odi

Synthesis Paper 7
Working Effectively in Fragile States:
Current thinking in the UK

Debbie Warrener
and
Carolin Loehr

February 2005

CONTENTS

Figures

Tables

Boxes

Executive Summary

Fragile states are defined by both DFID and the OECD-DAC as states where the government *cannot* or *will not* deliver core functions to the majority of its people, including the poor. Such states are not covered by the prevailing development orthodoxy of the 'partnership model' based on PRSPs, as this focuses on 'good performers', rewarding them with major increases in aid. As fragile states lack sufficient capacity and willingness they do not qualify for the application of this model. Although they do not fit the current orthodoxy, such states are currently recently receiving increased attention due to heightened security concerns globally and growing understanding of the negative impact such states have on their neighbours and regions.

The reverse of the 'partnership model' is currently applied to fragile states. This current 'standard model' for fragile states advocates: small funds over short time periods; policy dialogue rather than money; projects rather than budget support; NGOs rather than state implementers; and humanitarian aid and agencies over development. Recent research and understanding of aid effectiveness, however, is revealing that the underlying assumptions of this 'standard model' are overly simplistic; fragile states are receiving insufficient amounts of aid, delivered at the wrong time and often in ineffective ways.

Harmonisation and alignment
A major shift in recent thinking is that it is now thought that the Rome Declaration on harmonisation and alignment may prove to be even more important in fragile states than it is in 'normal environments'. In other words, the 'current standard model' has effectively been turned up-side down. There are two major reasons for this:

- Bypassing the state and setting up parallel systems produces high transaction costs for governments. This may serve to further weaken already fragile states.

- Contexts in these countries are highly complex with a high fragmentation of actors. As government leadership on policy priorities is often absent, harmonisation and alignment of donor action is key to the creation of an enabling environment for building state capacity and willingness.

Aside from harmonisation and alignment as understood by the Rome Declaration, the concept has also been expanded for use in fragile environments to that of 'shadow alignment'. This is to be used when donors are concerned that full alignment would legitimise weak or repressive states and lead to uncomfortably high levels of fiduciary risk. By aligning donor activities with government systems such as the budget period and administrative districts, capacity building of government systems and structures can be supported without needing to follow government policies or priorities or directly fund the government.

Aid modality choices
Aid modalities such as multi-donor trust funds and pooled funding for joint programmes seem to offer more opportunities for harmonisation and alignment, and thereby maximum benefit in weak environments, than others. Concerns over state legitimisation and fiduciary risk may make donors err towards choosing more

conventional aid instruments but multi-trust funds, pooled funding and social funds can all be amended in innovative ways to address and manage these concerns.

Need for extensive political analysis
Before significant resources are deployed the reasons for state failure in terms of political incentives and institutions need to be understood, so that entry points for stimulating change and pro-poor policy reform can be found. DFID has found the Drivers of Change (DoC) approach to be highly relevant for such work. Through an extensive analysis of the political economy, starting from the actual local situation rather than approaching the situation with preconceived policies, donor entry points and opportunities for harmonisation, alignment and shadow alignment can be best identified.

Long term commitment
Although experience so far with PRSPs and budget support has revealed the importance of long term approaches due to the adverse effects of volatile, unpredictable aid flows, this issue is once again arguably even more important in fragile environments. This is because building state capacity and encouraging willingness to reform and address poverty are necessarily long-term processes. Donors need to understand that set-backs are to be expected but that a long-term commitment can send an important 'vote of confidence' that can have positive repercussions.

Governance as key focus
Governance reform has to be prioritised, achievable and appropriate to the context, if minimum capacity and willingness is to be restored. Donors also need to develop concepts of 'good-enough' governance to prevent fragile states being overloaded with excessive and unrealistic terms and conditions. Example aspects of 'good-enough' governance are when states fulfil certain basic functions such as protecting people from harm and providing an economic framework to enable people to support themselves.

The above recommendations stem primarily from research; experience on actual effective engagement with fragile states is limited so far. Nevertheless, recently compiled case studies of DFID experience provide some initial concrete cases in support of the above conclusions. Of particular note is the importance of engagement at the community level through flexible donor schemes. Partnership with civil society organisations can be made more sustainable and contribute to overall capacity building by encouraging partnership between these organisations and the state.

Therefore contrary to the current orthodoxy, lessons learnt from so-called 'normal environments' regarding, amongst others, the importance of harmonisation and alignment, political analysis and long-term engagement seem in the main to be even more applicable in fragile states. On the whole, there is a need for better understanding of what different donors are doing in different fragile environments so that harmonisation and closer coordination and cooperation can be developed. DFID and others envisage a stronger role for the UN as a coordinating body for donor activities in such countries in future. In the meantime, donor dialogue and discussion on ways forward is vital to build a solid basis for working closely together in this new and very important area.

1. Introduction

This series of papers[1] so far has looked at experience in the UK with PRSPs, including when and where General Budget Support assistance is most appropriate, how the Harmonisation and Alignment agenda is progressing, and a new approach DFID have adopted to embed their aid assistance in a political understanding of the country context – Drivers of Change. With the exception of the Drivers of Change approach which can in theory be applied to any country, the 'new paradigm' of development assistance, connected with the drive for increased ownership, partnership and alignment with PRSPs, is based on an assumption that country systems and structures are sufficient to develop a country-based poverty reduction strategy. This depends on two elements – state capacity and willingness. These factors, however, are certainly not present in all developing nations.

The OECD-DAC has recently adopted the term 'fragile states' to describe countries where either one or both factors are not present. Such countries are arguably growing in importance as there is a danger of their being 'left out' of current moves to build country ownership through PRSPs. Furthermore, fragile states matter due to security concerns and the danger of their causing instability to regions and surrounding countries. Despite growing realisation of their importance, however, there is as yet little consensus or experience concerning how best donor agencies can work in such nations.

This paper sets out a synthesis of some of the recent thinking on working in fragile states. It draws heavily on DFID's recent policy paper, 'Why we need to work more effectively in fragile states' and papers submitted to the recent OECD-DAC High Level Forum on Development Effectiveness in Fragile States, held in London on 13-14 January 2005. It is hoped that a synthesis of some of this recent thinking will stimulate further debate and discussion as this area is important and likely to become more so.

The paper is divided into four central sections. The first of these sets out what is meant by 'fragile states', including how fragility can be estimated and the impact of fragile states. The second section then sets out in more detail why a new approach is needed, including an analysis of current ways of engaging with them. The third section covers current thinking in the UK on how best to engage in fragile states, emphasising the need for harmonisation and alignment as a means of drawing up a framework on how to engage. The fourth section covers some of DFID's experience with the new approach so far. The paper ends with a short summary.

---

[1] This paper has been produced as part of a series reporting on UK aid policy and research. For more information see: http://www.odi.org.uk/RAPID/UK_Japan/index.html

2. What are fragile states?

A range of definitions are used to identify fragile states. Torres and Anderson (2004) in fact find that which states are considered fragile, and the factors by which fragility is determined, often depends on the policy agenda of the observer. Some definitions have focused narrowly on states affected by armed conflict, while others include states affected by poor governance, corruption and low administrative capacity. The working definition adopted by DFID and the OECD-DAC covers those states where the government *cannot* or *will not* deliver core functions to the majority of its people, including the poor (DFID, 2005). In other words, fragile states either lack capacity, or willingness, or both, to develop and implement pro-poor policies. A summary of indicative features of fragile states based on this definition is laid out in Table 1. In addition to a lack of capacity and/or willingness there may be levels of isolationism and/or widespread armed conflict (ODI, 2004).

Table 1: Indicative features of fragile states

	Capacity	Willingness
State authority	- The state lacks clear international sovereign status - The state cannot control its external borders or significant parts of its internal territory	One or more groups are systematically subjected to violence or deliberately not provided security by the state
Effective political power	- The power of the executive is not subject to controls, either through informal (political party) or formal (legislature) channels. - There are no effective channels for political participation.	Major groups are systematically excluded from political processes.
Economic Management	Weak or partial public financial management tools, such as a budget cycle and planning processes.	There is no transparency in the public management of natural resource extraction.
Administrative capacity to deliver services	The state levies less than 15% of GDP in tax	Access to public services for specific regions of the country or groups is deliberately limited.

Source: DFID 2005

Most developing countries fall into four broad categories in terms of capacity and willingness:

- *'Good performers'* with capacity and political will to sustain a development partnership with the international community ('normal' environment);

- *'Weak but willing'* states with limited capacity (fragile);

- *'Strong but unresponsive'* states that may be repressive (fragile);

- *'Weak and weak'* states where both political will and institutional capacity pose serious challenges to development (fragile). (DFID, 2005)

Only the first of these four categories is labelled 'normal'. This simple classification system therefore hints that so-called 'fragile' environments are more frequently observed in developing nations than those labelled 'normal'. 'Normal' in this case would appear to be a normative description rather than a statement of frequency as three-quarters of this system fall into the category 'fragile'.

The distinction between willingness and capacity is important for deciding on how to engage with fragile states effectively – however, it is not easily made. Policy statements may, for example, not be enough to define *willingness* and what may appear as state fragility due to a lack of *capacity* may in fact stem from political obstacles.

How to estimate fragility

The World Bank's Country Policy and Institutional Assessments (CPIA) serve as the most conventional way to estimate the level of fragility. CPIA scores divide low-income countries into five categories of performance, the lowest two of which are useful proxies for state fragility. There is a separate group of unranked countries, also deemed fragile. This provides a list of 46 fragile states, containing 870 million people or 14% of the world's population. One third of the world's poor live in these fragile states[2] (DFID, 2005).

In addition to these quantitative assessments, Annex 1 outlines key qualitative criteria for assessing state capacity and willingness. The list includes the following categories: foundations for state authority; effective exercise of political power; competence in macro-economic management; administrative capacity for implementation; political commitment to poverty reduction; and inclusiveness. Sub-categories then set out key elements of these factors.

An important point concerning measuring fragility is that the lists of fragile states provided by the World Bank, UNDP and Human Development Report all differ considerably. Too much emphasis should not, therefore, be placed on developing a comprehensive list of fragile states (Christiansen, 2005).

Impact of fragile states

Prominent problems associated with fragile states are poverty, especially connected to limited progress towards achieving the MDGs, and security issues. Countries can either be a threat to (i) themselves and their populations; (ii) to regional and collective interests; or (iii) they can be considered a threat to the West (Christiansen, 2005). Table 2 sets out these issues in more detail. In addition to current negative impacts of fragile states, the potential cost of not engaging with must be also considered. This is an important factor for consideration in relation to the debate on why and how to engage in fragile states.

---

[2] A list derived from 1999-2003 includes: Afghanistan, Angola, Azerbaijan, Burma, Burundi, Cambodia, Cameroon, Central African Rep, Chad, Comoros, Cote d'Ivoire, Dem Rep of Congo, Djibouti, Dominica, Eritrea, Ethiopia, The Cambia, Georgia, Guinea, Guinea Bissau, Guyana, Haiti, Indonesia, Kenya, Kiribati, Lao PDR, Liberia, Mali, Nepal, Niger, Nigeria, Papua New Guinea, Rep of Congo, Sao Tome & Principe, Sierra Leone, Solomon Islands, Somalia, Sudan, Tajikistan, Timor Leste, Tonga, Togo, Uzbekistan, Vanuatu, Yemen, and Zimbabwe. (Middle income countries are not included in the list)

Table 2: Global and local impact of fragile states

Fragile states are associated to varying degrees with the following:	
Poverty	• Limited progress in achieving MDG • Unable to deliver basic social services
Conflict and humanitarian crisis	• Civil conflict and inter-state wars triggered by fragile states, which are prone towards humanitarian crisis leading to refugee flows placing strain on neighbouring states and international humanitarian response.
Human rights violations	• Unable to protect basic human rights of citizens • Weak but repressive regimes may violate rights to stay in power
Global security threats	• Lacking capacity to detect, investigate, and counter terrorist activity and illicit arms trade • Ineffective controls of weapons of mass destructions
Organised crime	• Serving as bases for international criminal activity • Production sites for narcotics
Reduced global prosperity	• Depressing international trade and investment • Unable to provide the regulatory framework and basic security required to promote economic growth • Potential threat to global energy security
Weakened international systems	• Unable to fulfil international obligations • Unable to fulfil obligations to other states

Source: Torres and Anderson 2004

3. Why do donors need to engage more effectively in fragile states?

This section will first set out the partnership model on how to engage in 'normal' environments, followed by an outline of the current 'standard model' on how to engage in fragile states. It will then show the implications the current 'standard' model has had for aid flows to fragile states.

Partnership model
The currently prevailing development orthodoxy is a model of 'rewarding good performance/policy with major aid scale up' (Christianson, 2005 & Leader and Colenso, 2005).This partnership model on how to engage in 'normal' environments or with 'good performers' aims to increase ownership of PRSPs and encourage harmonisation and alignment. For this to work, recipient states are expected to have both capable public institutions in place, and to be willing to build up or maintain their commitment to pro-poor policies. Given that the state has sufficient capacity and willingness, aid flows are shifted from projects and programmes to sector wide approaches and more direct budget support (Leader and Colenso, 2005). The partnership model, therefore, implicitly assumes the existence of what most fragile stales lack or have deficiencies in: basic levels of state capacity and willingness.

Current 'standard model' for engaging in fragile states[3]
The current 'standard model' for the choice of aid instruments in fragile states responds to the lack of capacity and willingness in fragile states by providing less money to them and by bypassing the state. Low return is expected on aid in these environments so such measures are taken to minimise risk associated with concerns over state legitimisation and fiduciary risk. To achieve this, the current 'standard model' advises:

- Less money, and for shorter time periods;

- Policy dialogue rather than money;

- Projects rather than budget support;

- NGOs rather than state implementers;

- Humanitarian aid and agencies over development.

This is based on the assumption that fragile states are moving simultaneously along the following three linear processes from:

- Relief to development;

- 'Poor performer' to 'good performer';

- War to peace.

The assumption is that once states have developed capacity and willingness the partnership model can then be applied. The current 'standard model', however, fails to address *how* fragile states are supposed to undergo the transition from a 'poor' to a 'good performer'. Effectively, the current 'standard model' for engagement in fragile

---

[3] Drawn from Leader and Colenso (2005)

states is, therefore, simply the reverse of the partnership model consensus on effective aid for 'good performers'.
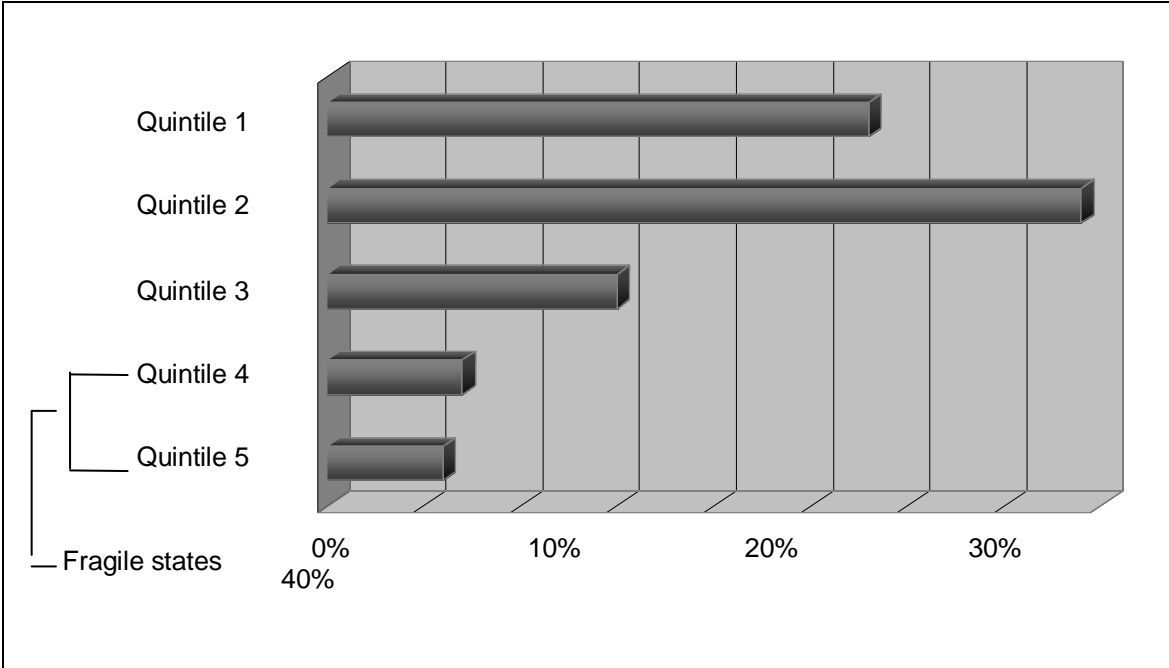
Aid allocation to fragile states

Over the last decade, the current 'standard model' on how to engage with fragile states has resulted in insufficient aid flows to these countries, poor timing of aid delivery as well as in ineffective methods of aid delivery. These points are addressed separately below.

Not enough aid

Most fragile states have been neglected and left out as donors allocate minimum amounts of aid to them due to the widespread acceptance of the 'standard model' on how to engage in fragile states and donor's preference for allocating aid to 'good performers' as they are less risky. Figure 1 shows that fragile states received only 14% of bilateral aid (presented as the bottom 40% of countries on the CPIA score - quintiles 4 and 5), whereas the top 40% (quintiles 1 and 2) received two-thirds of all aid, or nearly five times as much (DFID, 2005).

Figure 1: Allocation of bilateral aid in 2001 according to CPIA ranking
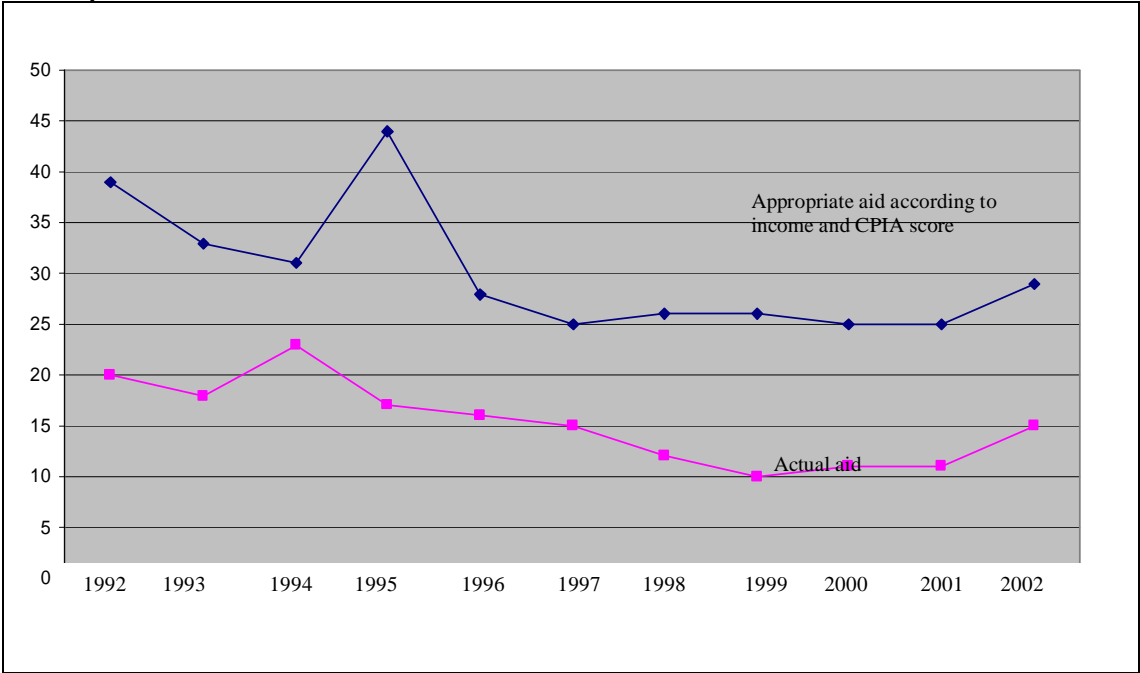

Source DFID (2005)   (not adjusted for population)

On the basis of need, fragile states have also received significantly less aid than could be expected, even taking account of their weaker performance. This is shown in Figure 2 (DFID 2005).

Figure 2: Actual versus appropriate aid per capita flows to fragile states (1992-2002)
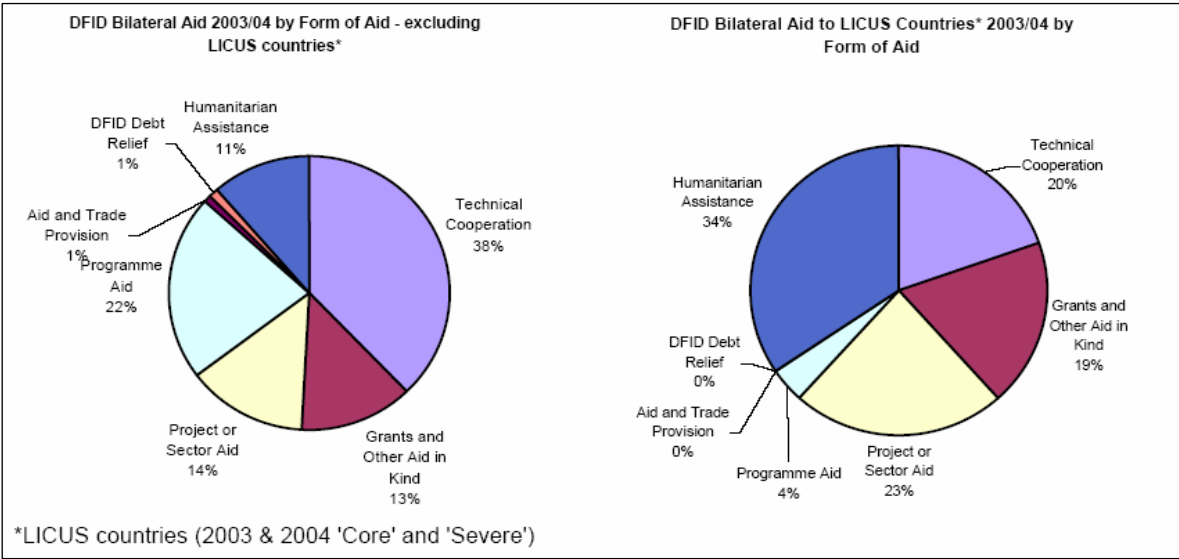

Source: DFID 2005

Aid delivered at the wrong time

Two key issues relate to aid being delivered at the wrong time. Firstly, donors have had a tendency to only begin delivering substantial aid to fragile states once there is a crisis rather than aiming to prevent crisis occurrence in the first place. Secondly, aid has often been withdrawn precisely when aid could actually become more effective, particularly in post-conflict states. This is often due to funding decisions that are made based on short-term government performance, which have made aid flows to fragile states particularly volatile and uncertain. This in turn not only limits governments' abilities to implement projects but also inhibits growth (Foster in DFID, 2005).

Aid delivered in ineffective ways

As Leader and Colenso (2005) point out, substantial aid in fragile states has been delivered through short-term humanitarian aid. Figure 3 shows proportionally large amounts of 'humanitarian assistance', 'grants' and 'project or sector aid' for selected Low Income Countries under Stress (LICUS) against other countries, and relatively low amounts of 'programme aid' (budget support).

Figure 3: UK bilateral aid, by instrument, to LICUS and Non-LICUS countries

Source: Statistics on International Development, DFID

The tendency of donors to ignore the partnership model in fragile states, as reflected in the limited amounts of programme aid given to fragile states, is also reflected in an assessment of DFID's implementation of support to poverty reduction strategies in 2003. This indicates that in conflict countries and weak governance environments, support for PRS processes still only accounts for less than five percent of total DFID assistance (Torres and Anderson, 2004).

Problems now recognised with the 'standard model'
It is now becoming apparent, that the assumptions underlying the 'standard model' are overly simplistic. In terms of the amount of aid, withholding aid may not only harm the country concerned, but it may in fact also worsen conditions in neighbouring countries, through increased refugee flows, disease and conflict. Recent research shows that aid can raise growth and reduce poverty, even where states have weak policies and institutions (DFID, 2005). Higher income in turn can lower the risk of conflict. Even in a shrinking economy, well-targeted aid can help improve security, health education and environmental quality (DFID, 2005). The case for providing sufficient aid to fragile states is, therefore, strong.

With regards to aid being delivered at the wrong time, it is now increasingly realised that volatile aid flows reduce recipient governments' ability to implement projects and manage citizens' expectations about public service delivery. There is, therefore, a need for longer term engagement, ideally for at least a 10-year period (DFID, 2005 and OECD/DAC, 2005)

In terms of effective aid delivery, the 'standard model's' assumptions about change are too linear, and rely on an overly simplistic understanding of absorptive capacity and implementation by state and non-state actors. Recent research and understanding of aid effectiveness shows that absorptive capacity is not limited to governments but that other actors are important in this context as well (Leader and Colenso, 2005). Furthermore, in fragile states the association between objectives and instruments is not as rigid as suggested by the current 'standard model'. For

example, Cauvet and Collier (2004) found that technical assistance has no discernable effect until after a turnaround has clearly begun and governments actually want and need to use this aid. In their own words 'technical assistance can help a government get change right, it cannot make change happen' (2004). Furthermore, humanitarian aid may be a good instrument for meeting immediate needs in an acute crisis, but in the long term it fails to develop sustainable systems (Leader and Colenso, 2005). For this reason instruments such as humanitarian aid and projects may not be as useful as suggested by the current 'standard model', while partnership instruments, such as budget support and social funds, may be more so (Leader and Colenso, 2005).

An additional factor that deserves greater consideration is the fact that risk adverse donors, who frequently avoid investing in fragile states, rarely consider the risk of non-intervention. McGillivray (2005) suggests that the cost of not engaging may be much higher than is traditionally realised. When trying to quantify the cost of neglect by, for example, estimating the spill-over effects from one fragile state to its neighbours, preliminary results show that the negative effects of having a fragile state as a neighbour are significant (estimated as losses of 2.0% of GDP every year).

4. How can donors engage in fragile states?

This section provides an overview of issues to be considered when engaging with fragile states in order to improve aid effectiveness in practice. These issues are divided into three categories: (i) aid related; (ii) governance related; and (iii) issues related to the overall approach. It should be kept in mind, however, that in contrast to the current 'standard model' set out above, the points made in this section do not advocate a 'single standard model' for how to work effectively in fragile states.

Aid related issues

Partnership, harmonisation and alignment as a useful framework for engagement
In direct contradiction to the assumptions underlying the current 'standard model' on how to engage in fragile states, it is being increasingly realised that a lack of capacity and willingness in fragile states does not mean that partnership principles currently underpinning most aid flows and strategies are entirely inappropriate in more difficult environments. Partnership principles as well as harmonisation and alignment may not necessarily work in a similar manner in fragile states as they do in 'normal environments', but the concepts are nevertheless relevant (Torres and Anderson 2004).

Christiansen, in an ODI report for the Senior Level Forum on Development Effectiveness in Fragile States, puts forward two reasons why harmonisation and alignment may be particularly relevant in fragile states (2004):

- The rational that makes harmonisation and alignment relevant in 'normal environments' applies in the same way to fragile states. This is because already-weak fragile states are weakened further, if donors avoid engaging with them by setting up parallel systems, working according to their own priorities, thereby imposing high transaction costs for governments. In fact, harmonisation and alignment of donor activities would in some contexts seem to be a precondition for fragile states to restore ownership of their domestic policy processes.

- Above and beyond the above factor, the particular characteristics of fragile states actually seem to make partnership, harmonisation and alignment even more important than they are in 'normal environments'. Both donor and partner actors in fragile states operate in the context of high levels of complexity and fragmentation of actors. In order to rebuild the state and to create synergies between interventions, harmonisation and alignment of donor activities is vital in a context where there is a lack of state capacity and willingness. Christiansen emphasises that when donors act in a way that is compatible with recipient government systems and respect administrative boundaries, donor intervention has the potential to build sustainable institutions and systems (ODI, 2004).

Harmonisation and alignment is therefore being put forward as a very useful and effective means for helping to draw up a framework on how to engage more effectively in fragile states.

Christiansen also suggests that opportunities for harmonisation and alignment could be expanded by exploring the possibility of 'shadow alignment' (see Box 1). She argues that this concept is applicable when donors are concerned that aligning their assistance with recipient government policies may lead to legitimisation of fragile states and their poor policies.

Box 1: 'Shadow alignment' –definition

Shadow alignment means that donors increase the compatibility of their assistance with national systems as far as possible even though they are not subjugating their approaches to recipient government priorities or policies.

Examples:
- Respecting local budget years and classifications when information is provided to recipient governments
- Operating within existing administrative boundaries

Source: ODI (2004)

By employing 'shadow alignment' donors establish systems through which the government can eventually build their capacity and willingness to establish and implement pro-poor policies. Shadow alignment does not imply supporting government policies at all cost or that recipient states should control the resources. Shadow alignment essentially means pursuing a 'no harm' approach to long term capacity and willingness in fragile states.

Instruments and modalities[4]
Understanding concerning the use and effect of aid instruments in different contexts needs to be improved, in particular their relationship to political processes and sequencing issues. Aid modalities and timing are important elements of triggering progress in fragile states. The choice of instruments should therefore be part of a broader political strategy based on political economy analysis. Through this analysis appropriate instruments can be chosen to address the wide variety of situations of fragile states. Table 3 offers some suggestions for suitable instruments in certain contexts in terms of capacity and willingness. The choice of instruments set out here should be considered as indicative of what may be appropriate under certain circumstances, rather than a fixed pattern of use though.

---

[4] Drawn from Leader and Colenso (2005) & Chauvet and Collier (2004)

Table 3: Using aid instruments in different contexts

'weak but willing	• Need for overarching strategy framework between government and donors covering political, security and development strategies
	• Multi-donor trust funds for budget support, large investment projects, security sector reform etc.
	• Provision of technical cooperation for capacity building – government-let not donor let
	• Align behind government budgeting and planning by ensuring all donor projects and programmes are 'on-budget'[5] even if not 'through budget'[6].
	• Complement with social fund/social protection arrangements to get resources to communities and begin to build from the bottom up
	• Use direct contracting of UN and NGOs where national programmes are insufficient, but 'on budget' not 'off budget'[7]
'Strong but unresponsive'	• 'Off-budget', joint, national or regional programmes with pooled funding (UN having oversight as a legitimate, neutral intermediary)
	• Use of humanitarian projects, but in response to humanitarian need
	• Partner with non-state actors, and state actors where possible, such as local government or reformist elements in central government.
	• Shadow align with state systems
	• Support key reformers in government
'weak and weak'	• Similar to 'strong but unresponsive'
	• But lack of state capacity can mean there are more opportunities to work with local government, communities, civil society and the private sector
	• Focus should be on strengthening the capacity of vulnerable communities.

Source: Leader and Colenso (2005)

With respect to harmonisation, alignment and shadow alignment, some instruments, such as multi-donor trust funds and pooled funding for joint programmes, offer more opportunities for greater levels of harmonisation and alignment than others.

However, concerns over state legitimisation and fiduciary risk will continue to be a strong determinant of the choice and balance of aid instruments in fragile states.

---

[5] Government budgeting but alternative delivery mechanisms
[6] Government budgeting and delivery systems
[7] Alternative budgeting and delivery systems

Therefore it is clear that instruments that limit state control and fiduciary risk such as humanitarian aid, technical cooperation and projects, will continue to be used extensively in fragile states. Although this may be necessary under certain circumstances, these instruments can potentially undermine state capacity even further and are rarely aligned to a longer term strategy and thereby longer term development. The dangers of this need to be borne in mind when selecting aid modalities.

Minimum conditions for budget support will usually not be fulfilled but trust funds, pooled funding and social funds can be used in innovative ways that manage the concerns of limiting state control and fiduciary risk while meeting other objectives such as meeting immediate needs, institutional development, and political change.

Realistically, a combination of instruments will always be applied and used in fragile states regardless of the fact that some are better than others. Instrument choices will be best if they are based on local knowledge. Overall, it is important to point out that it is not possible to avoid the state and not sensible to try to if the long-term goal is to rebuild it.

Political analysis before deploying significant resources
There is a need for a better understanding of the reasons for state failure. Donor focus so far has often been on ad-hoc technical solutions, whereas it is important to acknowledge the importance of the country context, the political incentives and the institutions that affect prospects for change and pro-poor reform. Such knowledge is important when developing donor strategies on how to engage with fragile states including the extent to which harmonisation and alignment or shadow alignment are possible.

DFID's Drivers of Change (DoC) approach[8] is one possible method to reach an improved understanding of the local political economy. Through such analysis as well as engagement with a variety of stakeholders, a longer term perspective can be taken, and a better understanding of change and how to induce change achieved. In this context, external actors need to consider how their own engagement affects incentives for change. Donors should also aim to understand how their partners perceive them and be prepared to change the way they express themselves so that donor discourse does not block effective communication. Means to improve understanding of these processes also include encouraging local analytical capacity in academic institutions and civil society in order to promote sharing of ideas across a wide range of society. Through DoC analysis it may, for example, become apparent that structures assumed to be non-existent can be utilised to bring about change.

Time frame
Donors need to be willing to engage with fragile states over the long term – five to ten years. They also need to accept that there will be set-backs during that time but that these are a natural part of the process. Recent evidence suggests that from the fourth year after the end of conflict, post-conflict countries can absorb twice as much aid as comparable countries at peace (DFID, 2005). This is often precisely the time

---

[8] See previous paper in the series for more detail on the DoC approach:
http://www.odi.org.uk/RAPID/UK_Japan/docs/Synthesis_3_final.pdf

when aid is withdrawn. Capacity development for central government, decentralised administrations, and local actors is crucial for the long term sustainability of service delivery and normally requires a predictable engagement of at least ten years (OECD/DAC, 2004)

Governance related issues

'Good enough' governance

DFID's concept of 'good enough' governance suggests that donor terms and conditions should consist of achievable objectives rather than placing increasing demands on fragile states by overloading them with overly optimistic reform programmes. Aid needs to focus on areas where capacity is less weak and on removing barriers to effective use of future support rather than donor priorities. 'Good-enough' governance means, therefore, that states fulfil certain basic functions, including protecting people from harm and providing an economic framework to enable people to support themselves. This may require some tolerance of corruption and chronically weak and under funded capacities, for example (DFID, 2005).

The 2005 DFID report on aid effectiveness in fragile states puts forward six criteria, which are useful for designing short-term measures to strengthen state capacity to a stage where it is good enough in fragile states. These are set out in Box 2.

Box 2: Six criteria for 'good-enough' governance
- Selectivity, focusing only on the main causes of instability and the main capacities of the state;
- Achieving visible results in the short term, however modest, to build momentum for future reform;
- Avoiding the most politically or socially controversial issues;
- Avoiding reforms that are too ambitious for the implementation capacity of the country;
- Ensuring that reform does not erode what capacity exists; and
- Strengthening accountability and legitimacy of government wherever possible.

Source: DFID 2005

Prioritising governance reforms in fragile states

Governance reform has to be prioritised, achievable and appropriate, if a minimum capacity is to be established. Which governance reforms are prioritised will depend on the context. There is no fixed set of governance arrangements that lead to development and stability, as demonstrated by the experience of countries as diverse as Botswana, China, Chile, Mozambique and Vietnam (DFID, 2005).

It is necessary that external actors simplify and sequence demands, priorities and activities and that they support fragile states' capacity for managing external actors as a means of reducing the burden of engagement (Christiansen, 2005). The focus has to be on those governance reforms which directly address aspects of state fragility and those that have the highest potential to increase fragility if they are not addressed. Table 4 shows how governance reforms can be prioritised on the basis of how important they are in terms of state fragility. The rationale is to enable delivery of

the most important changes as quickly as possible as initial success on an achievable reform package can be critical to a state's legitimacy and to building the political will that is necessary to carry through further reform.

Table 4: Prioritising governance reforms in fragile state

Problems of fragile states	Prioritised reforms	Priority activities
Failure to protect people and their property	• Increased security of person and property, particularly for the poor.	• Improved policing of security 'hotspots' for the poor. • Support for informal (neighbourhood watch) security arrangements. • Increased access to affordable justice.
	• Security services that are properly mandated, resourced and accountable to civilian control.	• Providing a safe operating environment for service delivery. • Disarmament, demobilisation and reintegration of troops. • Developing and equipping security services with the right skills and resources to protect people. • Strengthening civilian control of the military.
Failure to deliver basic services	• Substantial increase in infrastructure, primary health and education services delivered to the poor.	• Protect service providers if necessary. • Increase access to services. • Work with both state and non-state service providers.
Decreasing livelihood security	• Social protection for vulnerable households as a springboard to self-sufficient livelihoods	• Humanitarian assistance in conflict-affected areas. • Social protection n • Programmes including employment, cash distribution, and food security to vulnerable households.
Weak public financial management	• Improved management of natural resource revenue • Improved capacity to manage shocks.	• Increased political commitment to transparent use of countries' assets. • Improved international accountability arrangements • Strengthened international partnership to alleviate economic shocks. • Increased capacity to predict and manage shocks.

Source: DFID (2005)

Issues related to the overall approach

Aid alone is not enough

To enable a shift from mere aid effectiveness to development effectiveness and for the special needs of fragile states to be met, policy coherence by donor governments is vital. Policy coherence is defined by the DAC Poverty Guidelines as the systematic promotion of mutually reinforcing policies across government departments and agencies creating synergies towards achieving a defined objective (Lockhard, 2004). Policy coherence may be difficult to achieve as different departments will have different priorities, which may cause tension in terms of prioritisation. Nevertheless, a lack of coherence between aid, trade, finance, security, immigration and drugs policies can cause serious dilemmas due to the resultant mixed objectives of external intervention. Furthermore, each of these objectives comes with a concomitant multiplicity of external actors with the risk that external actors overload the agenda and thus undermine their own objectives (Christiansen, 2005). Overall, it may be impossible to achieve certain policy goals without mobilising a range of complementary policies. This means that for aid to be effective in fragile states, it has to be tied into a broader strategy of overall policy coherence. Box 3 gives an example of the benefits of closer cooperation between UK government departments.

To rebuild the state in the long run, though, the aid system cannot compete with the state for resources. As Christiansen points out, therefore, policy coherence also has to occur at the point of impact i.e. the recipient country level.

Box 3: Conflict Prevention Pools: working to integrate security, diplomacy and development

The Africa and Global Conflict Prevention Pools (CPPs) are joint Foreign and Commonwealth office (FCO), Ministry of Defence (MOD) and DFID mechanisms for funding and managing the UK's contribution to preventing violent conflict.

The pools are intended to increase the UK's overall effectiveness in reducing violent conflict by pooling departmental resources and ensuring strategic coherence between departments. The CPPs include spending on peacekeeping and peace enforcement operations, as well as a wide range of strategic conflict-prevention activities including social programmes, policing, mediation, and community reconstruction

---

Source: DFID (2005)

Who does what?

There is a need for international donors to reach agreement on who does what and where in fragile states. DFID (2005) point out that the lack of a single institution or process to guide global aid allocation is a major weakness in the way international aid is organised. On the one hand, the presence of uncoordinated multiple donors can place too many demands on fragile states' absorptive capacity, whereas on the other hand 'donor orphans' exist where there are too few donors present. DFID (2005) therefore recommends that even though the UN often cannot intervene quickly enough, it has the strongest legitimacy to do so. In the long run the system will have to be reformed and developed to play a key role in aid allocation and coordination.

5. Experience so far

This section provides a summary of DFID's experience so far in providing a development response to fragile states, drawing from case studies from DFID country offices, commissioned by the Poverty Reduction in Difficult Environments team.[9] The case studies highlight examples of interventions that have had an impact, illustrating how aid can work in fragile states. The case study findings focus on three areas: supporting effective states; improving the lives of the poor; and aid instruments and scaling up. Despite some emerging lessons, experience on how to engage effectively in fragile states is still very limited, however.

Building / supporting effective states
DFID's experience has shown that political reform is possible in fragile states and the international community can contribute to it: however reform takes time and has to be accompanied by an excellent understanding of the political economy of the fragile state. Donors need to be supportive of partner efforts to create the conditions for political stability by helping build government capacity and encouraging political commitment to stronger policy environments. Box 4 outlines how some of these aspects were achieved in Indonesia.

Box 4: Indonesia's Multi-stakeholder Forestry Programme (MFP)
Following the downfall of President Suharto in Indonesia, peasants, labourers, small businessmen and indigenous groups used the opportunity to stake their claims over the previously centrally managed forests. Despite some fragile arrangements for profit-sharing and co-management, Indonesia's forests fell into a 'tragedy of the (unmanaged) commons'. An extensive Drivers of Change analysis was carried out which led to the MFP launch. MFP provided support to over 200 partner initiatives that promoted capacity building, action research, shared lesson learning and advocacy for legal reform.

The results of an Output to Purpose Review (OPR) conducted in 2003 concluded that in 3 years, the programme had contributed towards:
- Increased public awareness of sustainability and equality issues;
- Local government adopting and co-funding participative approaches
- Raised voice of forest dependent communities;
- Increased civil society capacity to act as service providers;
- More coherent national policy on illegal logging and social forestry
- Increased use of accountability mechanisms;
- Increased pressure on international trade and finance to withdraw support to unsustainable and unfair forest management.

Source: DFID (2004)

The following key points were found to be important catalysts of change in the governance environment of fragile states in the case studies:

---

[9] Draws from DFID (2004)

- Political opportunities identified through in-depth analysis;

- Political engagement a high level priority;

- The international community can and should set standards with respect to the transparency of governance;

- Civil societies can be used as key entry points;

- Approaches should be regional;

- Small community based projects should be used;

- Programme design and implementation need to be flexible, particularly in post-conflict or highly unstable environments; and

- Sufficient time should be allowed for policy reform.

Improving the lives of the poor

In terms of improving the lives of the poor DFID's recent experience shows that aid can work to meet urgent development needs in fragile states. Of particular importance are well-designed innovative partnerships between state and non-state actors (i.e. the private sector, NGOs, community based organisations and UN agencies), which are capable of bringing about immediate improvement alongside facilitating long-term institutional strengthening and reform. Box 5 outlines how some of these elements were achieved in Kenya as part of a social marketing campaign.

Box 5: Social marketing of insecticide treated nets (ITN) in Kenya

Social marketing refers to the distribution of commodities through commercial or other non-governmental channels. This approach has been found to be appropriate to fragile states as illustrated by the following example:

To reduce morbidity and mortality from malaria and to contribute to achieving progress towards the MDGs, Population Services International (PSI) implemented a project to increase the use of insecticide treated nets (ITNs) in 2002. The project was approved during a time when relationships with the Government of Kenya were poor, so using social marketing was considered an effective way of increasing the coverage of a public good without subsidising a non reforming government. The social marketing approach also supported the national malaria strategy without putting extra pressure on an already over stretched health system.

The greatest impact of this programme has been in urban areas where extensive retail distribution systems exist. Rural areas, however, lack these and therefore coverage was limited. In order to reach the vulnerable and the poor, DFID suggest that a combination of approaches would be required, some of which would be dependant on a functioning health system either managed by the government or NGOs. Mother and child health clinics could be utilised as part of a comprehensive approach to sell subsidised ITNs, with efforts made to avoid any disruption to the health system.

Source: DFID (2004)

The following key points on how to improve service delivery and increase social protection in fragile states were highlighted:

- The UN has an important leadership and coordination role;

- The international community needs to be prepared to fund recurrent expenditure in fragile states;

- The community level is a key entry point for poverty reduction interventions;

- Security sector reform has to be made a priority;

- Partnership between state actors and non-state actors is important for long-term sustainability and capacity building; and

- The private sector plays a critical role in improving service delivery.

Aid instruments and scaling up

As discussed in section 3 above, partnership approaches in fragile states are problematic. Ways of working in 'good performers' such as through PRSPs and associated direct budget support, are less appropriate. However, aid instruments for 'scaling up' responses in fragile states do exist. Examples are trust funds, social funds and pooled funding. For them to be sustainable in the longer term they need to be compatible with national policies and systems, however. DFID's experience with different types of aid instruments and their impact in fragile states are as follows:

- Where fiduciary risk is high, *trust funds* can be a means of providing budgetary support to countries while simultaneously building state capacity to manage and control its own budget. In Afghanistan, for example, the Afghanistan Reconstruction Trust Fund has become the preferred funding modality, with £395 million committed for 2004/2005.

- Increasing donor harmonisation and an increasingly programmatic approach in fragile states can be achieved through *pooled funding*. In Burma, for example, the donor community was able to work in partnership with civil society organisations and scale up the response, through pooled funding. Ministry of Health officials are not part of the coordinating structure and other government providers have also successfully bid for funding.

- Communities, providers, and local and central government can be brought together through *social funds*, thereby effectively improving social protection, service delivery and livelihoods in fragile states. The Yemen Social Fund, for example, has attracted £225 million for 2004-2008 with funding from the World Bank, the EU, Dutch, KfW, the UK, USAID and the Arab fund. The Yemen fund has been most successful in the education sector where it works closely with the ministry.

6. Conclusion

The issue of how donors can engage in fragile states is an area of growing importance, particularly as focus in recent years has been largely upon the 'good performers', to the detriment of, it would appear, assistance to poorer performers.

Rather than simply 'ignoring' states or providing only minimal support to countries where governments lack the capacity or willingness to develop pro-poor policies and implement developmental reforms, there has recently been growing realisation of the need to engage with these states. It is certainly not easy terrain for donors but security and regional instability concerns are increasing the urgency of engagement in these areas.

As this paper has shown, some early lessons and recommendations do appear to be emerging. One important issue is that harmonisation and alignment by donors could be *even more* important in fragile states: where donor assistance is fragmental, donors could be unwittingly prolonging the fragile nature of states. Care must be taken though, particularly where regimes are repressive. In such cases, donor distance from state structures without jeopardising positive reforms could be achieved by so-called 'shadow alignment'. This implies that state systems are respected and 'mirrored' although funds may not be channelled directly to the government.

Recent work on engagement in fragile states is in fact revealing that in many aspects, working in difficult environments is not so different from working in so-called 'normal' environments – many of the issues that have been recently emerging in relation to working with PRSPs, for example, are equally if not more relevant in fragile states. These include harmonisation and alignment, the need for in-depth political analysis and the need for long-term commitment and engagement by donors. Rather than being inappropriate for 'partnership', donors need to develop partnership-like relationships with these countries, as far as is possible.

More work is of course needed, particularly on which aid instruments and channels are most appropriate in different fragile environments. Donor dialogue on experience so far and approaches is also vitally important to build a strong basis for moves towards closer coordination, cooperation and harmonisation. With a growing understanding and desire to work closer together, donors will be able to competently tackle these complex but crucial challenging environments.

Bibliography

Berry, Chris with Ali Forder, Sonya Sultan, and Maguei Moreno Torres (2004) *Approaches to Improving the Delivery of Social Services in Difficult Environments* PRDE Working Paper 3, Poverty Reduction in Difficult Environments Team, Policy Division, DFID

Chauvet, L. and P. Collier (2004) *Development Effectiveness in Fragile States: Spillovers and turnarounds* Centre for the Study of African Economics (CSAE), Oxford University

DFID (2005) 'Why we need to work more effectively in fragile states' DFID, Poverty Reduction in Difficult Environments Team/ Aid Effectiveness Team Policy Division, DFID

DFID (2004) *Improving the Development Response in Difficult Environments: Lessons from DFID Experience* PRDE Working Paper 4 Poverty Reduction in Difficult Environments Team/ Aid Effectiveness Team Policy Division

High Level Forum Paris (2005) *Draft Paris Declaring on Aid Effectiveness* Second Consultative Draft,

Leader, Nicholas and Peter Colenso (2005) *Aid Instruments in Fragile States* PRDE Working Paper 5, Poverty Reduction in Difficult Environments Team/ Aid Effectiveness Team Policy Division, DFID

Lockhart, C. (2004) *From Aid effectiveness to development effectiveness: strategy and policy coherence in fragile states* Background paper prepared for the Senior Level Forum on Development Effectiveness in Fragile States, ODI

Macrae, Joanna with Andrew Shepherd, Oliver Morrissey, Adele Harmer, Ed Anderson, Laure-Helene Piron, Andy McKay, Diana Cammack and Nambusi Kyegombe (2004) *Aid to 'Poorly Performing' Countries: a Critical Review of Debates and Issues* ODI

McGillivray, Mark (2005). *Aid Allocation in Fragile States* Background Paper for the Senior Level Forum on Development Effectiveness in Fragile States, World Institute for Development Economics Research, United Nations University, Helsinki Finland

ODI (2004) *Harmonisation and Alignment in Fragile States* Draft report for the Senior Level Forum on Development Effectiveness in Fragile States, London, UK

Prime Minister's Strategy Unit (2005) *Investing in Prevention: An International Strategy to Manage Risk of Instability and Improve Crisis Response* A Prime Minister's Strategy Unit Report to The Government

Torres, Maguei Moreno and Michael Anderson (2004) *Fragile States: Defining Difficult Environments for Poverty Reduction* PRDE Working Paper 1, August, Poverty Reduction in Difficult Environments Team, Policy Division, DFID

Meeting Material

Christiansen, Karen (2005) 'Failed and Fragile States: How can the MDGs be achieved in difficult environments?' The Millennium Goals: The 2005 Agenda (March)

High Level Forum (2005) 'Paris Declaration on Aid Effectiveness: Ownership, Harmonisation, Alignment, Results and Mutual Accountability' Paris, (February)

Masood, Ahmed (2005) 'Development Effectiveness in Fragile States, including discussion of work on Countries at Risk of Instability' Minutes of the Development Committee Meeting, DFID (2004)

OECD/DAC (2005) 'Senior Level Forum on Development Effectiveness in Fragile States', Chair's Summary, London (January)

Websites

Aid Harmonisation and Alignment http://www.aidharmonization.org/

Department for International Development (DFID) http://www.dfid.gov.uk/

Annex 1: Core Elements of Development Capacity and Willingness

The following tables present some key criteria for assessing state capacity and willingness. They are not measurement checklists or determinants of causality for difficult environments, however. Instead they are intended as lists of factors that indicate to what extent a state lacks the capacity and/or willingness to mobilise resources for poverty reduction. They may also serve as a first step towards quantitative proxy indicators for measurement.

A) Foundations of State Authority	
→ Territory control and presence	• control of external borders and internal territory • monopoly over legitimate use of violence and coercion • provision of human security
→ Internal sovereignty	• juridical statehood: recognition of an entity (territorial and political) as a member of the international system
→ Rule of Law	• Ability to assert and enforce the primacy of national policies, laws, and norms of social and political behaviour over all groups • Access to justice, particularly for the poor
B) Effective Exercise of Political Power	
→ Formal and informal distribution of power	• Existence of effective checks (explicit of otherwise) on executive power
→ autonomy and stability of political institutions	• Autonomy: public institutions not used primarily for private gain • Stability: ability of public institutions to manage conflict (both at elite and wider social levels)
→ engaging with the population	• Ability of public institutions to engage with population through some link of representation
C) Competence in Macro-Economic Management	
→ the building blocks for monetary and fiscal policy	• A credible currency • A central bank (or similar authority with competence over monetary policy) • A ministry of finance (or equivalent organ with authority over policy and distribution of resources within government) • A consolidated and transparent budget process (formulation and execution)

	• A revenue base (budget envelope and some for of tax system)
→ Regulatory framework that facilitates economic activity	• Predictability in the use of productive assets for economic activity
D) Administrative Capacity for Implementation	
→ Linkages between policy making, planning and budgeting	• Extent to which there is human/technical capacity to develop and own policy at any of the following levels: sector, central, and regional
→ Human resources	• Existence of a functioning civil administration with a minimum of set of skills • Incentive structure: regularity and predictability of government salaries, staff morale, and autonomy between bureaucratic institutions and informal power networks
→ Delivery of basic services at local or central level	• Capacity to oversee: existence of accountability links between providers and public authorities • Capacity to target: information • Capacity to reach: territory control/presence
E) Political Commitment to Poverty Reduction	
→ Existence of a national poverty reduction goal	• Explicit political commitment to poverty reduction for all populations/social groups • Existence of a credible strategy for poverty reduction
→ Implementation of anti-poverty policy or programme	• Government expenditure allocated to achieve poverty reduction goal through a strategy • Consideration of links between long-term poverty reduction policies and more immediate measures
F) Inclusiveness	
→ inclusive service delivery	• State providing or overseeing service delivery that is inclusive of all groups

Source: Torres and Anderson (2004)