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ENGAGEMENT IN FRAGILE SITUATIONS: PRELIMINARY LESSONS FROM DONOR EXPERIENCE

A Literature Review

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DEPARTMENT FOR INTERNATIONAL DEVELOPMENT

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Abbreviations

CBA	Community-based approach
CBO	Community-based organisation
CPIA	Country Policy and Institutional Assessment (now called the IDA Resource Allocation Index)
CSO	Civil society organisation
DAC	OECD Development Assistance Committee
DFID	Department for International Development
FS	Fragile Situations
GDP	Gross domestic product
GTZ	*Gesellschaft für Technische Zusammenarbeit* (Germany)
IDA	International Development Association
IEG	World Bank's Independent Evaluation Group
INGO	International non-governmental organisation
LICUS	Low-Income Countries Under Stress
MDGs	Millennium Development Goals
MDTF	Multi-donor trust fund
NGO	Non-government organisation
NUSAF	Northern Uganda Social Action Fund
ODI	Overseas Development Institute
OECD	Organization for Economic Co-operation and Development
PCNA	Post-Conflict Needs Assessment
PIU	Project implementation unit
PRS	Poverty Reduction Strategy
QIP	Quick impact project
SWAP	Sector-wide approach
TA	Technical assistance
TRF	Transitional Results Framework
UN	United Nations
USAID	United States Agency for International Development
WB	World Bank
WHO	World Health Organization

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1. Introduction

1.1 This paper collects together contemporary thinking from the literature on how to provide effective development aid in fragile situations (FS). It focuses on the *how* (the challenges of effective aid delivery in difficult environments) rather than the *what* (the objectives or content of assistance). The review focuses on FS, a term now widely used by donors, but also draws on literature on conflict-affected countries (a sub-set of FS).

1.2 DAC donors are still at a relatively early stage in articulating principles and approaches for effective aid in FS. The 2007 Principles for Good International Engagement in Fragile States (hereafter "Principles"), which have been developed through piloting since 2005 (OPM 2006), set out an emerging consensus on good aid practices, but remain at a fairly high level of generality. This paper is a step towards developing practical guidance on the implementation of these high-level principles.

1.3 The literature review forms part of a mapping exercise on DFID's approach to improving aid-effectiveness in FS, which is intended to guide future evaluation work and inform the development of new policy and guidance.

1.4 A number of aspects of the fragile situations literature are not covered in this review. It does not deal with the theory or practice of state-building – that is, the question of which government functions are critical for overcoming legitimacy and capacity deficits in FS. It does not deal with aid allocation formulae or the econometric literature on the links between aid and growth in FS. It touches only briefly on the difficult problem of coherence between aid and other international interventions or policy areas, such as security, trade and migration.

1.5 The review is organised under the following headings:

- Sequencing and selectivity
- Capacity building
- Partnerships
- Service delivery
- Community-based approaches
- Programme design – general principles
- Aid instruments
- Harmonisation
- Alignment
- Fragile situation typologies
- Organisational issues for donors
- General principles

2. Fragile Situation Typologies

2.1 Given the considerable variation across FS, donors have tried to refine their strategies by distinguishing among different groups of FS. For example, the World Bank uses four "business models": (i) deterioration; (ii) prolonged political crisis or impasse; (iii) post-conflict or political transition; and (iv) gradual improvement. DFID uses a typology based on different combinations of commitment (explicit policies for promoting human welfare; inclusive approaches across groups) and capacity (territorial control; effective exercise of political power; basic competence in economic management; sufficient administrative capacity). It distinguishes four groups: (i) strong capacity and reasonable political will; (ii) weak but willing where lack of capacity is the main obstacle to implementation; (iii) strong but unresponsive states where state capacities are directed to achieving goals other than poverty reduction; d) both willingness and capacity are absent (Torres and Anderson 2004). USAID distinguishes only between vulnerable states (those unable or unwilling to provide security or basic services to significant parts of the population, and where legitimacy is in question) and crisis states (vulnerable states where violent conflict is a reality or significant risk) (USAID 2005). The German strategy describes four scenarios: (i) where government performance is development-oriented and shows a positive trend; (ii) where government development orientation is low; (iii) situations of continuously deteriorating government performance, with no development orientation; and (iv) medium to high levels of governance, government performance is deteriorating.

2.2 Donor organisations use these typologies primarily to set out an overall narrative for their engagement with fragile situations . It is uncommon to find them used as a justification for specific programming choices, perhaps because individual FS rarely fall neatly into a single category. The literature makes some attempt to disaggregate approaches to aid-effectiveness across different types of FS, but without gaining much additional specificity. The typologies are open-ended and rather subjective, and however the boundaries are drawn, the sub-groups are still likely to be fairly diverse.

2.3 ODI makes an interesting argument suggesting that such typologies should be used cautiously. Few countries are sustained poor performers across multiple performance measures. For example, performance on economic growth, governance and infant mortality do not routinely correlate within the FS group. Data are notoriously weak. Furthermore, performance is heavily influenced by regional and international factors, including history of interactions with the donor themselves (ODI 2004).

2.4 As a result, trying to place countries within a set of prior definitions is unlikely to be a reliable guide to effective assistance. It is also unhelpful in communicating with national counterparts, as the labels are inevitably pejorative in nature. An alternative might be to identify a set of syndromes (structural constraints on development) commonly applying in FS, which can be used as a diagnostic framework to provide guidance on strategy.

3. Sequencing and Selectivity

3.1 There is consensus in the literature on the importance of being highly selective when designing an initial set of interventions in fragile situations. The original World Bank LICUS[1] Taskforce stressed the importance of 'zero-generation' reforms – realistic interventions, avoiding the most difficult political tensions, designed to produce modest but visible results and produce momentum for further reforms (World Bank 2002). ODI also advises focusing on a limited number of tasks, by mapping the goals of the intervention over a number of years, and then working backwards to determine the critical path for achieving core goals (ODI 2005).

3.2 The literature stresses the overwhelming importance of sound analysis in selecting early priorities, particularly when planning major recovery programmes in a post-conflict context. The UN and the World Bank have issued joint guidance on Post-Conflict Needs Assessments (PCNAs), and they support the development of Transitional Results Frameworks (TRFs) (ODI 2005). PCNAs should be conducted following or in parallel to a peace process, or after other major events such as a political transition. They should provide a baseline analysis for both international and national actors, generating high visibility at a critical juncture to support fundraising. They should help to generate a coherent 'storyline' for the international engagement, identifying on-going sources of fragility and conflict risk and how they will be addressed, providing an analysis of the capacity and legitimacy of national counterparts to guide partner selection, and beginning to identify the priorities of different national stakeholders. This storyline should then be validated with a wide cross-section of national and international stakeholders, to check its validity and build ownership. Note, however, that PCNAs to date have largely failed to provide a coherent story line, have suffered from insufficient realism contributing to unrealistic expectations on the part of national stakeholders, have given insufficient attention to the links between the security, economic and social arenas, have failed to integrate cross-cutting issues sufficiently, and have not given enough attention to the available implementation capacity (ODI 2005).

3.3 Based on sound analysis, interventions should be selected which carry a wider political significance, helping to strengthen helpful political forces, overcome divisions or demonstrate a 'peace dividend'. They should also avoid unintended negative consequences, such as sustaining the war economy or contributing to inequality between social groups (Picciotto et al 2005: 31-33). However, the World Bank's 2006 LICUS evaluation noted that the Bank had struggled to build sufficient political understanding into the design of its country programmes, and generally lacked a focused and well-sequenced reform agenda (World Bank Independent Evaluation Group 2006). For

[1] Low-Income Countries Under Stress. Note that the World Bank has discontinued use of the term "LICUS", in favour of "fragile situations ". However, the term LICUS is still used in this report when discussing literature from the period when it was current.

example, its analysis on Zimbabwe focused purely on practical needs in social services and infrastructure, and not on how they could be met in the difficult political environment. In Cambodia, interventions on demobilisation, corruption and forestry all lacked sound political analysis.

Box 1 Four elements of recovery planning United Nations Development Group and World Bank (2007)

1. **Pre-assessment:** conflict and risk analysis; mapping of institutional capacity; analysing security and access issues; establishing an overall vision; preliminary identification of priorities.
2. **Assessment and recovery planning:** detailed needs assessment (PCNA); prioritisation of needs; developing a Transitional Results Framework (TRF); preparing a recovery budget.
3. **Validating and financing:** developing coordination mechanisms; proposing financing modalities; donor meetings; begin essential capacity building efforts.
4. **Implementation:** recovery activities; monitoring and reporting against performance indicators; implementation of a communications strategy for national stakeholders; adjustment of programmes in response to lessons learned.

3.4 The literature offers little practical guidance on how to conduct this kind of political analysis, or which interventions are likely to be politically significant. Interestingly, ODI suggests that the current emphasis on Quick Impact Projects (QIPs) may be misleading. Surveys from Afghanistan suggested there was no evidence that the population demanded lots of small infrastructure projects, which they considered cost-ineffective, or that these delivered greater confidence in the political process. The population may be more interested in seeing the re-establishment of sound administration and the beginning of multi-year infrastructure development (ODI 2005: 44; Foster 2007: 33). ODI points to the importance of effective communications about the goals of the assistance. However, there is little evidence in the literature of donors adopting a proactive approach to communication. Further case studies illustrating the political impact of different kinds of aid intervention would be useful.

3.5 ODI points out that effective selectivity and sequencing is difficult to accomplish where there are multiple donor agendas involved, and points to the importance of discipline among donors (ODI 2005). In practice, this has proved difficult to achieve. In Afghanistan, donor reform initiatives have led to 120 pieces of pending legislation, dealing with virtually every economic and social challenge, with no apparent prioritisation or sequencing (World Bank Independent Evaluation Group 2006: 31). Haiti's Interim Cooperation Framework covers virtually all basic state functions, from security to economic governance to service delivery, and adds up to a "formidable programme". In Liberia, the TRF is 40 pages long, and is "hardly a simple planning tool" (World Bank Independent Evaluation Group 2006: 39). The World Bank's IEG concludes:

"While it is difficult to be selective in complex LICUS environments where reforms are needed in virtually every area, greater effort must be made to prioritize and sequence reforms to avoid overtaxing limited capacity, while at the same time rejecting partial solutions." (World Bank Independent Evaluation Group 2006: 31)

3.6 There is a potential inconsistency in the literature between an emphasis on selectivity, and on a coherent, integrated approach to the relief-rehabilitation-development continuum. In recent years, the literature has moved away from idea of a fixed sequence of phases, and of a clear distinction between conflict and post-conflict. Picciotto argues that the concept of a 'conflict cycle' is unhelpful, because of its tendency to encourage a sequential approach to the transition from war to peace and to fragment security, diplomacy, humanitarian aid and development assistance into separate domains. Conflict dynamics are discontinuous, and donors need to pursue a joined-up rather than sequential approach by combining short-term rehabilitation, security sector reform and long-term development measures into a single package (Picciotto et al 2005: 6). The advice to be modest and selective in interventions, yet at the same time simultaneously address the multiple dimensions of conflict reduction, relief and development, is clearly difficult to follow.

3.7 The tension may be easier to resolve at the level of individual sectors. One practical example of an integrated sectoral approach is the Joint Health Working Group in East Timor, which coordinated emergency health services through NGOs while at the same time planning the development of a new health bureaucracy. By addressing both phases simultaneously, the transitional health administration managed to meet short-term relief needs without compromising future health policy choices (Rosser 2004). Without this kind of planning, relief work can lock service delivery into structures that become difficult to change.

3.8 A number of papers propose a broad sequence of activities for interventions in FS, but the sequence sometimes seems arbitrary or unduly mechanical. For example, GTZ suggests a sequence for governance reforms as follows:

- First phase, characterised by weak institutions with low capacity to absorb reform: the focus should be on stabilisation, together with measures to promote social inclusion to prevent a resurgence of violence.
- Second phase (years 4-7): the focus should be on capacity development, especially building the revenue base for self-sufficiency and building public support for state-building.
- Third phase (years 8-10): consolidate institutional reforms and elaborate permanent constitutional arrangements (GTZ 2004).

3.9 Based on a statistical analysis of LICUS data, Chauvet and Collier suggest the following sequence, linked to movements in CPIA[2] scores.

- Prior to any improvement: avoid technical assistance (TA), but offer other forms of assistance, especially secondary and higher education, to build the conditions for reform.

[2] The Country Policy and Institutional Assessment (CPIA) has now been renamed the IDA Resource Allocation Index. However, we continue to use the term CPIA when discussing literature written before the change.

- When CPIA scores go up by 0.5, offer TA of up to 4% of GDP. During this phase, other forms of assistance are likely to be counterproductive.
- If reforms continue, the peak phase for external assistance comes in years 5 to 8, when large-scale aid can be offered of up to 15-20% of GDP, although TA should be scaled down.
- If the turnaround is sustained for a longer period, return to conventional aid allocation criteria.
- If reforms collapse, revert to the first stage.
- If reforms are caught in limbo, scale down aid accordingly (Chauvet and Collier 2004).

3.10 However, CPIA scores are not designed specifically for assessing FS, and do not contain any measure of political stability or security. On the face of it, it seems unlikely that CPIA scores alone could inform judgments of this kind. It is also notable that qualitative studies, such as the World Bank's recent *Aid That Works* (Manor 2007), do not describe any such pattern. Suhrke and Villanger critique Collier's findings, pointing out the recommendation of an aid surge in the middle decade is not robust, being based on only a small number of observations (Suhrke and Villanger 2004).

3.11 Foster concludes that it is probably unhelpful to generalise too much about priorities, because they should emerge from detailed diagnostic work and because external actors should not determine them. He discusses the importance of a nationally driven process for estimating the availability of resources (aid and domestic revenues) over time, and using the findings to inform prioritisation. He also suggests that prioritisation should be based on a sound assessment of available implementation capacity (Foster 2007).

4. Capacity Building

4.1 The many dilemmas of effective capacity building in any development context apply all the more strongly to FS. The literature contains some stinging critiques of past donor practices. Marina Ottoway suggests that donors insist on trying to transplant international best practices, rather than finding locally appropriate, politically viable solutions. She also suggests that donors withdraw the external supports for new institutions too quickly (Ottoway 2002). A DFID discussion paper points out that, if poorly designed, TA can seriously undermine state capacity. It gives the example of post-war Cambodia, where donor TA exceeded the government's entire budget for civil service salaries (Leader and Colenso 2005: 26).

4.2 The World Bank's LICUS evaluation found that the large volumes of TA provided to the government of Afghanistan to restart critical government functions had delivered very little or nothing at all, because there had been too few Afghan counterparts and too little knowledge transfer (World Bank Independent Evaluation Group 2006). It concluded that attempts to 'buy' capacity through massive TA programmes had not delivered sustainable results, and may have weakened the capacity that existed by diverting it to low priority activities. Likewise in East Timor,

> "The assumption that capacity would be developed in the government through on-the-job transfer of expertise from international advisers and training was flawed in an environment of very weak country capacity. The international advisers ended up focusing on project implementation and had little time for ensuring the transfer of capacity." (World Bank Independent Evaluation Group 2006: 24)

4.3 The evaluation pointed out that open-ended supply contracts with international consultants can create perverse incentives to provide unnecessary TA.

4.4 However, the literature also stresses the importance of capacity building to wider state-building efforts. There is an emerging consensus that focusing on the delivery of core state functions may be a more promising route to restoring legitimacy in FS than formal democratic processes (GTZ 2004; Francois and Sud 2006: 141-160; ODI 2004). Improving the effectiveness of capacity building support is therefore one of the most pressing aid-effectiveness issues in FS.

4.5 Chauvet and Collier make the important point that TA is effective only when provided to governments that both want and need it. Because of its sensitivity to the underlying conditions, it is a high-risk endeavour, akin to venture capital. Even when properly allocated at the right phase of the intervention, it will fail much of the time. However, the potential returns are also high. To ensure that the demand is there, they suggest that FS governments could be given a TA account to draw on as they see fit.

> "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." (Chauvet and Collier 2004: 15)

4.6 Pooled technical assistance funds, where national authorities are involved in setting priorities and procuring assistance, are attractive on principle, but have proved very difficult in practice. Foster comments that many have suffered from inflexible planning, approval and procurement procedures, and that demand from national authorities has often been low. Sector-level funds are more likely to be effective than schemes requiring line ministries to apply to a central pool. As in other development contexts, technical assistance is most likely to work when it is closely tied to an agreed set of activities or reforms (Foster 2007: 33).

4.7 The literature contains a range of practical advice on capacity building, including:

- Don't be over-ambitious. Set modest targets, and be aware that insistence on international best practice may be an obstacle to politically viable solutions. Focus on establishing 'good enough' governance. Use a platform approach, introducing staged reforms that create the preconditions for further progress in the future.
- Ensure that institution-building strategies are based on the capacity that already exists. Never assume that there is no capacity in place, and always take care not to displace existing capacity. Pooled funding of TA, as far as possible managed by government, is less likely to disrupt existing capacity than multiple, individual donor projects (ODI 2005).
- Ensure that capacity building strategies are based on a sound analysis of the interests of the different parties involved. Always seek to predict who stands to lose or benefit from reform initiatives, and develop politically informed strategies to negotiate around opposition (Leader and Colenso 2005).
- Capacity building support has greater prospects of success when working through government, rather than via Project Implementation Units (PIUs). If PIUs must be used, a plan for transferring functions from the PIU into government should be built into the design of the project (World Bank Independent Evaluation Group 2006: 24).

- Successful capacity building often requires sustained engagement between government and donor officials over a number of years. This enables donors to adjust their programmes in response to government needs, while giving time for government officials to absorb lessons and gain the confidence to attempt risky reforms (Manor 2007: 28).
- Don't attempt to use TA to leverage reforms.
- Be responsive to changing circumstances, and ready to react rapidly with assistance in areas where progress is visible.
- Increase the use of local consultants and south-south learning.
- Be wary of institutionalising transitional, emergency practices, like the Rwanda people's courts (Ottaway 2002).

4.8 There are a number of dilemmas described in the literature on which there is presently no consensus. One is the use of foreign advisers to fill critical gaps in the public administration. In Timor-Leste, this was considered essential during the Transitional Administration when designing an initial set of policies and institutions, but was found to have a significant impact on national ownership, with local officials often unable to articulate the rationale behind the policies they inherited (Rosser 2004). It also meant that many key policies and laws were formulated through non-participatory processes.

4.9 A related issue is the use of expatriate nationals to fill skill gaps in the administration. For example, the Afghanistan Priority Reconstruction and Reform process provided for 'lateral entry' – bringing Afghans from abroad or the private sector into professional positions in the administration for competitive salaries. Schiavo-Campo reports that this can be a useful strategy, but that it can also be overdone, with expatriates tending to behave more like consultants than public servants and therefore giving rise to a similar set of problems. He advises making sure there is a balance between 'insiders' and 'outsiders', and that donors need to be aware of their own bias in favour of outsiders, with whom communication is much easier (Schiavo-Campo 2003: 45).

4.10 A third contested issue is the payment of top-up salaries to public servants to aid competitive recruiting and retention of skilled personnel. In Cambodia's Seila programme, this was considered essential in order to ensure regular attendance by officials, but created problems of 'parallelism' within the administration (Hughes 2004). In Afghanistan, the multi-donor trust fund enabled ministries to award higher salaries (US$300, rather than US$30) to individual professionals, in return for implementing a reform programme approved by the Civil Service Commission. The reform programme sought to rationalise the administration by introducing clear objectives, job specifications and competitive recruitment. This more systematic approach to salary supplements presumably creates fewer distortions than paying top-ups within the context of an individual project.

4.11 There is no clear set of recommendations in the literature on these practices. It is likely that, in certain circumstances, they will be 'necessary evils'. However, donors should be aware of the negative impacts and take steps to minimise them.

5. Partnerships

5.1 The question of whom donors choose to partner with in FS emerges as a key issue, not just in order to improve programme delivery, but also because of its wider political significance. All aid has a political impact, strengthening the hand of some groups in society relative to others, and these effects are likely to be more pronounced in FS. Careful political and economic analysis is therefore required in order to avoid unintended consequences.

5.2 Hesselbein suggests that inclusiveness in the way aid is delivered and political or administrative structures established, is more important in overcoming divisions in a post-conflict society than formal democratic processes (Hesselbein et al 2006).

5.3 The DAC suggests that, in low-commitment environments, donors should focus their effort on potential change agents both inside and outside the state, to expose them to new ideas and promote debate. Many different groups may become change agents, including parliamentarians, judges, the media, professional associations and trade unions (DAC 2001). It also suggests working with sub-national authorities, or individual ministries, where a productive relationship with government is not possible. Picciotto likewise suggests developing innovative ways to engage with civil society and the private sector, where the partnership with the state is constrained (Picciotto et al 2006). Hopp recommends involving marginalised social groups in the reconstruction process, especially women and young male combatants and victims of violence, to foster integration processes (Hopp and Kloke-Lesch 2005). A number of donor policy papers, including DFID's, suggest direct support to communities as either an alternative or a complement to working with the state.

5.4 A GTZ policy paper recommends a structured approach to analysing different groups and their interests in the state-building process, using a simple framework of Reformers, Preservers (those with an interest in the status quo) and Spoilers (those with the capacity to use physical, political or economic influence to destabilise the process). The paper suggests that the 'waiting out' behaviour of the Preservers is highly predictable, and that interventions can be designed to minimise their ability to obstruct the process (GTZ 2004).

5.5 Schiavo-Campo offers a useful analysis of the role of the government's aid-management agency in the state-building process. In the early days, when capacity within the administration is extremely weak, the agency serves as a 'proto-government', helping to formulate the reconstruction programme and directly implement many of its activities. It is therefore the main locus of country ownership, and serves as a bridge between donors and government. Eventually, however, it will come into conflict with regular government structures as they stabilise and begin to assert their authority. Typically, the aid-management agency continues to operate for longer than it should, because it develops interests of its own and protects its turf. Donors have a tendency to prefer working with the aid-management agency, which is a known quantity with higher project-management capacity than line ministries. The agency

therefore becomes an obstacle to wider institutional development. To avoid this problem, there need to be clear 'sunset' arrangements between donors and the aid-management agency, linked to the emergence of capacity within the administration (Schiavo-Campo 2003: 38-39).

5.6 A World Bank study offers some interesting lessons on engaging with civil society organisations (CSOs) in FS (World Bank 2005a). It notes that, in conflict settings where the state has ceased to deliver services, local CSOs rapidly emerge to fill the gap, especially when supported by donor financing. In these situations, they play important roles, including (i) strengthening local governance by creating partnerships between community-based organisations (CBOs) and local authorities; (ii) introducing more participatory approaches into community-level decision-making; and (iii) playing a stabilising and mediating role between social groups. However, once government begins to resume service delivery, it inevitably leads to tensions with CSOs. Ideally, CSOs ought to adapt by shifting into advocacy and policy work, but this requires new skills and activities that are difficult to develop when their financial support is project-related. Competition among CSOs for donor resources leads to donor-imposed agendas and accountability relationships, and works against cooperation and network building among CSOs. The lack of any effective oversight by the state can lead to the emergence of fraudulent NGOs, but also of NGOs which operate on the basis of ethnic, religious or political exclusivity.

5.7 To improve the effectiveness of CSO support, the study suggests moving away from project-based funding towards more strategic, long-term financial support that fosters capacity building and sustainability of CSOs and their networks. It suggests more analysis of the nature and role of CSOs in the specific context. Financial support should be offered in such a way as to create incentives for CSOs to invest in training and capacity building. It suggests more emphasis on encouraging partnerships between CSOs and local government, and more support to umbrella organisations to enhance quality, improve coordination and joint learning, and create a stronger collective voice of CSOs towards the government. It suggests investing in standing forums for dialogue between CSOs and government, to facilitate the transition process.

6. Service Delivery

6.1 Whether to support service delivery through or in parallel to the state, and how to handle the transition over time, emerges as one of the most important and difficult decisions facing donors in many FS.

6.2 Older literature, such as the DAC guidance on 'poor performers', suggests working through NGOs, local government or individual ministries, where direct engagement with government is not possible (DAC 2001). Later literature, however, tends to be more sceptical of the benefits of working outside the state, and more aware of the risks of unintended consequences. The third Principle ("Focus on state-building as the central objective") is increasingly understood as requiring donors to focus not just on the delivery of services to the population, but also on the potential of service delivery to build the capacity and legitimacy of the state.[3]

6.3 Nonetheless, in many fragile situation contexts, restoring services requires a significant element of non-state delivery. Thus, the main programming dilemma often consists of how to structure the relationship between the state and non-state providers to maximise both service delivery and state-building objectives. A World Bank/UN document notes:

> "Non-state parallel service delivery channels may initially be necessary, particularly to meet immediate needs, but these can detract from building state capacity in the longer run if there is no explicit transition or 'exit' strategy. Perhaps more importantly, while service delivery through NGOs, private sector, donor or international agencies can play a vital role in protecting the welfare of vulnerable groups, efforts are also needed to build the capacity, accountability and credibility of the state in the eyes of the population. If all the positive recovery projects are 'branded' with the logos of donor or international agencies rather than being provided under the auspices of the state, the population will associate these services with international partners rather than building a sense of trust and connection with their own institutions and leadership." (United Nations Development Group and World Bank 2007: 15)

6.4 The World Bank's LICUS evaluation found that the use of non-state delivery mechanisms had proved an efficient way of delivering infrastructure, but not of empowering local communities or developing sustainable governance capacity (World Bank Independent Evaluation Group 2006). A study commissioned by DFID found that a donor-financed shift to non-state delivery of social services can result in a range of problems, including:

- Fragmentation of service delivery across multiple vertical programmes delivered in parallel by different humanitarian agencies, which become very difficult to consolidate into a common approach.
- Unsustainable operational standards and facilities, caused by poor institutional, technical and management capacity and a lack of sound information systems.

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[3] See for example Berry, Chris (2007) *Can aid for education be delivered effectively in fragile situations ?*

- A failure by humanitarian agencies to develop sustainable indigenous capacity.
- A lack of accountability over service providers, either upwards or downwards.
- A tendency for service providers and their local staff to attract hostility from the state, due to their unintended political role (Carlson et al undated).

6.4 In Southern Sudan, basic services were provided by INGOs, loosely coordinated through Operational Lifeline Sudan. In the absence of government leadership, projectised donor interventions working through local and international NGOs not only failed to develop sustainable or accountable structures and systems, but also left a legacy of coherence problems, including schools with different curricula and teacher pay scales (Berry 2007). During the conflict in Angola, INGOs provided health services directly to the population, while at the same time trying to build the capacity of provincial health services. However, with multiple service providers in the field, the lines of accountability became confused, and the official health services continued to decline. After the conflict, the government proved uninterested in resuming its service delivery role – arguably evidence of a displacement effect from non-state delivery (Berry 2007).

6.5 As in Afghanistan, donors can assist government to take on responsibility for service delivery by financing recurrent expenditure, including salaries, an option which appears to be becoming more acceptable to donors than in the past.

6.6 Where state service provision is not viable, a range of hybrid models are available. One strategy is to involve national government in contracting out service delivery to non-state actors. This need not detract from the legitimacy of the state: services may be still packaged for the end user as provided by the state. Donors now have experience in designing contractual arrangements that create the right incentives for service providers, in particular to support capacity building and an eventual transition back to state service provision. The government should be encouraged to take on policy making, regulation and monitoring of private service providers, possibly using the MDGs as an output measure (Berry et al 2004). The World Bank writes:

> "Early allocation of a policy, prioritization, or coordinating role to state structures allows the state to take credit for results achieved, even though state treasury systems do not control disbursements in the early stages of project delivery. This approach helps create legitimacy for a state recovering after conflict because it ensures that government is perceived to be delivering positive benefits to the population. In addition, early engagement with state structures creates openings to build public administration capacity, providing a platform for transition from community and nongovernment services to an appropriate long-term role for the state in service delivery." (Cliffe 2007: xiii)

6.7 Joshi and Moore develop the idea of "institutionalised co-production": "the provision of public services… through a regular long-term relationship between state agencies and organised groups of citizens, where both make substantial resource contributions" (Joshi and Moore 2004: 40). The paper points out that expert opinion is now fairly agnostic on the best institutional arrangements for service delivery, and more accepting of diverse, localised solutions. Monopolistic state provision is now regarded as outmoded, while contracting out, though still widely in use, has a range of recognised flaws. Donors should be open to unorthodox arrangements based both on local traditions and on recent, 'smart' adaptations to local conditions. Institutionalised co-production may emerge either through citizen action in response to a decline in government capacity, or in agreement with government where centralised service delivery is impractical. It is most likely to be useful where: (i) there are large numbers of clients that are difficult for the state to interact with; (ii) there is a diversity of operational situations; and (iii) the state lacks resources (including personnel) at local level. The paper concludes that, in areas like irrigation, co-production arrangements may be more effective and responsive than either state provision or purely farmer-controlled schemes. The paper, however, is light on illustrations of how co-production works in practice.

6.8 Where government is unable to play a coordinating role, the donors themselves need to provide the coordination mechanisms, disciplining themselves to avoid fragmented or idiosyncratic approaches that will be difficult to scale up in the future. The DAC Fragile Situations Group has advised the establishment of an external service-delivery 'cabinet', to coordinate and encourage common analytical work. They should apply a 'shadow alignment' approach, following state policies even when working in areas not controlled by the state and working according to existing administrative boundaries. They should also have a clear transition strategy, to hand back the coordination function to government as soon as feasible.

Box 2 Restoring health services in Timor-Leste (Rosser 2004)

The health sector in Timor-Leste is a positive example of a transition from non-state to state service delivery. Following the almost complete departure of health professionals and destruction of health facilities, donors initially relied entirely on INGOs to provide emergency health services, but at the same time moved rapidly in developing new health institutions. A Joint Health Working Group, bringing together UN experts, INGOs and East Timorese health professionals, took on both the coordination of the relief effort and the creation of the Interim Health Authority.

A joint assessment mission concluded that the priority was to address immediate basic health needs *without constraining future policy choices*. Donors therefore continued to fund INGOs for service delivery, but required them to submit to the coordination and policy direction of government, as set out in a Memorandum of Understanding. Although some INGOs were initially reluctant to submit to this arrangement, they eventually established a good working relationship.

By the second phase of donor support, the priority had become a shift of service provision to government, due in part to growing concerns with the high cost of INGO service delivery, which was reliant on foreign doctors, and partly to pressure from Timorese managers as their capacity increased. A transition strategy was developed, beginning with high priority areas like immunisation, tuberculosis and health promotion. New district health management teams were established to assume responsibility for local service delivery.

To replace the Western doctors employed by the INGOs, the government planned to recruit doctors from other developing countries, while encouraging expatriate Timorese doctors to return. Donors finance also covered the costs of medical students abroad.

This transition strategy enabled a rapid restoration of basic health services. Within a 4 year period, Timor-Leste was estimated to have 6 functioning hospitals, 65 community health centres and 170 health posts, giving 87% of the population access to a health facility within 2 hours' walk.

One of the success factors for this transition was the availability of flexible and coordinated donor support, which enabled INGO service delivery to be funded right up to the point when local authorities were able to take over. Most importantly, the case demonstrates the importance of placing emergency relief work, reconstruction and long-term policy and systems development within a common strategic framework, so that they do not work at cross purposes.

6.9 Collier proposes the establishment of an independent service authority – a quasi-public institution responsible for purchasing basic services 'wholesale' from whatever providers are available, including local authorities, the private sector and civil society. Both government and donors could channel their budgets through such an authority, and governance arrangements could provide for civil society participation (Collier 2007: 119-120).

6.10 The literature sets out a number of other principles with respect to service delivery:

- Before designing their interventions, donors should map existing service providers as well as the quality of service provision. They should also be aware of the political dimensions involved in choosing service providers (OECD DAC Fragile State Group 2006).
- Coherence and coordination among service providers are critical, to prevent the emergence of multiple, inconsistent approaches that compromise future institution-building.
- Long-term capacity building goals should be built into all service delivery, even humanitarian, by empowering local communities and training local staff who can later take up key positions in government agencies. Where there are multiple state and non-state service delivery channels in operation, the capacity building needs will extend across government, civil society and the private sector (OECD DAC Fragile State Group 2006). One World Bank study concluded that more local-level capacity survives conflict and complex emergencies than is commonly assumed (Manor 2007: 3). Donors should always assume that there is some existing capacity in place, and design their programmes to build on it.
- Service delivery strategies must take care not to contribute to social divisions (Principle 2: Do No Harm). Donors need to be aware of any issues of group discrimination that contributed to, or emerged from, the conflict, and design their interventions to alleviate them (Carlson et al undated). The DAC Fragile Situations Group notes that the current literature is weak on the spatial and gender dimensions of service delivery, but that well-targeted service delivery can potentially make a significant difference to social exclusion and the victimisation of women (OECD DAC Fragile State Group 2006).
- Donors who take on the commitment of funding service delivery must take care to ensure a continuous funding stream, as breaks can be very harmful (OECD DAC Fragile State Group 2006).
- Where service delivery is included as part of urgent humanitarian assistance, care needs to be taken to facilitate a transition to longer-term development approaches. In particular, humanitarian providers must pay careful attention to the cost structures they put in place during the emergency phase, avoiding 'gold-plated' services that cannot be sustained. There should be clear exit strategies for short-term providers and projects (OECD DAC Fragile State Group 2006).

6.11 There is a body of literature highlighting the importance of security and justice services. A recent DFID publication emphasises that the provision of security, and the capacity to rule through law, belong to a core set of 'survival' functions, and must be central to any state-building approach (Whaites 2008). Justice and security are not just essential services that a state must provide to its citizens, but also constitutive of the authority of the state (McLean and Scheye 2007). A failure to establish the rule of law creates a vacuum that can quickly be filled by conflict or civil disorder. Unlike other service providers, the security organs (military; police) may themselves be a source of disorder, and therefore need to be brought under democratic control.

6.12 While there is a clear consensus on the importance of security and justice, there is little common understanding on either the objectives or the modalities of working with this sector (Cox 2008). Samuels writes:

> "There is a striking lack of systematic results-based evaluations of the programs, especially independent rigorous cross country evaluations, or comprehensive case studies of all the programs in a country. The rule of law expertise that exists is not centralized or institutionalized, and resides in individuals who have often learnt through trial and error. The field lacks a common foundation or basic agreement on the goals of rule of law reform, on how different aspects should be sequenced to avoid them working against each other, and fundamentally what sorts of strategies are effective." (Samuels 2006)

6.13 The literature stresses the importance of supporting traditional or non-state justice mechanisms. However, these informal and often very fluid processes are by their nature difficult for donors to engage with (DFID 2004a). The OECD-DAC has recently produced a major handbook on security-sector reform (OECD-DAC 2007). It sets out agreed principles and approaches, stressing the importance of a joint assessment process, building a supportive political environment, and taking an integrated approach across the many dimensions of a complex sector.

7. Community-Based Approaches

7.1 The literature stresses the importance of balancing a top-down approach to state-building with efforts to empower local communities. Community-based approaches (CBA) refers to a range of programming techniques for channelling funds directly to the local populace, while building local governance capacity and social capital through participatory approaches.

> "CBA is an umbrella term for approaches to programming which involve beneficiaries in their identification, design or management. It refers to a set of approaches, applied within community-level projects or as part of national programmes. Degrees of 'participation' vary substantially and range along a spectrum from consultation with communities to devolution of resources, decision- making and implementation to the community level." (Slaymaker and Christiansen 2005: 11)

7.2 Because local needs in a post-conflict situation are highly variable, involving communities in the allocation of resources is considered both an effective means of targeting resources, and a means of rebuilding social capital.

7.3 There is some evidence that, in a post-conflict environment, the local level may offer greater capacity for innovation than central government. A World Bank study concludes:

> "All of the case studies suggested that local communities were better able than governments at higher or local levels to rapidly develop a capacity for constructive action. Nearly all of the successful initiatives involved some sort of engagement with local-level communities or their representatives… The evidence presented in this volume suggests that when conflicts wreak havoc or state institutions become seriously incapacitated, human and interpersonal resources and bonds often suffer less damage at the local level than at higher levels. As a result, when the time comes to rebuild, it is often easier to make headway at the grassroots than at higher levels." (Manor 2007: 11-12)

7.4 However, the study also warns against idealising the community level. Local arenas may be "afflicted by parochialism, factionalism, the danger of elite capture, inequality, and injustice". This suggests that minimum standards on the treatment of women and minority groups within the community need to be incorporated into programme design. In addition, local residents generally need resources and support from external agencies, whether governmental or non-governmental, if they are to make any headway at development (Manor 2007: 13).

7.5 The effectiveness of CBAs is strongly influenced by programme design. Communities are often not well equipped to decide equitably on the allocation of financial resources. The quality of the participatory processes that are put in place, and their sensitivity to local context, are critical. Participatory design and community ownership is therefore key; as is the relationship between new, community-level processes and local government structures. Donors may prefer to bypass weak local governments to achieve more efficient delivery and avoid the dangers of elite capture. However, programmes which strengthen

the interaction between local communities and local government are more likely to have a sustainable impact on governance. Experience suggests that appropriate arrangements take about a year to put in place (Foster 2007), and that disbursement of funds should start gradually, to enable the beneficiaries to learn to assert their rights and hold their leadership to account (Slaymaker and Christiansen 2005).

7.6 A recent World Bank publication contains case studies of two successful community-based initiatives that followed rather different approaches. The Northern Uganda Social Action Fund (NUSAF) is an example of a vehicle designed to channel funds directly to local communities for social infrastructure, livelihood support, reconciliation and community development. The programme was not delivered through government, because no single department could have managed the diverse sectoral spread and because the top-down bureaucratic structure was considered antithetical to a demand-driven approach. However, local authorities were closely involved in appraisal and approval of projects, and in monitoring the activities of local communities. Skilled community facilitators trained in the participatory ethos proved to be critical. NUSAF successfully generated extensive demand for local development projects, and generated a high degree of local ownership. However, its wider impact on conflict reduction was assessed as limited, and the design may have underestimated the degree to which local divisions were a product of political rather than purely economic grievances (Robinson 2007). This demonstrates that there is not necessarily any link between successful development activities and conflict reduction.

7.7 The Seila programme in Cambodia[4] was a local infrastructure programme delivered in the form of budget support to provincial and communal authorities. It used a 3-tiered system of planning and budgeting designed to support the government's ongoing decentralisation programme. Although initially conceived as a vehicle for overcoming post-conflict infrastructure gaps, over time the programme took on a more explicit governance focus, aiming to strengthen local democracy and participation, improve development planning and develop stronger partnerships between central and local government, NGOs and the private sector. In a context where rapid political and economic reform had left provincial government without a clear function, the programme is credited with giving local authorities a new role in the development process and a means of connecting with local communities, including those in former insurgent-controlled zones. Thus, the 'leap of faith' involved in providing budget support to unproven structures, provided them with a strong impetus to reform and become more responsive to citizens.

7.8 The case study also notes that the Seila programme began at a small scale, 'below the radar screen' of the country's senior politicians, and was therefore less prone to the elite capture and corruption that plagued other development programmes in Cambodia. The relatively strong leverage of donors vis-à-vis

[4] The current phase of the Cambodian local government programme (no longer called 'Seila') is described in the Cambodia case study.

provincial authorities enabled them to put in place sound fiduciary controls that survived even after the programme had gone to scale. However, while the accountability mechanisms worked for this programme, they had no impact on the wider problem of corruption at provincial level (Hughes 2007).

Box 3 Designing community-based approaches (Hughes 2007)

Defining the community
Determining the level for community involvement is a key decision point. Donors should avoid the trap of artificially creating communities. They should avoid "romantic notions of homogenous groups", in favour of detailed analysis of the incentives for and against collective action. Although some diversity within communities is inevitable, it needs to be carefully managed. It is also inevitable that programmes will have to work through existing community elites. However, good management structures and clear rules of the game are needed to manage the dangers of elite capture.

Relationships with local authorities
Community-based approaches have to work to some degree in parallel to local government structures, and are often chosen precisely because there is a legacy of mistrust by communities of formal government. However, one of the goals of the programme should be to bridge these divisions. Some degree of buy-in from government is therefore necessary. Community-based organisations play a key role as intermediaries between communities and local government, and this needs to be consciously encouraged.

Targeting
As users of services and social infrastructure, local communities should be best placed to decide on resource allocation. However, in certain conditions, deferring to community choices can worsen local inequality. The provision of food aid is particularly vulnerable to subversion. Targeting therefore requires skilled external facilitation of community decision-making processes. The availability of skilled facilitators may be limited in post-conflict situations, and represents one of the difficult programming challenges.

Financing
There are inherent dangers in injecting major financial resources into post-conflict communities. It may exacerbate tensions and renew a cycle of violence, as well as raising issues of sustainability. There are major debates over the benefits of cost recovery. It often proves difficult to get poor communities to contribute resources, and may affect the uptake of essential services like health and education. Some programmes give beneficiaries the choice of making either cash or labour contributions, but this is difficult to organise in a low-capacity environment. There are on-going debates on the merits of demand-side interventions, including on the relative merits of cash- or voucher-based systems, and of conditional or unconditional cash transfers. Unconditional cash transfers are faster, more flexible and allow the recipients greater dignity. Food for work schemes may also be an option, although care has to be taken to avoid distorting local food markets.

8. Programme Design – General Points

8.1 Innovative and flexible programme design, based on sound analysis of context, is constantly stressed in the literature as fundamental to effective aid in fragile situations – much more so than any single aid instrument or approach.

8.2 The literature stresses the need to be responsive to the varied and volatile conditions found in fragile situations . A number of case studies stress that initial programme design proved to be less important than the willingness and ability to redesign opportunistically in mid-stream in response to changing circumstances and new openings.[5] The World Bank experience suggests that successful programmes in fragile situations often start small, in order to be flexible, but with the capacity to go to scale. They should also be designed with a view to producing 'spillovers' of various kinds, such as involving officials from other ministries in order to maximise demonstration effects.

8.3 ODI states that a long history of fragmented, projectised aid (e.g. in Nepal and Cambodia) created a set of perverse incentives for national actors, attracting power politics and corruption (ODI 2005). One World Bank study suggests that any donor intervention in a post-conflict environment will be a focus of political attention and attempts at cooptation and control. Measures therefore have to be taken to prevent elite capture (Hughes 2007).

8.4 Picciotto stresses the importance of careful assessment and management of risk (Picciotto et al 2005). Chauvet and Collier, and a number of other studies, point to the high-risk nature of programming in fragile situations , but stress that donors must be willing to take on high-risk ventures offering a high return in terms of state-building and political impact (Chauvet and Collier 2004). Engaging with government, even where capacity is low, is sometimes cited as an example of this approach.

8.5 James Manor makes the important point that governments in FS, particularly new regimes following political transitions or peace settlements, may be in a precarious political situation and therefore highly risk averse. They may not wish to attempt innovative development programmes or complex reforms, for fear of the political repercussions of a public failure. In these circumstances, donors can play a useful role in taking on risky projects, with the intention of passing them on to government once their effectiveness is demonstrated (Manor 2007).

8.6 The literature also stresses the importance of good communication to support programming in fragile situations . Following a peace settlement or political transition, good communication is essential in order to manage expectations and sustain public support through a difficult transition Schiavo-Campo (2003).

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5 See case studies in DFID (2004b) and James (2007)

9. Aid Instruments

9.1 Because of the diversity of conditions found in fragile situations , and the strong emphasis in the literature on contextualised design and flexibility, there are few general lessons to offer on aid instruments. The literature does not go much beyond the first of the DAC Principles, which states: "International actors should mix and sequence their aid instruments according to context, and avoid blue-print approaches."

9.2 Ball concludes that the choice of funding mechanism depends on what donors are trying to achieve, and in particular on how they choose to manage the trade-offs between quick impact and longer-term goals. If the emphasis is on speed of delivery for early recovery efforts, the options include a Common Humanitarian Fund, a UN-administered multi-donor trust fund (MDTF), channelling funds through the World Bank Post-Conflict or LICUS trust funds, direct execution by INGOs or funding through UN Agencies via the Consolidated Appeals Process. If they prioritise medium-term capacity building and development goals, they may prefer a World Bank-administered MDTF, co-financing with IDA or a UN-administered trust fund for project work. The starting point should be a Post-Conflict Needs Assessment to determine priorities, and where possible a participatory planning process with national stakeholders (Ball 2007).

Box 4 Classification of aid instruments in FS (Ball 2007)

Mick Foster offers the following typology of aid instruments in fragile situations .

- General budget support
- Sectoral budget support
- MDTF established with government
- MDTF established outside government
- National programme agreed with government (e.g. SWAP)
- National programme not agreed with government
- Government-led projects
- Donor-led or NGO-led projects
- Humanitarian aid
- Technical assistance fund (active government role)
- Technical assistance projects (passive government role)

9.3 A DFID paper suggests that budget support has been effective in two circumstances: via MDTFs, to support recurrent costs during the early stage of state building (e.g. Afghanistan, Timor-Leste); and to new regimes in more settled institutional contexts following a political transition (e.g. Rwanda; Sierra Leone) (Leader and Colenso 2005). A World Bank study concludes that budget support via trust fund arrangements has worked "tolerably well" in a number of cases, but should in general only be attempted once projects have changed government perceptions and operations sufficiently to enable it to make good use of the additional budgetary resources (Manor 2007). Foster

concludes that budget support may be appropriate where government has a reasonable core of pro-poor policies, but may need to be supported by additional fiduciary controls and earmarking (Foster 2007). Sectoral budget support may be a better option where overall public financial management is weak, but there are promising developments in particular sectors.

9.4 A World Bank study comments that aid modality is less important than fund management arrangements, which need to be tightly controlled (Schiavo-Campo 2003). For this reason, MDTFs have become increasingly important. They offer an effective vehicle for donors to manage and share both political and fiduciary risk, making them a successful fundraising tool.

> "An MDTF is… a useful risk management tool: it can allow different actors to share or re-allocate perceived risks to other actors they believe are in a better position or more willing to shoulder it." (Scanteam/Norway 2007a:22)

9.5 A recent multi-donor review concludes that MDTFs represent by far the most important coordination mechanism available in FS, with spill-over coordination effects for non-MDTF funding and donors. They can be used to cover most civilian expenditure other than large investment projects, purely humanitarian assistance, or security-related expenditure such as de-mining, police or prisons (Schiavo-Campo 2003). For donors, they reduce information, coordination, administrative and access costs, and encourage joint approaches to complex, state-building processes. For national government, they can increase the quantity and predictability of resource flows, offer greater influence over donor funding decisions, and provide an opportunity to deal with a group of donors through a common steering committee, reducing the "cacophony of donor voices" (Foster 2007: 23). They offer scope for innovation in governance structures, approval mechanisms and disbursement arrangements, allowing for different levels of government leadership or involvement depending on capacity (ODI 2005; Leader and Colenso 2005; Schiavo-Campo 2003). The inclusion of national stakeholders, including civil society, in the governance structures of MDTFs, has helped to build their political profile and legitimacy.

9.6 Where MDTFs incorporate a basket of untied funds for allocation through a joint planning process with national government, they can be an effective platform for policy dialogue and building central planning and budgeting capacity. The more that national government improves its planning processes, the greater the importance of untied funds (Scanteam/Norway 2007a).

9.7 MDTFs also provide an effective mechanism for disbursing funds into the budget, in particular for supporting recurrent costs like salaries. Additional fiduciary controls can be incorporated, enabling limited forms of budget support to be provided even where national PFM systems are relatively weak. A financial management agent can be appointed to monitor disbursements and track the flow of funds. In Afghanistan, the MDTF worked by reimbursing government for eligible expenditures. The World Bank has become proficient at setting in place appropriate controls (Scanteam/Norway 2007a).

9.8 Both the UN and the World Bank have acted as administrators of MDTFs in FS, and in both cases their rules and systems have proved something of a constraint on the design and operation of the fund. The UN has a dedicated MDTF office, and its procedures allow for faster start-up. However, its funds are provided off-budget, and it has not been as effective at involving government in its decision-making or delivering funding through government systems. Nor has its record on technical assistance been strong. In addition, some 90% of donor funding to UN MDTFs has been earmarked, which undermines many of the benefits of the instrument.

9.9 The World Bank's procedures are based on its general lending operations. These take some time to put in place, and are sometimes seen as too slow and rigid for post-conflict environments. The Bank has also had difficulty in deploying sufficiently experienced staff into the field to manage the funds, which has on occasion been a source of frustration for other donors. However, the Bank has good capacity to support government policy making and systems development, and tends to be the partner of choice once the emergency phase has passed (Scanteam/Norway 2007a).

9.10 MDTFs to date have constituted only a small portion of donor finance to any given FS. The continuing insistence of many donors on providing a large proportion of their assistance bilaterally limits the aid-effectiveness gains to be had from such a mechanism. In addition, many donors have insisted on earmarking funds provided through MDTFs, which significantly reduces their capacity to align with national priorities or support participatory planning. Further work is therefore needed on providing donors with incentives to participate, including assurance that their funds are going towards genuine priority areas even without formal earmarking (Schiavo-Campo 2003).

9.11 The literature makes a number of recommendations about how to make MDTFs more effective.

- Many MDTFs are working in conditions of semi-conflict. They therefore require a high degree of flexibility in their planning and operating procedures, although this should not prevent them from supporting partner country priorities and preferences (Ball 2007).
- MDTFs should incorporate design features that help to build national ownership. This means including representatives of government and civil society in the governance structures, and placing a priority on participatory planning processes. However, care should be taken to prevent the MDTF from competing with national policy-making processes. So long as these are minimally functional, the fund should defer to them to ensure a correct division of roles.
- MDTFs should have the flexibility to allocate funds to non-state actors, as well as ministries. Neither the World Bank nor the UN is well set up to do this.
- One writer suggests that pushing funds and funding decisions down to the lowest level of government is a good strategy for reducing corruption (Ball 2007).

- Donors need to play an active role in the management of the MDTF, in order to ensure the best possible performance from the fund administrator. The donor council or steering committee is the key body for strategic decision-making. It should also support the activities of the fund with high-level political and diplomatic support, which the fund administrator is not in a position to supply.

9.12 Social funds have been widely used by the World Bank to channel money directly to local communities for small infrastructure and livelihood investments, bypassing government systems where they are not functioning effectively. They can be established rapidly, and their strength is seen as promoting participatory processes and local democracy. For this reason, they are often considered appropriate for the initial stages of an intervention, when conditions are most difficult. However, if they become long-term structures, they can inadvertently help to sustain government incapacity.

> "If the administrative instruments used to manage social funds remain largely or wholly separate from a government's bureaucratic structures, those structures will not benefit from any efficient approaches developed within the former. And if substantial funds pass through the special agencies associated with social funds while the government's mainstream administration is seriously short of resources, morale within and the capacity of the latter tend to be undermined." (Ball 2007: 20)

9.13 It can also undercut local democracy, if citizens look to a donor-controlled social fund as the main source of development initiatives and become disaffected with local government. Developing transition strategies that minimise these unintended effects is therefore the chief design challenge.

9.14 Despite the increasing emphasis on programmatic approaches in even the most difficult of circumstances, the literature is clear that there is still extensive scope for projects in fragile situations . However, it notes that projects can vary almost infinitely in terms of their strategic fit with the wider goals of the intervention (e.g. state-building), their coordination with other donors and the degree of alignment with government policies and systems. There is considerable scope to apply aid-effectiveness principles to project design, including using a shadow alignment approach (Leader and Colenso 2005).

9.15 Similarly, there is ample scope for better design of humanitarian assistance, to ensure it is delivered in a way that also facilitates state-building, reconstruction and development. The literature stresses that relief agencies should be tasked with capacity building as part of project delivery, if only by ensuring that national staff are placed in responsible positions. DFID recommends a shift away from commodity-driven intervention towards cash-based, social protection approaches, which broaden the livelihood strategies available to vulnerable populations and can stimulate demand for service delivery (Leader and Colenso 2005).

10. Harmonisation

10.1 In most aid-effectiveness literature, harmonisation is treated as a second-order principle to alignment, in recognition that changing the interaction between donors and partner countries is generally a higher priority than changing working relationships among donors. While this may also apply in FS,[6] the harmonisation agenda has relatively higher priority, because government leadership of aid coordination is weaker.

10.2 The World Bank's IEG assesses the quality of donor coordination across LICUS countries as "medium to low" (World Bank Independent Evaluation Group 2006: 35). In Timor-Leste,

> "While the international community was able to raise a large amount of resources for development of Timor-Leste, the general lack of coordination between the major players in the country worked to the detriment of both the donors and the country and led to less effective and efficient utilization of resources." World Bank Independent Evaluation Group 2006: 34-35)

10.3 A recent World Bank/UN document notes:

> "Stovepipe planning", where each actor plans in isolation from the others, can: (i) endanger the peace; (ii) prevent a smooth transition from external responsibility for crucial services to national responsibility; (iii) increase the burden placed on national authorities, and create consultation fatigue among stakeholder and civil society representatives." (United Nations Development Group and World Bank 2007: 21)

10.4 Coordination around capacity building emerges as a particular problem. It is not uncommon to find multiple donors providing TA to the same organisation, using inconsistent policies and approaches.

10.5 ODI comments that harmonisation in FS must begin at the strategic level, with an overall donor commitment to coherence (ODI 2005). The World Bank experience suggests this basic commitment is often the stumbling block.

> "The motivations for supporting fragile situations range from security, to aid effectiveness, to equitable development, to poverty reduction, to state building, to peace building and conflict prevention… Without a common overall objective, policy coherence is unlikely." World Bank Independent Evaluation Group 2006: 37)

10.6 The literature contains a number of lessons for improving harmonisation in FS:

- Upfront agreement among donors on the need for strategic coordination and on conditions of engagement.

[6] Leader and Colenso note that harmonisation is not a substitute for alignment in FS (Leader and Colenso 2005).

- Move as quickly as possible to a unified country strategy or framework encompassing political, security and development dimensions, and involve donors in joint monitoring of progress through benchmarking against agreed objectives (ODI 2005).
- More investment in joint or shared analysis.
- Identify lead agencies for particular sectors, thematic areas or tasks, to take responsibility for strategy development, building networks, improving information flows and piloting new approaches. However lead donors must take care not to crowd out government leadership, impose their own systems or preferences, or dominate the policy dialogue to the exclusion of other donors (DAC 2001).
- Find ways to allocate donor resources rationally across sectors, avoiding crowding and orphans, based on donor comparative advantage.[7]
- Liberally share credit for successes among donors.
- Empower managers in the field, to give them the flexibility and authority to enter into agreements with other donors over joint modalities and complementary approaches.

10.6 The main tool for promoting donor coherence and harmonisation in post-conflict settings is the Transitional Results Framework (TRF), now supported by both the World Bank and the UN. TRFs set out a programme of activities, typically over a 2-year period in 6-monthly cycles, towards an agreed set of outcomes, with tasks allocated across donors and government agencies and with a common monitoring and reporting system. They serve as a donor-government compact, articulating their separate and shared responsibilities (including financing). They should focus on crucial areas where lack of progress risks a reversal in the peace process or political transition. They should contain a programme of activities to re-establish the critical functions of the state. Areas likely to be included are reconciliation activities, security, re-establishing minimum levels of public finance, basic service delivery and economic recovery. The format offers the potential to explore the synergies across these different areas (political; security; governance; economic), although in practice this has proved difficult to achieve (United Nations Development Group and World Bank 2007).

10.7 The WB/UN guidance suggests that the budgeting of TRF activities is a key opportunity for capacity building with national counterparts. It should involve central planning and finance ministries in costing activities, projecting national and international resource flows and setting a cost ceiling through macro-economic analysis. The processes should be designed as far as possible to mirror a normal budget process, with a ministry of finance team providing indicative guidelines on ceilings and formats to the sector teams, and encouraging them to consider the long-term cost implications of capital investments. The guidance places a strong emphasis on re-establishing the national budget as soon as possible, as the primary tool for aid coordination.

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7 Note, however, that Schiavo-Campo suggests avoiding the language of 'comparative advantage' for donor coordination, on the basis that a trading metaphor is inappropriate for a cooperative relationship (Schiavo-Campo 2003: iv).

> "While fiduciary capacity in the public administration following a prolonged conflict or crisis is often prohibitively low, the recovery planning process offers an opportunity for donors to rally around a common vision and plan for moving progressively back towards an on budget approach to recovery. If the government budget is not used as a central pillar for aid coordination at the outset, an opportunity to establish transparency, accountability and national ownership over the use of resources is lost." (United Nations Development Group and World Bank 2007: 9)

10.8 A TRF typically involves a governance structure involving donors, national government and civil society, providing an opportunity for mutual accountability. It should include both technical and financial tracking systems, with procedures for regular joint review of progress within sectors and overall. The Framework should remain flexible enough to adjust activities as needed in pursuit of agreed goals.

Box 5 Five principles for Transitional Results Frameworks (TRFs) United Nations Development Group and World Bank 2005)

1. They should be simple. Complex information gets lost in low capacity or politically unstable environments. They should be written in plain language and accessible to non-specialists. They should involve specificity and clarity about goals, but not technical detail on implementation.
2. They should be selective, focusing on a few key reforms to generate visible results and create a platform for further reform and reconstruction. While experience shows there are strong forces working against selectivity in FS, the failure rate of overly ambitious plans is high. To encourage selectivity, it is important that national participants understand that their role is to assist in setting priorities, rather than insisting on the inclusion of all of their individual preferences.
3. They should be integrated, addressing political and security challenges alongside the economic and social spheres, to ensure balanced support. There should be clear logical linkages between the areas, and a clear causal chain between the policies and donors actions selected, and the results aimed for.
4. They should be nationally owned. This means careful selection of participants by reference to wider political dynamics. Participation should be broad enough to avoid unexpected opposition to the plan. Where political conditions are unfavourable, start with a few key stakeholders and work outwards. Try to understand the incentives for support and opposition among different stakeholders.
5. They must generate sufficient donor buy-in. This can be encouraged by joint donor participation in a Joint Assessment Mission. A realistic TRM should assist donors in planning and timing their commitments and reporting to their own constituencies on results.

11. Alignment

11.1 Alignment emerges as a priority in FS, as in all other development contexts, but is more difficult to implement. ODI warns that the unintended consequences of poorly aligned aid practices are even greater in FS. Donors feel obliged to bypass weak country systems, in order to deliver urgently needed assistance (humanitarian agencies in particular tend to be "state-avoiding"). This in turn inhibits the development of national policy and budget processes. Multiple, poorly coordinated donor activities can divert national resources (human and financial) to low priority areas, making it more difficult for governments to formulate a coherent policy agenda. The larger the scale of the international intervention, the more counterproductive these dynamics become (ODI 2005).

11.2 ODI points out that, where there is incipient capacity for country leadership, donors need to discipline themselves (and each other) to leave space for a national policy process, resisting the temptation to rush in and fill the policy vacuum. Supporting weak governments to develop policies for donors to align to, requires patience and self-restraint. In some cases, it may even slow down the restoration of basic services, but is ultimately more effective. Donors should never assume an absence of policy capacity. In many cases, willingness to formulate policies – even if limited to a few key individuals – is more important than institutional capacity, which can be developed. However, political analysis is required to understand the different actors and the incentives they face. Donors also need to allow enough time for the political side of policy making to play out – that is, for national stakeholders to negotiate trade-offs and reach compromises (Ball 2007: 18).

11.3 Donors need to take care to avoid promoting competing policy frameworks across different government agencies, as happened between the World Bank and the Asian Development Bank in Cambodia at the beginning of the Poverty Reduction Strategy (PRS) process. They should also avoid launching major cross-cutting reforms that disrupt existing capacity.

11.4 The World Bank LICUS evaluation points out that absorption constraints apply equally to knowledge products. Where there is limited partner involvement in analytical work, they tend to be uninterested in the results. Over-ambitious analysis may be seen as an imposition, with correspondingly little influence (the evaluation gives the example of Tajikistan) (World Bank Independent Evaluation Group 2006).

11.5 ODI stresses that the budget is the best anchor for government-led aid coordination. Special effort is needed to rationalise and strengthen the budget process to facilitate progressive alignment, beginning by timing aid commitments to the national budget calendar. Complex sources of aid finance are difficult for governments in FS to manage. For that reason, pooling funds through an MDTF may facilitate alignment. Donors should begin by improving their understanding of national policies and systems, including how policy is formulated, the budget mechanism and key operative policies. Joint assessments can help donors to build a common understanding of the institutional environment.

11.6 In some countries, it may be possible to move forward immediately with preparing or updating a PRS. An Agulhas paper advises introducing PRS principles progressively, as conditions allow. This might involve beginning with a modest PRS prepared with external support, even where ownership is limited to a single government agency, but then broadening ownership over time through on-going donor interactions with line ministries and officials, and by introducing new structures for policy dialogue and public participation. The paper advises against artificial deadlines, in order to leave space for national consensus-building processes. It warns that LICUS countries tend to approach a PRS as a means of bidding for aid, rather than programming available resources. This creates an incentive to incorporate long lists of generously costed activities. This in turn forces donors to set the priorities in choosing which activities to fund, which robs the PRS of its strategic value. Governments in FS should therefore be encouraged to plan against a budgetary envelope, to encourage them to make hard choices on priorities. In many cases, particularly in post-conflict countries, this may be done more effectively by a more limited policy instrument, such as a TRF, rather than a full PRS.

11.7 'Shadow alignment' is increasingly discussed in the literature as an appropriate response where country systems are too weak to enable full alignment. Shadow alignment means working in ways that are compatible with country systems, without necessarily delivering aid through them. ODI describes it as: "organising aid delivery in such a way as to be compatible with existing or future state structures rather than duplicating or undermining them." (ODI 2005: 41). It means assuming that government will take on responsibility in due course for service delivery and development programmes, and designing programmes to support this goal. Where parallel delivery structures have to be used, they should be compatible with the existing or potential organisation of the state, to avoid leaving "a diversionary institutional legacy" (ODI 2005: 42). Aid commitments should be timed to the national budget cycle, and information provided to government in budget-compatible formats. Programme staffing structures should be "future proofed", by making it possible for them to be absorbed into government.

11.8 Where this kind of approach is not followed, there may be short-term efficiency gains for project delivery, but it will lead eventually to serious problems in sustainability and accountability. For example, WHO funded the delivery of health services in post-conflict Cambodia on a *per capita* basis, ignoring existing administrative boundaries and bypassing the commune system, which at the time was dysfunctional. This led to serious problems once the communes began to reassert their role.

12. Organisational Issues for Donors

12.1 Some donors have begun to analyse whether providing effective aid in FS requires specific procedures or organisational arrangements.

12.2 The World Bank has determined a number of measures to improve its organisational fitness in LICUS environments, including:

- Expanding the scope of analytical work, by delinking it from the volume of lending.
- More use of short-term Interim Strategy Notes, rather than full Country Assistance Strategies, to allow for more rapid response to changing conditions.
- More central policy resources to support programming.
- Measures to improve the number and quality of staff engaged in LICUS, including work on institutional incentives to attract ambitious staff.
- New approaches to monitoring and evaluation, including more frequent monitoring to determine whether programmes are on track, and more attention to monitoring the quality of processes rather than outcomes (World Bank Independent Evaluation Group 2006).

12.3 USAID's FS strategy calls for clear, relevant strategic priorities, shorter planning horizons for greater adaptability, modified reporting requirements to suit FS conditions, and increased budget flexibility to allow funding to shift in response to changing circumstances. It states that staff in FS need improved strategic planning and monitoring skills, and that programme staff (including contractors) must have capacity building skills as well as technical competence (USAID 2005).

12.4 DFID has not analysed in detail the organisational implications of its shift towards more FS programming. However, one discussion paper states that programming in FS requires a higher degree of flexibility, with programmes sometimes going through multiple cycles of reform and adaptation. It requires more use of local knowledge, which entails more resources for learning and quality staff with high-level analytical skills. It suggests that DFID may need to delink staffing numbers in FS from the size of the programme (Leader and Colenso 2005).

12.5 Another major organisational challenge is the need for whole of government coherence, which is now broadly recognised by the DAC and in the literature as essential to effective operations in FS. The political, security, economic and social spheres are now recognised as interdependent (Uvin 1999), with non-aid interventions (diplomacy, trade, private investment, security actions) often having greater influence over the overall trajectory of developments in FS than development assistance (Picciotto et al 2005). The DAC has therefore called for:

> "different policy communities working together in ways that result in more powerful tools and products for all concerned. It means looking for

synergies and complementarities and filling gaps between different policy areas to meet common and shared objectives”.[8]

12.6 However, whole of government coherence emerges as a major institutional challenge, with different government departments often having markedly different objectives and institutional cultures. As Lockhart points out, even where an overarching strategy is developed, many of their individual activities are “strategy resistant” (Lockhart 2005). Suggestions in the literature for improving coherence include:

- Developing a clear hierarchy of goals and objectives spanning the different departments, focusing on outcomes rather than activities, and articulating the basic rationale for engagement.
- A common commitment to dialogue and joint working across institutional boundaries.
- Country-specific joint operational strategies, with activities and task allocation derived by working backwards from high-level goals.
- Upfront investment in joint analysis.
- Because collaborative working often involves higher transaction costs, a portion of departmental budgets should be allocated for joint work.
- Joint budgets for particular operations can help to overcome institutional barriers and foster integrated planning.
- Joint monitoring of progress against overall objectives.

12.7 Collier also states that a higher ratio of administrative costs to funds disbursed is a necessary part of doing business in fragile situations . This is because activities are inherently more risky, and require higher levels of supervision. The usual measure of agency efficiency (percentage overhead) therefore cannot be applied mechanically to work in fragile situations (Collier 2007: 118).

8 Quoted in Clare Lockhart (2005: 2)

13. General Principles

13.1 Finally, the literature offers a range of general principles to guide donors when engaging in fragile situations .

- The length of engagement should be appropriate to the challenges involved. State-building processes may take a decade or more before they become self-sustaining, and donors must not withdraw the external supports too early.
- Donors must be committed to finding home-grown solutions to institutional problems, and not seek to impose institutional templates.
- Programming should focus on sources of fragility, including institutional arrangements that lack legitimacy and unfair distribution of services and economic opportunities across social groups.
- Donors need to find an appropriate balance between short-term, visible impact and supporting long-term, structural change.
- Expectations – both among donors' own constituencies and among the national population – need to be carefully managed by setting goals and targets that reflect realities on the ground.
- Conditionality is unlikely to be effective in FS. Rather, donors should articulate clearly their expectations of their partners, and constantly reinforce the message that their ability to justify continuing support depends on overall progress towards agreed goals (United Nations Development Group and the World Bank 2005).
- To build scope for harmonisation and alignment, there needs to be quality communication among stakeholders on roles, processes and potential benefits.
- The general principles of aid-effectiveness are relevant in FS, and should be introduced progressively as conditions allow.
- Pay close attention to risk management. Credible interventions will usually need to incorporate some high-risk, high-return initiatives.
- Be innovative and flexible, with a willingness to adjust rapidly to changing circumstances.
- Be constantly aware of the political impact of external assistance, and its potential to create both positive and negative incentives for state-building and conflict reduction. Try to manage the incentives, while being realistic about the level of influence exercised by external actors.
- Think nationally and programmatically from the outset, rather than trying to scale up from individual projects.
- While state-building processes are inherently top-down in nature, care must be taken to foster local initiatives and community-level dynamics Schiavo-Campo 2003).
- Always be aware of, and work with, the capacity that exists, however modest.
- Be aware of the distortions that a large donor footprint can cause to national institutions, particularly by drawing the most qualified individuals out of public service and concentrating resources and economic activity in the capital. These distortions can be minimised by more use of budget support, and by consciously pushing programmes and funds outside the capital (Francois and Sud 2006).

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