking" (World Bank, 2011b Overview p.23). This lack of experience is hardly coincidental. Achieving reform in these sectors invariably means assigning privileges and agency to different stakeholders—whether soldiers or police, judges or tax collectors, NGOs or indigenous leaders—in societies which are defined by the tenuous power balances that exist between elites. Donors have traditionally been wary of getting involved in such politically sensitive issues. Addressing these challenges will rely on donors working in new partnerships with a range of national and international stakeholders.

When donors subject fragile states to a standard needs assessment, the outcome is an exhaustive list that is not particularly helpful as a guide for their engagement.

As the fragile states agenda becomes increasingly focused around these key sectors, new metrics will need to be developed to assess initial conditions and changes over time. At present, there is very limited coverage of these sectors within the standard set of internationally-comparable development indicators, such as those featured in the World Bank's World Development Indicators database and the Human Development Report's statistical annex. This reflects both the low level of attention these sectors have traditionally commanded in the international development community and the limitation of existing quantitative research on these sectors.

The g7+ and INCAF have tasked themselves with identifying a new set of indicators focused on these sectors before the Busan High Level Forum. These will allow country-led assessments of fragility centered on the goals of peacebuilding and statebuilding. New metrics should, to the extent possible, be capable of both demonstrating areas of progress and identifying new or longstanding risks. This means capturing both short- and long-term changes, the former requiring indicators that can be readily observed, and that are coincident or leading measures. Perception surveys should also be used to pick up changes in trust, confidence and the perceived legitimacy of institutions.

These indicators are not only important for monitoring sector performance but for assessing whether countries are making broader headway in building resilience and stability, while strengthening confidence in and the accountability of public institutions. Measures of political and administrative progress need to be looked at alongside the standard list of economic and social indicators (economic growth rates, the MDGs) in order to accurately assess the performance of fragile states and their development outlook.

Sufficient Scope and Scale

While donors are encouraged to focus on a few key sectors in fragile states, the scope of their activities within these areas must be sufficiently large to bring about transformative change at a country level. This requires bold interventions that are delivered at scale. To achieve this degree of scope and scale, donors must place a greater onus on coordination, risk management and institutional development.

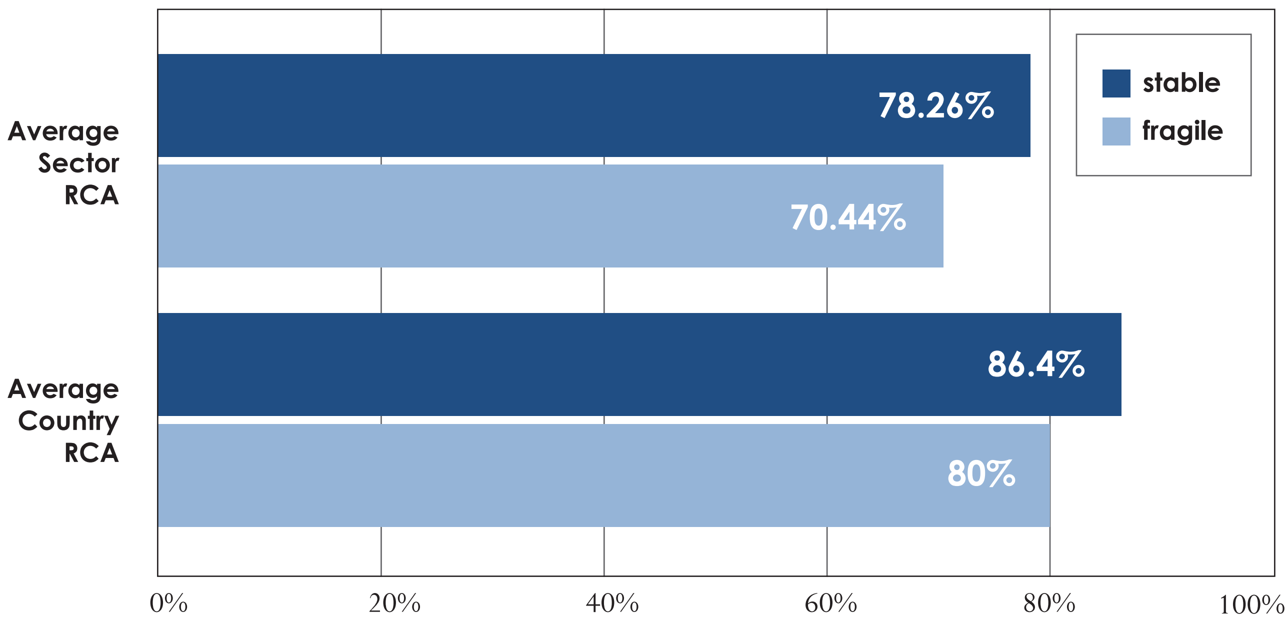
Coordination

Donors operating in fragile states face two opposing impulses. The first is to abide by a strict division of labor in recognition that fragile states face unique development challenges, are complex settings to work, and thus require particular donor skills and experience. The second is to view assistance to fragile states as a global public good, given the shared international interest in security and stability. In this view, helping fragile states demands collective action, given the opportunities that otherwise exist for free-riding and the tendency to under-supply assistance to these countries.

Attempts to balance these two impulses lead to a suboptimal outcome whereby donors typically establish programs across many fragile states but with only a shallow level of engagement in any one country given their limited expertise.

On the latest count, the average fragile state receives aid from 65 unique donor agencies among those that report data to the OECD DAC. This is seven more donors than operate in the average stable developing country. Half of all donor activities in fragile states are valued at less than $80,000 (Chandy and Linn, 2011).[3] Fragile states receive a smaller proportion of their aid from donors who are meaningfully invested in the country than aid recipients that are stable. Similarly, a larger share of aid is spent in sectors where donors have little demonstrable experience when compared to aid received by stable countries (Figure 1).

Figure 1: Share of aid to fragile states in 2009 that reflects donors' revealed comparative advantage (RCA)[4]

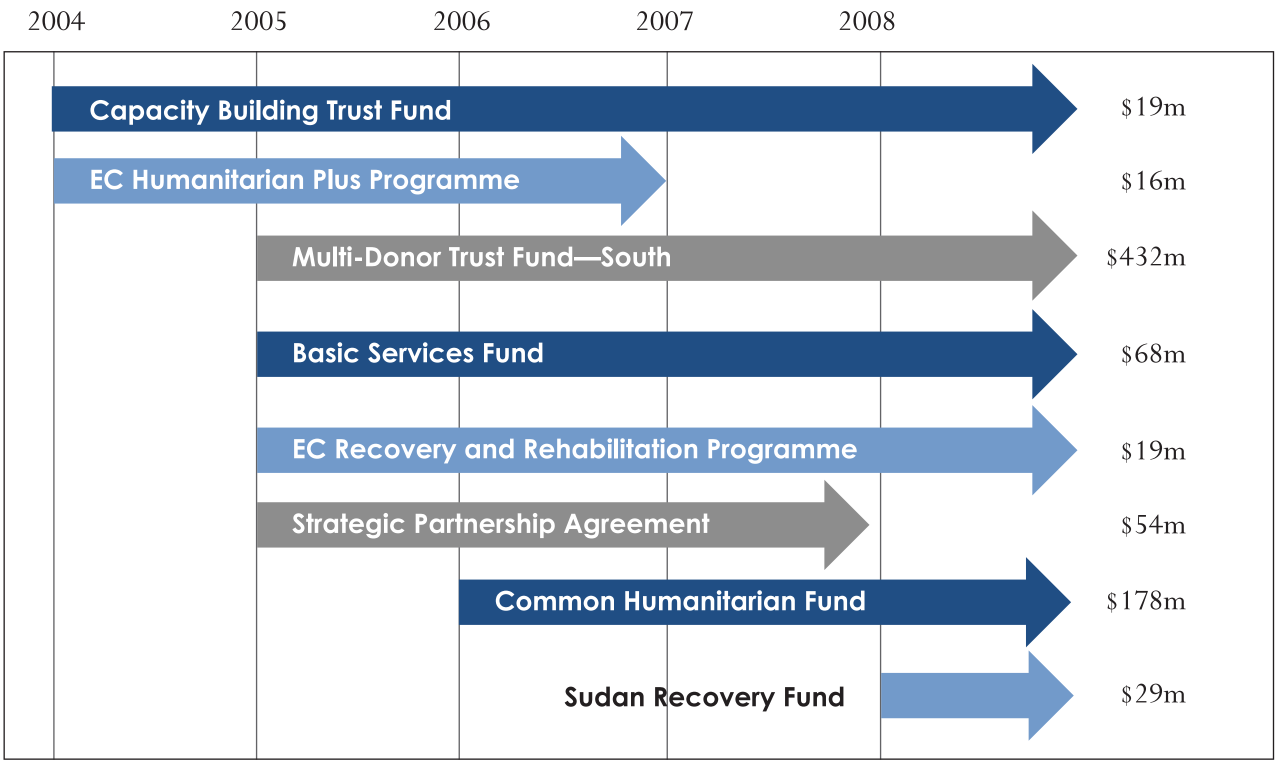


Source: Chandy and Linn, 2011

Stronger donor coordination can prevent this pattern of activity from undermining the scope and scale of donors' collective efforts. While the Paris approach assumes that recipient governments will demand and then lead donor coordination efforts, this rarely occurs in fragile states. It is therefore incumbent on aid agencies to take the initiative by organizing themselves and appointing leadership roles within the donor community.

There are two tools which can strengthen donor coordination in fragile states. The first is the use of pooled funds, including multi-donor trust funds and basket funds. Pooled funds facilitate donor activities of greater scale and scope, including by increasing the stability of longer-term funding. However, these benefits can easily be undermined if the funds themselves become fragmented, which has occurred in Southern Sudan (Figure 2). Another danger is that contributing donors readily pass the blame for project failure onto the managing agency, creating an incentive for the fund manager to moderate the scope of activities (OECD DAC, 2011b).

Figure 2: Fragmentation of pooled funding instruments and programs in South Sudan



Source: OECD DAC, 2011a

A second tool is the use of delegated authority arrangements between donors or so-called "silent partnerships". These are particularly useful in fragile states, both to moderate the burden on recipients and to facilitate a more efficient allocation of resources among donors toward those with the expertise and appetite to engage deeply in the recipient country. Instances of delegated authority are being monitored for the first time in this year's Paris Monitoring Survey, which will lead to greater knowledge about the prevalence of these arrangements.

Risk Management

Risks are inherent in donor activities, regardless of where they take place. However, in fragile states the types of risk facing donors are more varied and the level of risk more elevated than those encountered in stable countries.

A commitment to fragile states obliges donors to identify ways of expanding the space in which they can work and the programming opportunities available to them, while being honest in their assessment of the challenges posed by the environment. In other words, donors must find an approach to risk which is not just *prohibiting* but also *enabling* (OECD DAC, 2011b). This is consistent with the principle of achieving value for money in aid.[5]

The OECD DAC (OECD DAC, 2011b) distinguishes three sets of risks relevant to any donor agency: developmental risks, which concern the probability of a deterioration in the material condition of the country or subregion in which the agency is operating; project risks, which concern the probability of a donor intervention failing to meet its stated objectives; and institutional risks, which concern the probability that the standing and integrity of the donor agency may be compromised in some way, specifically among its stakeholders but also among the development community.[6]

These risks are interdependent. For instance, setting very modest objectives for donor interventions will succeed in minimizing project risk but will reduce the likelihood that donor engagement will succeed in reducing the development risks facing the country. Similarly, a donor's choice of aid instruments can help limit institutional risks but may simultaneously undermine the capacity and visibility of the state in delivering services, which reduces its legitimacy in the eyes of its citizens.

In fragile states, these relationships are often perceived in terms of a simple tradeoff between developmental risks on the one side, and project and institutional risks on the other. Thus, any attempt to use aid more determinedly to tackle the root challenges of fragility is seen as either increasing the likelihood that project objectives will not be met, introducing fiduciary risk that the donor will be unable to adequately account for its expenditure, or imposing reputational risks for the donor. In reality, these tradeoffs are far less straightforward (Box 1), but with the senior management of donor agencies strongly averse to institutional risk and mid-level managers similarly concerned with project risk, strong institutional incentives can develop in favor of interventions with limited scope and scale.

Box 1: Big is beautiful: the Yemen Social Fund for Development

The Social Fund for Development (SFD) is an independently funded quasi-governmental institution established in 1997. It works with local communities across Yemen to finance various social development projects, assist local institutions to develop their capacity and efficiency, and create new employment opportunities co-financed with the private sector. SFD has proven to be an enormously successful vehicle for achieving impact in some of Yemen's weakest sectors and in a very difficult environment for donor engagement. Some of SFD's initiatives, such as the capacity building program, have been introduced countrywide in all 333 districts of Yemen.

Contrary to the assumption that large scale interventions incur greater risk, DFID assessed its support to the SFD as having the lowest risk rating of any of its projects in the country, despite it being the biggest project within DFID's country portfolio and the broadest in terms of its scope and objectives.

Project and institutional risks have been moderated by:

- *Drawing on strong local ownership*. While operating partially outside and parallel to the structure of government, SFD is directed by the deputy prime minister (who is also the minister of planning and international cooperation).
- *Scaling up what works*. The SFD has been evaluated positively and built up over time, through successive increases in the resources made available to the fund.

Source: DFID, 2010

The challenge for donors is to better assess and manage risks so that the scope and scale of activities can be enlarged.

There are various possible components to a donor's strategy for risk management and analysis. Donors can adopt a portfolio approach whereby country programs contain a balance of more and less risky interventions. Donors can invest in better analytical work so that risks can be identified and accurately gauged. This may include tracking short-term and leading indicators which are separate from the standard set of indicators monitored in traditional development plans and performance frameworks. Improved analytics can be combined with scenario planning, so that donor staff are forced to think through the consequences of a range of possible outcomes that may eventuate, and to anticipate their own response. These sorts of exercises can be undertaken at a whole of government level to enrich the quality of the exercise and to highlight the role different agencies play in responding to changing conditions in a country.[7]

New aid instruments and modalities provide donors with the means to manage risks more effectively. For instance, the fiduciary risks associated with budget support can be moderated by use of partial earmarks, budget oversight and tracking, and requirements that the recipient government contract out certain functions, such as procurement, financial management or audit services. These approaches have enabled donors to provide budget support in poorly governed countries such as Afghanistan, Burundi, Central African Republic and Guinea Bissau (World Bank, 2011b). Some forms of aligned aid have in-built accountability mechanisms that help moderate risk, such as community-driven development programs (where communities monitor expenditures and the quality of investments, often supported by NGOs) and "dual key" mechanisms, whereby government processes are governed by boards comprised jointly by national and international actors.

Institutional Development

The preponderance of aid in stable countries is used to support the state and local level authorities to perform their functions more adequately. When the institutions of the state are very weak, donors are faced with two options: either limit the scope of their support to what the state can realistically absorb, or step in for the state's role. While the latter would appear to allow donors a less restricted scope, the legitimacy and sustainability of their activities are undermined without the articulation—preferably from the outset—of a clear path toward handing responsibility back over to the state. Such a transfer cannot occur, however, until institutions are ready to lead. Thus, institutional weakness acts as a constraint on donor activities in any case.

It is no surprise then that institutional development is a strong focus of donor efforts in fragile states. Donors may target various elements which contribute towards institutional performance: technical and managerial capacity, professionalism and freedom from political and military interference, robust systems and procedures, good governance and accountability, financial/fiscal strength, stability and conflict resolution. However, given the political challenges that characterize most fragile countries, the causes of institutional weakness can be difficult to diagnose correctly, let alone to rectify. In countries where corruption is rampant, the entire integrity of the government's planning and budget process can be compromised by patronage and prebends. Donor efforts to support institutions in these environments often fail to achieve any traction.

Some of the most transformative donor sponsored interventions in fragile states have identified innovative approaches for bringing about institutional development. These fall into two broad types: approaches that leverage areas of existing institutional capacity (Box 2: Ethiopia case study); and approaches that restrict the role of institutions so that they can more readily be fulfilled (Box 2: Afghanistan case study). Both approaches are consistent with the notion of good enough governance, which recommends focusing on the core capacities of the state, building legitimacy through demonstrating an ability to deliver rather than merely changing form, and shifting attention toward sub-national levels of government (Grindle, 2004).

Box 2: Examples of Transformative Institutional Development

In Ethiopia, Save the Children Norway developed and field tested an alternative model for the first cycle of primary school—Alternative Basic Education for Children out of School (ABECS)—that is cheaper, more flexible and more compatible with local conditions than Ethiopia's formal schools. The project made use of the hierarchically organized, highly centralized and authoritarian nature of the Ethiopian state by reinforcing the role of government structures including kebeles (the government's smallest administrative unit, made up of 500 families) and woredas (a collection of kebeles). ABECS schools are typically built on land allocated by a kebede. Kebeles also build the schools, hire instructors, provide teacher training, set schedules and design the curriculum. Woredas, which are the focal point for local development efforts, share in the supervision of ABECS instructors and were responsible for rolling out the ABECS program across the country. In a country where NGOs are treated with suspicion by the government, this model also proved a useful means of securing significant government support and ownership.

During the 1980s and 1990s, health services in rural Afghanistan were provided by NGOs working cross-border, mainly from Pakistan. Coverage was modest, generally uncoordinated and unfocused, and of varied quality. Recognizing the lack of capacity within the Afghan Ministry of Public Health (MoPH), the Afghan Transitional Authority looked for an opportunity to harmonize NGO resources with government efforts. Under the Basic Packages of Health Services supported by the United States Agency for International Development (USAID), the European Commission and the World Bank, actual health service delivery is now formally contracted to NGOs and private actors, based on a bidding process that results in signed, time-limited performance-based partnership agreements. The MoPH is responsible for health service delivery in some provinces, but its primary role is to develop strategies and objectives, set indicators, and monitor, supervise and control the performance of the implementing partners. In an environment crippled by low capacity and a lack of formal institutions, this model enabled service quality and coverage to expand much faster than would normally be expected.

Source: Baird, 2010; NORAD, 2004

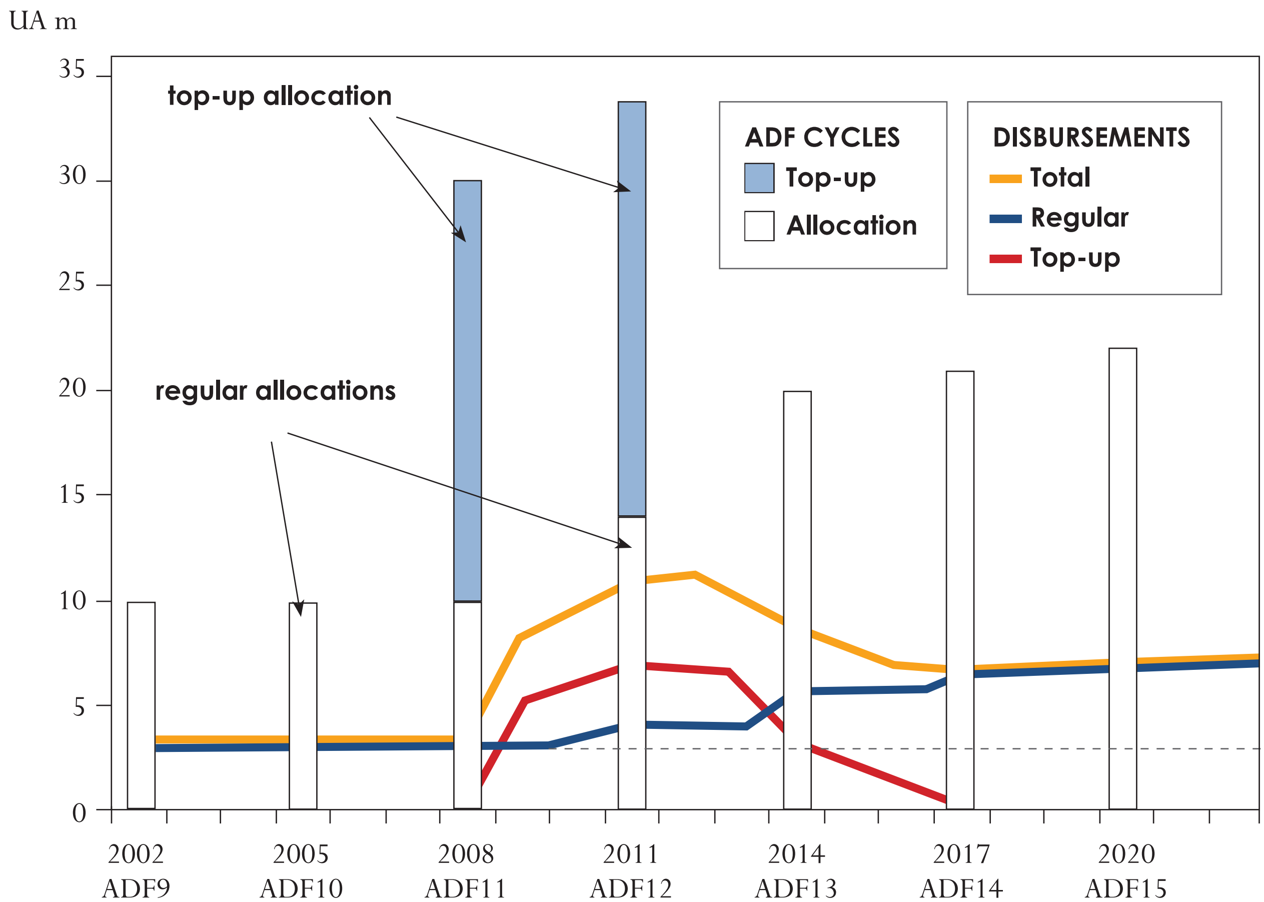
Longer Timeframes

The transition from fragility to stability is a long-term endeavor. If the average fragile state were to improve its governance at the rate of development recorded by the average stable country, it would take more than 100 years to reach the standards of bureaucratic quality, control of corruption and demilitarization of politics enjoyed by a country like Malawi. Were it instead to match the average pace of the 20 fastest improving countries in recent history, the same level of improvement would still take a generation (Pritchett and de Weijer, 2010). If these time periods seem unbearably long, the reality is likely worse. The development trajectories of fragile states are neither linear, nor unidirectional and even the best performers incur frequent missteps.

To support this difficult and lengthy transition, donors must design their engagement and interventions in fragile states around longer timeframes and use their aid programs to counter the instability inherent in these environments.

In the first place, this means developing longer-term commitments through country programs and forward expenditure plans, and minimizing aid volatility. A recent study found that approximately two-thirds of aid volatility could be statistically explained by events in recipient countries, such as elections, natural disasters, or changed policies, leaving the remaining third which could be put down to donors' poor planning, shifting priorities or herd behavior (Desai and Kharas, 2010). Since fragile states are prone to internal shocks and deteriorating conditions, eliminating aid volatility in these environments requires strong donor leadership and a readiness to weather bad news and unforeseen events. Donors should also be cognizant of the unintended effects of boosting resources during post-conflict or transition phases, if supplementary resources are then rapidly withdrawn after a limited period. Such actions can inadvertently serve to institutionalize the stop-go pattern that is characteristic of aid to fragile states (Figure 3).

Figure 3: Volatile financing: the case of the African Development Bank



Source: African Development Bank, 2008

Moreover, the development trajectories pursued by fragile states have implications for how donors organize the project cycle. Not only do results typically take longer to materialize in fragile states than in stable countries (McGillivray, 2005), the sustainability of results can prove to be enormously challenging (Box 3). Donors' attempts to embed a particular policy or reform within an institution may often extend far beyond the duration of the original intervention. This suggests that donors operating in fragile states may wish to alter how a project's end is defined and when evaluations should be scheduled.

Box 3: The challenge of sustainability

In one of the first randomized impact evaluations in international development, a small-scale deworming project in western Kenya underwent a careful impact assessment. The evaluation showed that deworming had even greater public health benefits than previously thought due to the positive externalities on untreated children and that the intervention presented an extremely low-cost way to boost school enrollment in western Kenya. This evidence, combined with an international campaign to disseminate the results and to provide technical assistance in adopting and implementing the project, led to a rapid scale up of the intervention through Kenya in 2009. However, later that year, when an audit reported missing funds from the broader multi-donor program of which the deworming project was just one part, donor support was withdrawn and the project suspended.

In a country like Kenya, characterized by bad governance but relatively high capacity, sustaining interventions may provide a greater challenge than successful piloting and replication. Whereas the process from project design to country-wide adoption may only last a few months or years, sustaining an intervention covers an indefinite period when countless challenges can emerge.

Source: Sandefur, 2011

A Different Approach to Implementing the Paris Principles

The five Paris principles of ownership, alignment, harmonization, managing for results and mutual accountability are a touchstone for effective donor-recipient relations in any setting. The challenge in fragile states is determining how they can be manifested in what are very complex circumstances.

The crux of this challenge lies in the tension between the foundational principle of ownership (from which the other four principles flow) and the notion of fragility itself. As it is normally conceived, ownership implies that recipient governments will demonstrate inspired leadership in spearheading their country's development—a role that the governments of fragile states are unable or unwilling to fulfill. Furthermore, such leadership implies that governments will drive the aid effectiveness agenda at a country level. But when there is only insipid leadership, the effectiveness agenda loses its most likely champion and is unlikely to take off.

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When the Paris principles were agreed to in 2005, the question of how they could be embodied in fragile states remained largely unexplored. Since then, there has been a great deal of experimentation and learning on this topic.

In 2008, the OECD DAC endorsed the Principles for Good International Engagement in Fragile States and Situations. These principles provide some useful insights on how alignment and harmonization can be achieved and move beyond the confines of the aid effectiveness framework to consider the role of non-aid instruments, the overlap between political, security and development activities, and the broader goals of peacebuilding and statebuilding in understanding what determines development results.

An international dialogue between the g7+ and INCAF has begun yielding valuable lessons on the practicalities of aid giving in fragile states. Among their active workstreams, they have assessed international experience in capacity building and explored the relative merits of the bespoke tools that are now being used in fragile states: transitional results frameworks for planning, joint needs assessments for needs, consolidated appeals process for resources, multi-donor trust funds for delivery and double compacts for accountability, among others.

To this must be added the spirited work of NGOs, which has helped to shed light on the important role played by communities and local governments in the absence of a capable central state and the process of consultation in settings where citizens' needs and priorities may be harder to discern. NGOs have also helped to shed light on the difficult transitions between humanitarian and development work. Meanwhile, donors should be credited with developing new analytical approaches to underpin their engagement in fragile states, giving particular emphasis to political economy analysis to understand the root cause of development problems and the lack of political will for better governance.

Taken together, a strategy for implementing the Paris principles in fragile states has begun to emerge (Table 1).

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Table 1: Applying the Paris principles in fragile states

Effectiveness Principle	Standard application	Obstacles in Fragile States	Options
Ownership	Partner government defines and implements a credible plan for the country's development (PRSP); partner government leads civil society consultation	Partner government does not lead effectively and is an unreliable partner; no PRSP	Recognize ownership by civil society, communities and/or sub-national government; use alternative frameworks to substitute for PRSPs; donors coordinate civil society consultation and pay special attention to disempowered groups; building state capacity and accountability is prioritized
Alignment	Donors use partner priorities and systems	Absence of national priorities; weak or corrupted partner systems	Consult extensively; employ risk management instruments that allow full / partial alignment; strengthen systems and condition alignment on system performance; align behind community, regional or sector systems; where can't align, harmonize
Harmonization	Partner government demands and drives donor coordination; donors use common arrangements	Partner leadership on coordination deficient; risk assessments by donors vary; need for coordination across diplomatic, defense and humanitarian actors	Donors take initiative in coordinating and harmonizing among themselves; employ joint analysis, strategies, needs assessments, offices, political engagement, funding mechanisms; delegate authority to donors more invested, more experienced, and better able to manage risk; use planning tools to manage tensions / complementarities between development, diplomacy and defense activities
Managing for Results	Donors employ recipient-led performance measures and performance-based budgeting	Different results sought; results harder to achieve, predict and measure	Use different indicators for capturing peacebuilding and statebuilding objectives, including coincident or leading indicators and perception surveys; use results-centered strategies that balance short and long term objectives (e.g., transitional results frameworks); evaluate on the basis of functionality and performance; look beyond aggregates to pockets of exclusion; employ flexible, rapid funding modalities
Mutual Accountability	Donors and partners hold each other accountable for commitments including Paris principles	Weak donor-government relationships; poor environment for accountability	Experiment with innovative approaches (such as double compacts); evaluate regularly and rigorously; ensure transparency; seek feedback from beneficiaries

Source: Author

Recommendations for Busan

This November, government leaders from donor and recipient countries, along with representatives of the corporate and philanthropic community, will descend on Busan, Republic of Korea to revitalize and update the global agenda on aid effectiveness.

Drawing on a wealth of learning and experience from recent years, a new understanding can emerge in Busan on the role of aid in fragile states. This would begin by acknowledging the centrality of fragile states to the global development agenda and the demonstrated capacity of aid to deliver results in fragile settings, contrary to expectations. The role of aid should be built around the delivery of large scale, large scope interventions in sectors that are essential to securing peace and strengthening confidence in and the accountability of public institutions.

Delivering on this role will require the development of new partnerships that can draw on the best national and international expertise, ensure better coordination, improve risk management and strengthen institutions. The g7+ and INCAF, who will jointly lead the discussion on fragile states at Busan, provide an example of how such partnerships can work through their international dialogue process. The formation of similar country-based partnerships should now be encouraged.

This role will also depend on other reforms to aid giving. The following five recommendations, to be taken up at Busan, can help to transform the way aid is delivered in fragile states:

1. A statement affirming unambiguously the relevance of the Paris principles for aid effectiveness in fragile states and the setting forth of a strategy for how the principles can be implemented in these settings.
2. A commitment to employ measures of political and administrative progress alongside standard economic and social indicators in order to accurately assess the performance of fragile states and their development outlook.
3. The establishment of quantitative targets for donors on:
    a. the use of pooled funding and delegated authority arrangements to encourage greater coordination; and
    b. the provision of forward expenditure plans and reduced aid volatility to support longer term engagement.
4. A commitment by donors to reassess:
    a. their resource allocation models to overcome the growing tension between allocating aid based on critical development needs and on good governance; and
    b. their project cycles to allow more time to achieve and sustain results, and to conduct project evaluations.
5. Under the g7+ and INCAF, the establishment of a systematic approach to documenting and learning from interventions in fragile states, focusing on those with significant scope and scale in key peacebuilding and statebuilding sectors.

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Endnotes

1. While old public service procedures were forgotten during the war years, new practices evolved, some of which were necessarily at odds with good public service principles: no budgets were written, no payroll was maintained; claims for pay were made as much for survival as to compensate for services rendered. Some of the procedures which have survived the war or are now being introduced are unsurprisingly out of date and at odds with the increased level of autonomy won by the South.

2. For instance, in a classical diagnosis, institutional weakness is often explained in terms of a capacity problem which can be solved through capacity building programs such as training courses or study tours. Yet in fragile states, existing capacity in an institution may be systematically and deliberately underemployed. In these settings, there is little basis for assuming that the accumulation of greater capacity through external assistance will be employed any more effectively.

3. Calculations based on 2009 data.

4. RCA scores capture the share of each donor's aid that is allocated to a country or sector at least in proportion to the donor's share of global ODA.

5. If value for money in aid is defined as a function of transaction costs, the expected outcomes of an intervention and project risk (DFID, 2010), then delivering aid effectively in fragile states almost certainly implies some risk taking, while at the same time learning to better assess and manage risks. Risk management and analysis is therefore part of a donor's obligation to use resources efficiently and to demonstrate results. Nevertheless, it can be argued that risk tolerance among donors has likely reduced in recent years as a result of both the results agenda and the increased level of donor resources, both of which have put pressure on donors to report positive outcomes, however small, and to avoid negative outcomes at any cost.

6. The terminology employed here differs slightly from the OECD DAC which distinguishes contextual, programmatic and institutional risks.

7. Of course, such activities incur transaction costs of their own and so are only worthwhile to the extent that the costs are offset by sufficiently diminished levels of risk.