

Getting better results from assistance to fragile states

A step-change is needed to help fragile states build effective and accountable institutions

Key points

- Fragile states are a 'special case' where state-building is vital to lower the risk of violent conflict, and to lay the foundations for achievement of the MDGs
- The results of external interventions in fragile states have been uneven, and there are opportunities to learn from good performance
- Good practice includes earlier use of country systems, enhancing national state-building, helping institutions get fit with exercise and greater transparency to enhance accountability

The Busan High Level Forum in November 2011 is an opportunity for development partners and fragile states to agree how to improve international engagement in some of the world's poorest and most conflict-affected countries. Changes at an international level in the systems and standards of development partners need to be complemented with stronger country-level ownership and monitoring of commitments. This Briefing Paper draws on evidence set out in earlier research (OECD, 2011a) prepared by ODI for the International Dialogue on Peacebuilding and Statebuilding and reviews what has worked – and what has not – in fragile states to identify improved practices that should be shared across partners and countries.

Should fragile states get different treatment from development partners?

Since the 2008 High Level Forum on aid effectiveness in Accra, there has been a growing awareness amongst the international community that fragile states are not simply more difficult cases of development, but require fundamentally different approaches to delivering assistance (Zoellick, 2008).

In many fragile states (and in nearly all of the g7+ group of Fragile and Conflict-Affected States) the international response has included large-scale investment in United Nations or regional peacekeeping forces, the costs of which tend to outstrip parallel investment made through development assistance. In Liberia and Sierra Leone, for instance, the cost of UN peacekeeping forces was five times that of aid flows at the time these forces were deployed. In Afghanistan, spending on military support is around 20 times higher than spending on civilian support.

There is a striking disconnect and lack of policy coherence between the way development assistance is provided, and the level of investment and tolerance of risk in peacekeeping and



Afghanistan's Multi-Donor Trust Fund has enabled quicker and more flexible financing of infrastructure projects within the country.

humanitarian aid. In most cases development assistance is provided in exactly the same way as it is in more resilient countries with stronger institutions, applying the same procedures and the same approaches to risk. The cost of this collective failure to adapt the aid system to the special conditions of fragile states is borne primarily by the populations who suffer from ongoing fragility and its symptoms, such as violence, lack of justice and low levels of public services.

The tragedy for both development partners and states themselves is that the failure to take measured risks in innovative ways to deliver aid has paved the way for the much greater and potentially much more expensive risks of renewed conflict – since 2000, 90% of new conflicts have occurred in countries with a previous conflict (World Bank, 2011). Violent conflict is not only a tragedy for the fragile state and its citizens, but also has a tendency to spread across borders and even across the globe.

Speeding up the delivery of results

As progress in some countries shows, there are practical steps that can speed up the delivery

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Box 1: The g7+ group of Fragile and Conflict-Affected States and the ‘New Deal’

The g7+ group of Fragile and Conflict-Affected States held its inaugural meeting at the first OECD International Dialogue on Peacebuilding and Statebuilding (IDPS) in Dili, Timor-Leste in April 2010. The g7+ has two main purposes: to provide a voice for fragile states, which have frequently been marginalised in international aid debates in the past; and to provide a forum for fragile states to share experiences and learn from each other. The *World Development Report 2011* states that no low-income fragile state (on the World Bank’s list) has achieved any MDG. In June 2010 the g7+, as part of the International Dialogue process, created the Monrovia Roadmap, which sets out the Peacebuilding and Statebuilding Goals (PSGs) which prioritise legitimate politics, security, justice, economic foundations and revenues and services. The g7+ is now calling for a ‘New Deal’ for international engagement in fragile states. The New Deal includes three key elements. First, the use of the PSGs to act as an important foundation to enable progress towards the Millennium Development Goals, and to guide work in fragile and conflict-affected states. Second, a focus on new ways of engaging, and new partnerships to support, country-led and owned transitions out of fragility based on country-led fragility assessments, one vision and one plan, country compacts, and inclusive and participatory political dialogue. Third, a commitment to build mutual trust by providing aid and using domestic resources more effectively by enhancing transparency, risk tolerance and predictability of funding to increase investment in country systems, strengthen national capacities and achieve better results.

Source: Adapted from www.g7plus.org, ODI event ‘A New Aid Deal for Fragile States’ held on 10 October 2011, and the Monrovia Roadmap (<http://bit.ly/monrovia-roadmap>).

of assistance and make it more flexible, as shown by the speed of operation of the Multi-Donor Trust Fund in Afghanistan and by its flexibility to finance a wide range of items, including recurrent budget costs (McKechnie, 2011). This was accompanied by a focus on developing capacity for government procurement, accounting and auditing, and a willingness to use emergency operations rules for a full ten years after the conflict, which is estimated to have halved the time taken for project preparation, cutting months and occasionally years off the normal process.

One source of inflexibility in fragile states is the demarcation between development and humanitarian funding. For example, as a result of the World Food Programme’s (WFP) success in rehabilitating roads in South Sudan, the government asked WFP to extend its programme to, in effect, start the delivery of a national master plan for roads. Delivery of this programme was delayed by a year, however, because of protracted negotiations on how WFP could access the pooled fund managed by the World Bank. WFP was also constrained by its own Board requirements, such that roads could only be built to a quality appropriate for short-term humanitarian access.

Using country systems and additional financial safeguards

The conflict in South Sudan ended five years ago, but partners are only now discussing channelling money through government systems and many partners argue that it will take another five years before the government is ready for this to happen. By contrast,

Rwanda and Sierra Leone both received general budget support two years after their conflicts ended, while the Afghanistan Multi-Donor Trust Fund was providing funding for the recurrent budget within a few months after the cessation of conflict. This was complemented by a series of policy-based budget funding operations in support of institutional development from the World Bank and Asian Development Bank which began 30 months after international re-engagement. This early support was critical in rebuilding the state in all three countries, enabling the government to operate at least at a minimum level, and enhancing its credibility in the eyes of its citizens.

Early use of country systems is, in general, made possible through the introduction of additional financial safeguards. Budget support in Sierra Leone, for example, was accompanied by an international consulting firm providing ex post verification of government expenditure and funds were released on a reimbursement basis. The Afghanistan Trust Fund also reimbursed in retrospect only after an external review of the relevant expenditures.

Other innovative approaches include formal dual signatory programmes; additional financing to enable national audit offices to undertake more frequent audits (e.g. at sub-national levels); support for value-for-money audits and the introduction of joint government-partner results monitoring approaches. In some fragile states difficult political judgments may need to be made where citizen rights are insufficiently protected, or governments lack domestic and international legitimacy. Here, there is a risk that the use of country systems could be seen as legitimising such governments and that funds could be diverted. In practice, development partners have avoided using country systems where the political risks are high, or have done so in a limited way, such as making salary payments to government doctors directly to their bank accounts.

Pooled funds are another way to facilitate the use of country systems. While some have worked well in difficult environments, such as the Liberia Health Pooled Fund (Coppin et al., 2011) and the Yemen Social Fund for Development, others have been less successful, such as the Multi Donor Trust Fund in South Sudan (Bennet et al., 2010). While country contexts matter, the more successful funds do share some common design features including: the degree of government ownership; the physical location of the secretariats; the extent of in-year flexibility; and their ability to finance recurrent expenditures (Coppin et al., 2011).

Some partners recognise the need for sequential planning in fragile states that responds to the dynamic situation and allows greater use of country systems, even while substituting for these systems in the short term. Examples include the dual track approach taken in Afghanistan, where the Afghan Interim Authority Fund was set up to get funds moving in the first six months of the transition government while the longer-term Afghanistan

Reconstruction Trust Fund was being established; and the transition from non-state to state provision in the Timor-Leste health sector with the help of the Interim Health Authority.

Supporting state-building and ‘doing no harm’

While rapid delivery of results may have short-term benefits, bypassing national ownership and institutions to do so can slow down the development of these institutions and even destroy the national capacity that already exists. Generally, institutions get fit with exercise – they learn and get stronger by doing, and by solving the problems that prevent them from achieving the goals for which they are accountable. State institutions can wither if the international community takes over accountability for delivering results, establishes a parallel administration and pays national staff more than the government.

Governments in fragile states face particular challenges in recruiting staff when the few qualified people in the country are poached by development partners. In Liberia, for example, the number of professional civilian staff employed by the UN is ten times the number the government has been trying to recruit for its own Senior Executive Service. Other unsupportive practices, such as multiple Project Implementation Units (PIUs) and uneven salary top-ups to national government staff have undermined government capacity in some fragile states, creating a disconnect between ring-fenced partner projects and national programmes.

There have been some examples of good practice: in Rwanda the government requires that there be no more than one PIU in any ministry; in Uganda a successful ministry-wide UN salary top-up scheme established soon after the end of the conflict in 1985 proved instrumental in the development of sustainable long-term capacity in the Ministry of Finance.

Transparency and predictability

For a range of reasons, some foreign assistance programmes cannot use country systems in the short term. In these cases sharing information is critical to support the coordination and accountability of aid. However, reporting of humanitarian and security support can be particularly poor, leading to unexpected requirements for increased government spending to maintain basic service provision when humanitarian actors leave.

Many development partners have signed up to a new international information standard for aid transparency set out in the International Aid Transparency Initiative (IATI) and plans are afoot to ensure the IATI format is budget-compatible and can be used by recipient country governments and civil society. Effective national-level coordination – such as shadow alignment, as in the case of the UK Department for International Development’s project for orphans and vulnerable children in Zimbabwe – helps to mitigate a lack of coordination with government when government systems cannot be used.

Some governments have shown partners the way on transparency, for example the publication of fiscal data by Timor-Leste and the Palestinian National Authority (5 years of back data and monthly reports respectively). Several international initiatives such as the Open Budget Index and the Extractive Industries Transparency Initiative (EITI) provide useful standards and benchmarks for governments and have proved relevant in fragile states with Liberia, for example, becoming the first EITI-compliant African country.

One key problem is the unpredictable flows of development assistance that change in ways recipient governments cannot foresee, because of changing conditions in the partner country or institution for instance (OECD, 2011b). The World Bank’s 2011 *World Development Report* states that ‘volatility greatly reduces aid effectiveness, and it is twice as high for fragile and conflict-affected countries as for other developing countries, despite their greater need for persistence in building social and state institutions’ (World Bank, 2011).

In contrast, many countries emerging from fragility with high levels of development partner support have sharply increased their domestic revenues. This provides a firmer financial base for the plans of developing institutions and an opportunity to build greater accountability between the state and the citizens.

Policy recommendations

Development partners need to deliver a step-change in the quality of their support to fragile states if there is any chance of reaching the bottom billion. At the same time, fragile states need to work with partners to deliver a step-change in the quality of their financial management and the transparency of the budget.

Development partners should set higher standards for the speed and flexibility of their delivery in fragile states, but not at the expense of damaging national institutions. Partners should allow their emergency operational procedures, especially for procurement, to be used in fragile states for the first ten years after conflict, and develop simplified procurement arrangements for use in fragile states. All major partners should be required to deploy senior procurement staff with appropriate levels of delegated authority in fragile states. Humanitarian agencies should ensure that they have sufficient flexibility in their operating procedures to respond to time-limited requests by fragile states that go beyond their traditional mandates. One specific concern for many fragile states is the lack of funding to manage unexpected emergencies, where the rapid provision of relatively small sums of money could defuse potential crises. Partners could deposit a small proportion (e.g. less than 5%) of their annual aid programme in a Conflict Prevention Fund for such purposes and for disaster response and other emergency measures. Scaled up versions of the UN’s Peacebuilding Fund and the World Bank’s State and Peacebuilding Fund could be useful start points.



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Development partners should recognise and respond to the preference of fragile states for more aid through country systems and their willingness to accept more safeguards to manage the risks involved, as well as mounting evidence that using government systems builds capacity and delivers development results in fragile states. Major partners should amend their aid regulations and practices to ensure that, where the political context allows and where additional financial safeguards are in place, they provide a significant proportion of their aid through government systems as soon as the conflict ends. Fragile states, meanwhile, should identify a set of potential additional financial safeguards that could be introduced. Given the negative effect of transaction costs on low-capacity environments, with the exception of the largest donors in a particular country (those providing 80% or more of total assistance) and donors where the country is among the top 10% of their aid recipients, all assistance should be provided through pooled funds. Management of pooled funds should be reviewed to ensure the funds meet identified good practices (see Coppin et al., 2011).

International assistance should support states to build their own institutions that fit local society, and avoid undermining institutions that already exist. Following the example of Uganda, salary top-ups should be paid to all staff at the same level in the ministry – or not at all. Development partners should pay their national staff salaries comparable to government salary scales, publish these scales, and refrain from recruiting staff from government ministries. This would also push civil service reform up partners' agendas. When UN missions are scaled down, governments should negotiate long-term arrangements with the UN to transfer human and organisational capacity to national bodies. Fragile states should commit to increasing the proportion of the budget funded by domestic revenue and the International Dialogue on Peacebuilding and Statebuilding should review progress. Partners should make significant steps towards predictability, with aid flows remaining unchanged during the budget year, and possibly a two-year notice period of changing funding levels, with exceptions only in the case of human rights violations such as those that result in a UN resolution or International

Criminal Court proceedings against a country.

Governments and development partners should increase the transparency and coordination of their financial flows. All fragile states should adopt the emerging 'best practice' on transparency that some states have already introduced. This includes publishing summary budget data each month, budget outturns and results data each year, past data for the previous 5-10 years, and citizen's guides to the budget and its process. Because some past conflicts have been linked to the mining and petroleum industries, countries that export natural resources should sign up to the relevant international agreements (such as EITI++ and the Kimberley Process) and consider establishing sovereign wealth funds to manage resource revenues, including for future generations, as Timor-Leste has done. All flows of external assistance – including humanitarian support and non-aid flows such as military support – should be reported in-country and published in a fully accessible way in time for the budget and in a format that is budget-compatible (as envisaged in the IATI budget identifier which is under development). This type of shadow alignment, centring on the government budget process and budget cycle, allows civil society organisations and the general public to engage with the development agenda and to hold government and partners to account. Partners should ensure that efforts by government and civil society to increase transparency and accountability coordination are funded and supported.

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