

Aid Instruments in Fragile and Conflict-Affected Situations: Impacts on the State- and Peace-Building Agenda

Final report

19 April 2010

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* Disclaimer: The views presented in this paper are those of the author and do not necessarily represent the views of DFID.

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List of acronyms

AfDB	African Development Bank
AIDCO	EuropeAid Cooperation Office
AIDS	Acquired Immunodeficiency Syndrome
CBTF	Capacity Building Trust Fund (Southern Sudan)
CHF	Common Humanitarian Fund (UN)
CIDA	Canadian International Development Agency
CPIA	Country Policy and Institutional Assessment (World Bank)
DAC	Development Assistance Committee (OECD)
DDR	Disarmament, Demobilisation and Reintegration
DFID	Department for International Development (UK)
DG RELEX	Direktorate-General for the External Relations (EC)
DRC	Democratic Republic of Congo
EC	European Commission
ECHA	Executive Committee on Humanitarian Assistance (UNDG)
ECHO	EC Humanitarian Aid Department
ERRA	Earthquake Reconstruction Rehabilitation Authority (Pakistan)
EU	European Union
FCAS	Fragile and Conflicted-Affected States
FCO	Foreign and Commonwealth Office (UK)
GBS	General Budget Support
GHD	Good Humanitarian Donorship
HDRC	Human Development Research Centre
HIV	Human Immunodeficiency Virus
HLF3	Third High-Level Forum on Aid Effectiveness
IDP	Internally Displaced Person
IfS	Instrument for Stability (EU)
IGAD	Intergovernmental Authority on Development
INCAF	International Network on Conflict and Fragility (OECD-DAC)
IPF	International Partners Forum for Peace
ISA	Independent Service Authority
JAM	Joint Assessment Mission
JICA	Japan International Cooperation Agency
LICUS	Low-Income Countries under Stress
MOD	Ministry of Defence (UK)
MTDF	Multi-Donor Trust Fund
NGO	Non-Governmental Organisation
NSP	National Solidarity Programme (Afghanistan)
ODI	Overseas Development Institute
OECD	Organisation for Economic Co-operation and Development
PBA	Programme-Based Aid
PBF	Peacebuilding Fund (UN)
PCNA	Post-Conflict Needs Assessment
PFM	Public Finance Management
PRS	Poverty Reduction Strategy
SBS	Sector Budget Support
SPF	State- and Peace-Building Fund (World Bank)
SWAp	Sector-Wide Approach
UN	United Nations
UNDG	UN Development Group
UNDP	UN Development Program
US	United States
USAID	US Agency for International Development

Executive summary

E1. This study, commissioned by the UK Department for International Development's (DFID's) Aid Effectiveness and Politics and State teams aims to develop an improved understanding of the merits of different aid instruments in addressing the specific challenges posed by fragile and conflict-affected states (FCAS) and in achieving state- and peace-building objectives. This analysis focuses on processes and arrangements underpinning aid instruments with a view to capturing how these interact with the dynamics of state and peace building.

E2. The research undertaken for this study covers a wide range of fragile situations, from instability towards trajectories of more sustainable development. It also looks at different types of humanitarian assistance and development aid instruments and modalities, including financial aid to government and non-state actors and technical cooperation. Bilateral as well as pooled funding mechanisms are also considered. However, owing to the short timeframe, it does not conduct an exhaustive review of all aid instruments and modalities available, rather focusing on the most commonly used, notably programme-based aid, multi-donor trust funds (MTDFs) to government, social funds, food and cash transfers, standalone projects funded and implemented through non-state actors and technical assistance. The impacts of aid instruments are reviewed against DFID's state- and peace-building framework, articulated around four main objectives: inclusive political settlements; peace-building and conflict resolution; state capacity to carry out survival functions; and state capacity to meet public expectations.

E3. As donors are developing specific approaches to work more effectively in fragile states, increased attention is given to how aid can be increased and improved to address specific challenges raised by fragility. Efforts are being put into research to better understand the policy and operational implications that the state- and peace-building framework and the principles of good engagement in FCAS, based particularly on the Good Humanitarian Donorship (GHD) and Paris and Accra aid effectiveness agendas, have on donor interventions, including how donor approaches and aid instruments need to be adapted to address the specific challenges and needs raised by fragility.

E4. Current thinking is weighted heavily in support of the aid effectiveness agenda: recent literature on aid instruments in FCAS reflects a clear preference for moving towards programmatic assistance as quickly as possible, as this is considered a crucial step towards state and peace building, state capacity, government ownership of policies and reforms and, as a result, its legitimacy. As such, the literature does not explore in much detail the positive aspects of non-budget support, despite it being the most commonly used modality, and the complementarities that exist when a range of instruments are used.

E5. This study provides a preliminary outline of potential positive and negative impacts of different aid instruments on state- and peace-building processes (summarised in table A below). However, particular challenges lie in identifying aid instruments that can contribute consistently to state- and peace-building objectives across a wide variety of situations in FCAS. One of the main reasons for this is that these processes are highly complex, deeply political and ultimately endogenous. In addition, impacts of aid instruments depend on the country context. As a result, donors should remain flexible and take opportunities for innovative intervention design based on an improved understanding of the opportunities and potential risks for state and peace building presented by different aid instruments and mixes of instruments.

E6. While this study provides a first overview of these issues, it needs to be complemented by further research, which could be conducted along the following lines:

- A wider range of aid instruments should be evaluated through in-depth reviews of their impacts on state- and peace-building processes. In particular, alternative modes of

engagement to programmatic aid should be further researched, as they provide opportunities to work with sub-national and non-state actors (communities, civil society, private sector) and to support bottom-up approaches to state and peace building that could complement the prevalent centralised, top-down mode of engagement.

- Additional research should also be conducted at country level to develop an improved understanding of the potential synergies between different aid instruments, both over time, looking at the rationale and impacts of the sequencing of modalities used, and at specific periods, analysing their complementarities and the advantages offered by mixes of aid instruments.
- Finally, it would be interesting to conduct sector-focused analysis looking at the impacts of aid instruments used and activities funded on specific aspects of the state- and peace-building process.

Table A: Summary matrix of impacts of aid instruments on state- and peace-building processes

This matrix is not exhaustive in terms of aid instruments and modalities covered. It instead focuses on key humanitarian and development aid instruments used in FCAS. Pooled funds reviewed here are those providing financial aid to the government, either 'on' or 'through' the national budget. Similarly, standalone projects considered here are those funded and implemented through non-state actors. Technical cooperation is analysed both as a standalone aid instrument and as a component of other aid modalities (e.g. pooled funds, social funds, etc).

	Financial aid to government		Financial aid to non-state actors			Technical cooperation
	Programme aid	Pooled funds	Social funds	Food/Cash transfers	Standalone projects	
Inclusive political settlements	<ul style="list-style-type: none"> PRSSs can provide a platform for expression of key needs and priorities and serve as a fundamental point of reference for dialogue and accountability between government and citizens. Encourage policy dialogue at central level around programme aid and budget support, to ensure peace dividends are shared among all groups in society. Can influence the balance of power through support to and legitimisation of the political powers in place and their reform efforts. 	<ul style="list-style-type: none"> Possibility of shadow alignment in difficult partnerships to minimise state legitimisation and to work with selected state structures (reformers). Enables donors to create crucial entry points to scale up reforms and work with the whole government as soon as the situation allows it. Expanded coverage through pooled resources. 	<ul style="list-style-type: none"> Can contribute towards strengthening local governance systems and community participation in national dialogue. Help (re)create accountability structures at local level through the establishment of common priorities and shared responsibilities that provide the basis for clear and transparent political and social interactions among stakeholders. Risk of elite capture and diversion if communities are weak or divided. 	-	-	<ul style="list-style-type: none"> Build country capacity at central level to facilitate political dialogue and generate peace agreements, new constitution and development strategies. Can contribute to reshaping power and authority through targeted assistance towards elite groups/ leadership figures who can weight in shaping policies. Can contribute to enhance voice from below to enable bottom-up engagement with state building and governance.

	Financial aid to government		Financial aid to non-state actors			Technical cooperation
	Programme aid	Pooled funds	Social funds	Food/Cash transfers	Standalone projects	
Peace building and conflict resolution	<ul style="list-style-type: none"> Can help legitimise state and political process, strengthening capacity to resolve conflict and maintain peace. Policy engagement and technical assistance at central level can be used to provide selective support to potential allies in peace settlements and key reformers within state structures. 	<ul style="list-style-type: none"> Possibility to set up thematic funds to address specific nationwide issues that are not covered by national plans (e.g. DDR, gender, etc). 	<ul style="list-style-type: none"> Can contribute to strengthening local governance structures, increasing their legitimacy and capacity to resolve local conflict. Can work with a wide variety of contexts/groups and thus address inequalities and exclusion of specific groups that can contribute to instability. 	<ul style="list-style-type: none"> Visible and tangible nature of transferring resources from the government to the poor, creating a new impetus for policy and rebuilding of state–citizen relationships and state legitimacy more generally. Can be better targeted to specific populations/regions. But this can also create social tensions and community division when there are many poor people in the community but only some receive benefits. 	<ul style="list-style-type: none"> Enable mobilisation of swift and flexible sources of funds and possibility to provide targeted solutions to address specific causes of conflict. Can exacerbate causes of conflict by providing direct support which can fuel tensions between communities by the perceived favouring of one community over another. Tend to bypass government structures undercutting funding of government priorities and national ownership and resulting in a slow transfer of responsibilities back to government. 	<ul style="list-style-type: none"> Provide selective support to key reformers in government: identification of potential allies for reform processes within state structures. Build institutional capacity to resolve conflict to achieve resilient and durable political settlement through work with local institutions, civil society groups and regional groupings with local name recognition and legitimacy.

Aid instruments in Fragile and Conflict-Affected Situations

	Financial aid to government		Financial aid to non-state actors			Technical cooperation
	Programme aid	Pooled funds	Social funds	Food/Cash transfers	Standalone projects	
State capacity to carry out survival functions (security, justice, rule of law, revenue)	<ul style="list-style-type: none"> • Un-earmarked and predictable funds channelled through state systems crucial for governments faced by large recurrent and investment costs, difficulties in collecting domestic revenue. • Encourages government ownership of the use of funds and its capacity to plan and prioritise public expenditure. • Risks creating aid dependency and suppressing incentives to build revenue, and losing opportunity to set up links between state and citizens. • Can help increase government reach at national level, expanding its presence at local level through staff, public service delivery (notably to provide security and justice for the population) and thus control over state territory through increased legitimacy. 	<ul style="list-style-type: none"> • Most World Bank MDTFs fund capacity building in core areas of public administration, which furnishes the public sector with procedures that are accepted internationally. • Capacity building is faster and better-anchored when resources flow on budget and projects are implemented through government institutions. • There are major concerns, though, about the sustainability of these initiatives, as they also may distract the limited capacity available from more simple, yet fundamental, reforms. 	-	-	-	<ul style="list-style-type: none"> • Help build human and institutional capacity. • Outsiders take over, limiting national participation. • Recruitment of local staff by aid agencies creates competition that can inhibit the development of a functioning civil service. • Technical assistance is often provided to temporary bodies, questioning sustainability. • Increased ownership and long-term sustainability if resources are pooled and managed by state officials. • Often fail to provide adequate support to non-state actors: top-down approaches risk promoting uneven, and thus unsustainable, state building.

	Financial aid to government		Financial aid to non-state actors			Technical cooperation
	Programme aid	Pooled funds	Social funds	Food/Cash transfers	Standalone projects	
State capacity to meet public expectations	<ul style="list-style-type: none"> • Government is seen as providing basic services following its policy choices, contributing to increasing its legitimacy. • Improved macroeconomic stability can lead to better social and political stability. 	<ul style="list-style-type: none"> • Contribute to building transparent and accountable public finance systems, influencing the standards by which social groups can hold state official and organisations accountable. • But can also raise expectations far beyond what can be achieved by government, actually doing harm to the legitimacy of state organisations, contributing to a general distrust of and cynicism towards politics radically lowering social expectations of the state. 	<ul style="list-style-type: none"> • In the short term, support to community-driven development approaches can represent alternative ways to ensure quick-impact, demand-driven service delivery. • Provides the state with an important entry point for strengthening local governance. • Increased state legitimacy if grants are seen as coming from the state. • Risk undermining the state by creating parallel structures. • Support involvement of private sector and civil society in delivery of services (job creation). 	<ul style="list-style-type: none"> • Adapted to provide quick, targeted, flexible responses to urgent needs. • Can compensate for low capacity to deliver immediate needs but risk focusing on short-term delivery rather than long-term institution building. 	<ul style="list-style-type: none"> • Adapted (similarly to humanitarian and early recovery funds) to provide quick, targeted, flexible responses to urgent needs. • Funds channelled through UN agencies or international NGOs have the potential to undermine the fledgling state because this modality of assistance is designed specifically to avoid state structures, resulting in a deficit of delivery capacity for the state once donor/humanitarian agencies leave. 	-

1. Introduction

1.1 Background

1. Experience shows the importance of providing adequate financial assistance to fragile and conflicted-affected states (FCAS). The aim is to ensure that urgent relief operations continue alongside work to secure peace dividends and provide livelihoods support, and that efforts are directed towards building state capacity and the foundations for sustained recovery. However, international donor agencies have found it difficult to deliver targeted and effective support to FCAS. A particular challenge lies in designing approaches that apply across the wide variety of situations inherent in fragile states, that harness both state and non-state implementation capacity and that take advantage of opportunities for innovative programming (Leader and Colenso, 2005). The lesson is that donor agencies should remain flexible by selecting and designing instruments according to specific objectives and context rather than predefined notions of suitability.

2. In the Department for International Development (DFID) 2009 White Paper, *Building Our Common Future* (DFID, 2009a), engagement in FCAS to support state- and peace-building efforts is identified as a primary intervention objective. A significant question for DFID concerns its choice of aid instruments to implement this policy priority. The imperative includes working towards improved aid effectiveness as defined in the Paris Declaration (OECD-DAC, 2005), the Accra Agenda for Action (HLF3, 2008), the Principles of Good International Engagement in Fragile States and Situations (OECD-DAC, 2007), and the Good Humanitarian Donorship principles (GHD, 2003).

3. DFID is concerned to keep its approach to aid instruments in FCAS updated through research and evaluation of different ways of delivering aid in insecure environments. This emphasis is even more important in the context of the scale-up in funding to fragile states, the new state- and peace-building approach and the value-for-money agenda.

1.2 Purpose of the study and report layout

4. This study, commissioned by DFID's Aid Effectiveness and Politics and State teams, aims to develop an improved understanding of the merits of different aid instruments in addressing the specific challenges posed by FCAS and in achieving peace- and state-building objectives. It is important to adapt aid instruments to specific contexts, but also to assess how they interact with the politics of development, notably how they may impact, positively and negatively, on state- and peace-building agendas. This analysis does not look at funded programming and activities, rather focusing on processes and arrangements underpinning aid instruments, with a view to capturing how these interact with the dynamics of state and peace building. Using a more operational view, the study seeks to identify existing evidence and research gaps as well as issues and avenues for further research which could inform donors' choice of aid instruments and modalities in FCAS.

5. The research undertaken for this study included a review of relevant secondary literature on state and peace building, aid effectiveness and good 'donorship' in FCAS and aid instruments, as well as grey literature such as programme and country evaluations conducted by donors. Interviews were carried out and contacts made with key donor agency personnel involved in policy development and country operations in FCAS, including the World Bank, European Commission (EC), Organisation for Economic Co-operation and Development (OECD) and DFID.

6. This paper is organised as follows:

- **Section 1** (this section) sets out the rationale for the study and defines key terms as well as key contextual elements retained in the analysis.
- **Section 2** sets out the analytical framework used to assess the impacts of aid instruments, which is built around the four objectives of state and peace building as defined in DFID's Emerging Policy Paper on *Building the State and Securing the Peace* (DFID, 2009b). It also discusses key challenges posed by the state- and peace-building agenda and fragility that are likely to impact aid instrument choices and how they interface with state- and peace-building processes.
- **Section 3** aims to take stock of existing thinking on approaches and choices of aid instruments, trying to better understand to what extent and how these may be linked to the evolution of donor agendas in FCAS. Progress made by donors in recent years with regard to understanding state- and peace-building processes and, as a result, the needs of FCAS, is partly reflected in the evolution of the principles of aid effectiveness and good engagement in FCAS. While this evolution seems to some extent to have impacted the design and choice of aid instruments, overall there seems to be a lack of analysis of the linkages between state-/peace-building and aid instruments, notably how they can impact one another. This study aims to address this.
- **Section 4** seeks to bridge this analysis gap by looking at a variety of country examples covering a range of aid instruments and fragile states. The analysis unbundles examples of arrangements around aid instruments in particular contexts, looking at the stakeholders involved; their respective roles; dialogues and negotiations sparked; incentives created; and how all these can contribute to, influence and/or support in a positive or negative manner the processes involved in state and peace building. This review of examples aims to pick up some clues on the specific impacts of aid instruments and mixes of aid instruments on state- and peace-building agendas in Afghanistan, Cambodia, the Democratic Republic of Congo (DRC), East Timor, Nepal, Pakistan, Rwanda, Sierra Leone, Southern Sudan, Yemen and Zimbabwe.
- Finally, **Section 5** identifies a set of emerging issues and lessons from the review of cases, highlighting potential research gaps where more evidence and analysis are needed to ensure a better understanding of the links between the use of certain aid instruments and the state- and peace-building agenda.

1.3 Key concepts and definitions

7. We do not aim here to discuss in detail the various definitions used with regard to aid instruments and fragile states, but it is important to explore briefly the different approaches in the literature on these two themes, in order to underline the working definitions for this study.

1.3.1 State fragility

8. Several definitions of state fragility and state failure are used in the aid community, with significant areas of overlap between them but also differences of breadth and emphasis. The OECD and DFID characterise fragile states as being unable to provide basic services to the majority of their people, including the poor, because of a lack of political will, weak capacity or both. Other definitions of state fragility, including those used by the EC, the Canadian International Development Agency (CIDA), the UN Development Program (UNDP) and the US Agency for International Development (USAID), extend beyond this narrow focus on service delivery to encompass dimensions such as territorial authority and political legitimacy. The World Bank used to employ the term 'low-income countries under stress' (LICUS) for what it now calls 'fragile states', and identifies three key dimensions of fragility: weak governance, weak policies and weak institutions, as indicated by a ranking below 3.2 in the Country Policy and Institutional Assessment (CPIA) (Hedger et al., 2009). Given its mandate, the World Bank avoids political variables and focuses on macroeconomic management, institutional strength and economic governance (Rocha Menocal et al., 2008).

9. The current state- and peace-building agenda notably links state fragility to the functioning of the state: it defines fragile states as those where state structures lack the political will and/or capacity to provide the basic functions needed for poverty reduction and development or to safeguard the security and human rights of their populations (OECD-DAC, 2007). These functions are seen as interdependent: deteriorating capacity in one will have a detrimental and cumulative effect on other core state functions. Emphasis is also placed on the nature of the relationship between the state and its citizens, as the inability of political systems to mediate between state capacity and citizens' expectations is likely to undermine state legitimacy and state authority. Another key element is the nature of political settlements between elites in relation to the 'rules of the game'. State- and peace-building objectives can be mutually reinforcing but they are not the same. Peace building is understood in terms of interaction between political settlements, ability to address the causes and effects of conflict and presence of mechanisms to resolve conflict, with the emphasis on stabilisation and the end of conflict. State building involves the longer-term process by which the political settlement can result in the development of capable, accountable and responsive state institutions.

10. This leaves us with a very broad understanding of what fragility is and a broad set of states that can be considered fragile. It is important to understand fragility or conflict along a spectrum, where different dynamics change and interact over time and space, along with the structures and processes that characterise these societies. That is, neat categorisations or typologies of fragile versus non-fragile states are usually not the most useful way to define these contexts. Our research therefore focuses on the types and dynamics of transitions, from instability towards trajectories of more sustainable development, in order to gain a better understanding of how aid instruments can impact state and peace building in practice.

1.3.2 Aid instruments and modalities

11. The term 'aid instrument' is sometimes used interchangeably with the term 'aid modality' to denote mechanisms and procedures through which donors channel resources to recipients. However, a distinction needs to be made between the nature of the support (financial support to government and non-state actors, in-kind contributions, technical cooperation, etc.) and the mechanisms used (programme aid (including budget support), pooled funds (common basket and multi-donor trust funds (MDTFs), global funds, social funds and the rather general term 'projects')). Aid instruments and modalities can be further classified based on their degree of alignment with the policies and systems of the recipient government, donor control over the use of the resources provided and the level of coordination with other donors.

12. This paper will use the following typology of aid instruments and modalities, adapted from DFID's *Guidance on Aid Instruments Practice Paper* (DFID, 2006) and covers both humanitarian action and development assistance.

13. **Financial aid to government or non-state actors**, which includes:

- *Programme-based aid (PBA)*: This general term refers to coordinated donor support to implement a comprehensive programme (e.g. a poverty reduction strategy (PRS)) or a specific sector/thematic strategy that is country led and relies on a single budget framework and domestic processes. PBA includes sector-wide approaches (SWAs) and budget support – general budget support (GBS) and sector budget support (SBS). Budget support refers to financial assistance that supports a medium-term programme and is provided directly to a recipient country's budget on a regular basis, using that country's own financial management systems and budget procedures (Koeberle and Stavreski, 2006). Budget aid is not limited to policy-based lending or grants but can also involve the use of other tools for channelling aid to the budget, such as trust funds. SWAs channel donor funds directly to government sector funds and include strategic and capacity-building support to specific sectors.

- *Standalone projects*: Direct funding is provided to cover a specific set of pre-identified activities. Projects can have different levels of alignment with state systems and policies, as funding can be provided through, on or off budget and can support activities that may stand outside national strategies. Donors may support standalone projects because there is no national or sector framework in place or because donors fundamentally disagree with government policies and strategies. During periods of conflict, humanitarian or 'relief-like' assistance is, for example, often characterised by short-term, projectised assistance delivered through UN agencies and non-governmental organisations (NGOs) (Leader and Colenso, 2005).
- *Social transfers* consist in social assistance programmes that provide regular and predictable transfers in cash, vouchers or food, directly to households or individuals. Such projects are known in a wide range of applications, such as government-driven welfare instruments, insurance schemes, remittances, humanitarian assistance among others. Until recently, food aid has been the dominant response mechanism in fragile states, implemented by humanitarian actors and possibly in cooperation with the government in situations where it shows willingness to provide assistance to targeted populations.
- *Social funds* are based on the concept of direct funding for poverty-reducing activities by local actors. Social funds disburse financing, usually grants, in response to project proposals identified by poor communities themselves. Projects may deal with community infrastructure, social service provision (including emergency relief assistance), training or microenterprise initiatives. Social funds aim to build social capital at local level and to enable poor people to become actively involved in their own development. Their role is to appraise and select projects and finance and supervise grants.

14. Donors may make use of a variety of funding mechanisms to deliver their financial support: it can either be delivered *bilaterally through direct execution*, *channelling funding* through UN agencies and international NGOs, or through *pooled funding* mechanisms whereby donors contribute funds to unit trusts, which are then invested in, or managed, by a third party. The UN's Common Humanitarian Funds (CHFs) and MDTFs are forms of pooled funding. MDTFs consist in highly flexible arrangements that enable donors to pool their support under the management of a fund administrator, typically either the World Bank or a UN agency. There are options with respect to how closely the fund works with government and there is scope for the mix and design of aid forms supported by the fund to change over time.

15. **Technical cooperation** is defined by DFID as the provision of know-how in the form of personnel (short- and long-term specialists and consultants), training and scholarships and/or knowledge and research to benefit recipient countries.

16. DFID considers a fourth category of instruments, '**policy engagement**', which aims to influence the policy and practice of institutions that have an impact on and/or interface with poor and excluded groups. Policy engagement takes place at country level and beyond, including global, regional and cross-Whitehall levels. While policy engagement is likely to be at the centre of DFID's interventions in fragile states, including notably in the British Foreign and Commonwealth Office (FCO) and the Ministry of Defence (MOD), this paper focuses on country-level policy engagement, although not as a separate instrument, as it is likely to cut across all interventions in fragile states. As such, the opportunity offered by other aid instruments to engage at policy and operational levels is at the centre of the aid instrument assessments conducted in this study. In addition, aid instruments are seldom used in an exclusive way: donors usually mix different aid modalities to build on their complementarities. For example, budget support often combines direct financial support to the government budget with policy dialogue, technical assistance and capacity building. As a result, this paper considers the impacts on state and peace building not only of specific aid instruments but also of mixes of aid instruments as used by donors in fragile states.

17. Furthermore, standard aid instruments often need to be adapted and reformed to meet specific challenges raised by fragility. This has given rise to alternative solutions such as ‘shadow’ systems alignment, whereby donors work to be compatible with national systems without subjugating them to government priorities or policies. Hybrid instruments have been designed, such as Collier et al.’s (2009) independent service authority (ISA) and Joshi and Moore’s idea of institutionalised coproduction, presented in further detail in Section 3. These new instruments are needed when state willingness and/or capacity are inadequate and donors have to adopt ‘transitional’ solutions before they can fully engage with or support the state. Although these instruments have not been implemented as such, some existing arrangements borrow related ideas, which will be reviewed in terms of their impacts on state- and peace-building objectives.

2. Criteria to assess aid instruments and modalities

18. State and peace building are context-specific, dynamic and internally driven processes. Donors cannot determine these but can influence them by means of their political, financial and technical support. The aid instruments used are a way of exercising this influence: donors cannot ‘do’ state and peace building but they can impact the trajectories taken towards these objectives.

19. Our starting point lies in the definitions of state and peace building provided in DFID’s Emerging Policy Paper on *Building the State and Securing the Peace* (DFID, 2009b). Based on this framework, state and peace building can be unbundled into different sets of issues, which will serve as a basis for this analysis. The positive and negative impacts of aid instruments and the extent to which they can contribute to and/or support the following set of issues are considered. We do not focus on funded programmes or activities but rather on systems and processes by means of which funds are channelled, analysing the set of incentives and attitudes generated by the use of aid instruments and how these may impact state- and peace-building dynamics.

20. For the purposes of aid effectiveness, state building is generally understood to mean rebuilding the core competences or ‘survival functions’ of the state and restoring the relationship of reciprocity between state and citizens. Areas of intervention should therefore be selected not just because of the benefits they offer to the population but also because of their ability to reconnect the state with its citizens, particularly marginalised or politically opposed groups whose disaffection may be a cause of instability.

21. **Inclusive political settlements:** For transitions to be successful and peace processes to be durable in practice, they need to be embedded in legitimate political settlements, understood as agreements around the rules of the game regarding state–society relations, which reflect the balance of power that exists between the state, powerful groups and wider society. Crucially, these should include both formal institutions and rules and the informal ones that often underlie governance systems and processes. This report studies two main sets of issues underpinning political settlements that donors may influence through aid instruments:

- How can donors contribute towards providing space for political dialogue and negotiations? What are the most effective and efficient ways, sustainable over time, to facilitate discussions among different political and social elites and provide support to build a common understanding of political power organisation and strategic orientation for the development of the country?
- To what extent can donors enhance the prospects for inclusive political settlement and acceptance without imposing a new, potentially destabilising, balance of power? Through which mechanisms can they support the involvement of different groups in society in this dialogue?

22. **Peace building and conflict resolution:** The scope and ambition of peace-building efforts as set out in DFID's Emerging Policy Paper are based on a broad, long-term understanding of peace building, advocating for the transformation of society by addressing fundamental grievances, horizontal inequalities and other root causes of conflict, and by focusing on the development of capacities and institutions to manage conflict.

- Through which mechanisms can donors support the development of institutional capacity to resolve conflict? What entry points at national and sub-national levels can be used, notably in terms of areas of reform and stakeholders to engage with?
- To what extent can aid instruments contribute towards reshaping society with a view to reducing inequalities, such as the exclusion of specific social and ethnic groups or the integration of refugees and international displaced persons (IDPs), which may spark off tensions and conflicts?

23. **State capacity to carry out survival functions:** State survival functions refer to those activities that translate the consolidation of the political settlement into processes that enable the state to exert its authority and gain legitimacy. These processes between the state and society include the rule of law, through security and justice sector reform, and management of state revenues. Donors can interact here, notably through the provision of financial and technical support and state capacity development efforts.

- How can donors contribute towards building (vs. substituting for) capacities in fiscal institutions, systems and policies? What impacts does this support have on linkages between the state and society in terms of expectations created and accountability relationships? To what extent is donor financial and technical support likely to strengthen the legitimacy of the state?
- How can the arrangements set through the use of some aid instruments help provide a sense of order in society? Can instruments effectively support government control over its territory at sub-national level?

24. **State capacity to meet public expectations:** There is compelling evidence to suggest that, although a state's ability to respond to public expectations is not a critical factor in its survival, the destabilisation of economic and livelihood opportunities and comprehensive degradation of basic services and accountability structures serve to undermine its long-term stability (Putzel et al., 2009; Vallings and Moreno-Torres, 2005). Furthermore, the ability of the state to consolidate its legitimacy can be evidenced by its willingness to be responsive to the needs of its population through the provision of basic social services such as health, education, water and infrastructure (Putzel et al., 2009). Donors can exert influence over the state's capacity to meet public expectations in two main ways:

- Donors can support the state in delivering expected services, either through direct service delivery or by building state capacity to do so. This analysis focuses on aid instrument efficiency in terms of building up this capacity while ensuring, in the shorter term, that solutions are implemented quickly to address urgent and key needs. How can aid instruments best support the development of state capacities to deliver services and create jobs? Do they ensure that the state is, or is seen as, delivering expectations? Can aid instruments help the state build its own legitimacy through service delivery and the creation of economic opportunities?
- Donors may also influence public expectations by enabling citizens to voice their demands, for example by promoting participatory approaches to define needs and setting high standards in terms of quality of services delivered, accountability mechanisms and transparency. To what extent can aid instruments shape the nature of public expectations?

25. A wide variety of short- and longer-term objectives need to be addressed simultaneously: the transition from short- to medium- to long-term needs is not linear, and service provision and recovery initiatives need to happen simultaneously, not as ‘either/or’ (Evans et al., 2009). As a result, donors need to use a mix of aid instruments so that they can react more flexibly to changing circumstances as well as build on the specific and relative advantages of instruments to address different, and potentially conflicting, sets of issues. Indeed, evidence suggests that the most effective interventions in fragile states require a mix of instruments and approaches towards working around, with and through the state all at the same time. Such interventions build on the complementarity between instruments, as each can have different but mutually reinforcing contributions and/or serve different purposes (Ball, 2007; Manor, 2007; Scanteam, 2007). Attempts to assess the impacts of each aid instrument in isolation would fail to take into account the importance of the positive or negative synergies between aid instruments likely to impact the dynamics of state and peace building.

26. Similarly, aid instruments cannot be analysed outside of the context in which they are used. Indeed, some may prove to be more or less adaptable to specific contexts (for example, direct budget support aligned with country systems and policies may be considered only in countries where there is a strong government commitment to reforming and addressing institutional weaknesses). In addition, instruments with similar arrangements may have different impacts when used in different contexts, depending on existing political, economic, social and/or cultural foundations. Aid instruments can influence the relationship between the state and society but the impact will be determined largely by the nature of the relationship.

27. Finally, the sequencing of aid instruments is also likely to be crucial in determining their contribution towards state and peace building. Aid instruments should be used wisely to avoid missing windows of opportunity for starting reforms: the choices of aid instruments should aim to provide platforms that allow for functions to be transferred to the state as circumstances improve. When providing technical assistance, for example, donors need to broaden their approach, away from support that substitutes for local capacities (which might be required in the short term to ensure immediate service delivery) towards a focus on building long-term capacity, so as to be able eventually to transfer responsibilities to the state. Yet, this transfer should not be operationalised before there is a clear political demonstrated commitment within the state, and should be implemented gradually to avoid overburdening already weak and limited capacities.

3. Stock-take of current thinking on aid instruments in fragile and conflict-affected situations

28. As donors are developing specific approaches to work more effectively in fragile states, increased attention is given to how aid can be increased and improved to address specific challenges raised by fragility as shown by the current development of a policy and guidance note on transitional financing by the OECD (Box 2). While there is very limited analysis of and evidence on the impacts of aid instruments on state- and peace-building processes, there is a growing literature on not only state and peace building and the role of donors but also the principles of good engagement in FCAS, based particularly on the Paris and Accra aid effectiveness agendas. Efforts are being put into research to better understand the policy and operational implications that these two frameworks, of state/peace building and aid effectiveness, have on donor interventions, including how donor approaches and aid instruments need to be adapted to address the specific challenges and needs raised by fragility.

29. In line with the global agenda on aid effectiveness, recent literature on aid instruments in FCAS reflects a clear preference for moving towards programmatic assistance as quickly as possible, as this is considered a crucial step towards state and peace building, state capacity,

government ownership of policies and reforms and, as a result, its legitimacy. Indeed, there seems to be a shared scepticism among donors about the benefits of working outside the state, and awareness of the risks of unintended consequences and opportunity costs involved in parallel delivery in terms of state building and long-term capacity development.

30. In particular, a forthcoming approach paper developed by the World Bank, the EC and the African Development Bank (AfDB) ambitiously looks at the possibility to provide budget aid in situations of fragility. It highlights that, because of its inherently crosscutting nature, budget aid can be at the core of an aid delivery package deployed in situations of fragility to strengthen the transition towards resilience. The ‘package’ offered by budget aid, and consisting in policy dialogue, technical assistance and capacity-building activities, is geared towards addressing the underlying causes of fragility, preventing violent conflict and strengthening the legitimacy of the state. Yet, it acknowledges that there is still a need to highlight the role that budget aid can play in stabilising the macro-budgetary framework, supporting peace and state building and strengthening state capacity by using national systems¹.

31. While there seems to be a broad preference for programmatic aid, this is one of the areas where the gap between theory and practice in fragile situations is most acute (Cox and Thornton, 2009). Indeed, aligning the choice of aid instruments with longer-term state- and peace-building objectives is challenging, as weak state capacity and/or political willingness to implement reforms may limit the possibility of channelling funds through government systems.

32. Because of the complexity of the situation and the multiplicity of objectives in FCAS, donors are generally using a large range of instruments all at same time, rather than a predefined set of instruments that change according to how a state moves along some kind of notional spectrum (with different instruments at each end). In practice, the menu of available instruments is extended to place more emphasis on approaches that enable donors to manage fiduciary and other risks using a combination of stronger external oversight and, when necessary, implementation channels that bypass government (Leader and Colenso, 2005).

33. For this reason, strong focus and preference seem currently to be given to pooled funding mechanisms, as witnessed by several recent and ongoing evaluations and comparative studies on different global pooled funds, including European Union (EU) instruments (Box 2). MDTFs are given particular attention as they enable a flexible approach that combines vesting fiduciary responsibility in an external agent with the intention of building government capacity and working through government institutions where possible. An extensive review of MDTFs in post-crisis environments (Scanteam, 2007), assessed mainly against resource efficiency and effectiveness criteria, highlighted their advantages in terms of improving coordination and policy dialogue, reducing transaction costs and effective risk management. It also suggested that MDTFs may be particularly relevant with regard to contributing towards state-building objectives, as there are grounds for believing that they have a comparative advantage in rebuilding core public administration functions and funding capacity development in the public sector.

Box 1: The dilemma around the choice of aid instruments for service delivery

The multiple, and sometimes conflicting, objectives in FCAS and the resulting challenges that this poses in terms of aid instrument choices is widely documented in the literature on service delivery. Indeed, the dilemma that donors face with regard to short- and long-term objectives, and the potential risks of undermining state-building agenda by focusing on shorter-term service delivery objectives, is at the centre of several papers on aid instruments in fragile states.

A recent paper by Batley and McLoughlin (2009) reviews the evidence on the links between state building and government engagement in service management to identify what types of engagement are feasible and most likely to contribute to service delivery, or at least not to damage it. The paper suggests that the best approach

¹ Based on interview with World Bank official in London (February 2010)

is to accept that any of the service delivery functions (policymaking, regulation, contracting or direct service delivery) can be a state-building activity. As such, donors should identify in the particular country context which, if any, mode of engagement would most enable improved service provision, be most feasible in terms of capacity and willingness to undertake them and present the lowest risk of failure. Similarly, other papers point to the value of hybrid models where non-state actors are used to boost delivery capacity, leaving the state in a policymaking and supervisory role (Cox and Thornton, 2009). Joshi and Moore (2004), for example, developed the idea of institutionalised coproduction, whereby public services are provided by means of a regular long-term relationship between state agencies and organised groups of citizens, with both making substantial resource contributions. Along similar lines, Collier et al. (2009) proposed the establishment of an independent service authority (ISA), 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.

34. Policy discussions and recent academic work on the impact of donors on state building suggest that donors should take care that their interventions 'do no harm' to state building (OECD-DAC, 2008). Beyond this notion, there seems to be increased awareness of the risks of intervening in fragile states and of the need to improve risk management, as demonstrated by the ongoing study on donor approaches to risk management in fragile, conflict-affected and transitional contexts commissioned by the OECD. This includes a review of specific risks implied by the use of certain aid instruments and of the extent to which aid instruments can be useful risk management tools. While the study focuses mostly on risks borne by donors, notably fiduciary risk, which is likely to have a strong influence on choice of aid instruments, it is also crucial to better understand the risks caused by donor interventions in relation to state- and peace-building agendas.

35. This objective of this study is to develop a better understanding of the positive and negative impacts of aid instruments with a view to preventing any harm caused by their use and building on any state- and peace-building leverage they may offer. Most of the conclusions in the existing 'do no harm' literature revolve around the need to take account of context and undertake conflict and impact analysis with regard to how programmes affect state building: in short, to operate with more information (Putzel et al., 2009). As such, it is important to conduct a detailed analysis of the impacts of aid instruments on state- and peace-building processes. The choice of instruments for transition financing should be based on a clear understanding of the ways that different funding approaches and mechanisms affect national ownership, the pros and cons of different instruments and the lessons and good practices that can be translated into practical recommendations for improving the implementation of transition activities and support (OECD-DAC, 2010).

Box 2: Ongoing and planned work on aid instruments in FCAS

- **Managing aid risks in fragile and transitional contexts (OECD-DAC, ongoing):** This project explores donor approaches to risk management in fragile, conflict-affected and transitional contexts. The project aims to develop recommendations that will facilitate more effective implementation of aid by enabling earlier and faster release of funds during the transition period through higher tolerance and better understanding of risk.
- **Common approach paper on the provision of budget aid in situations of fragility (World Bank, EC, AfDB, ongoing):** This paper aims to present a number of recommendations for the respective institutions to consider independently, notably how coordination between institutions can be improved, as it is deemed necessary to increase the effectiveness of budget support – when deployed with other aid instruments – in strengthening transition from fragility to resilience.
- **Review of MDTFs in fragile and conflict-affected situations (World Bank, ongoing):** this evaluation is examining broad policy implications of the use of MDTFs in fragile and conflict situations and particularly on whether, why and how the international community and the World Bank can use and improve MDTFs. In doing so, this study is looking at lessons learned to date and incorporation of lessons into Bank practices to highlight areas the Bank and other stakeholders need to further improve their support to MDTFs, to better align the mechanism with the stakeholders/World Bank policy objectives in fragile and conflict situations. It will produce a note which will be part of IDA 16 discussions.
- **World Development Report 2011 on conflict, security and development (World Bank, ongoing):** the report will include a review of the quantities and composition of different types of expenditure in fragile

and conflict-affected states, both governmental and international; from this, major financing inequities between countries and of sectoral gaps will be identified, and a diagnosis of delivery/implementation problems in delivering financial resources will be conducted.

- **Review of EC instruments used in FCAS (EC, ongoing):** The objective is to analyse the relevance and effectiveness of EC aid instruments with regard to addressing the needs of FCAS. Instruments reviewed include ECHO (Humanitarian Aid) funding as well as instruments for stability: DG RELEX (External Relations) (global, short-term elements) and AIDCO (Aid Cooperation) (long-term elements).
- **Study on the provision of technical assistance in fragile states (EC, ongoing):** The aim of this work is to analyse how the EC backbone strategy on how to improve technical assistance can be translated into operational terms in fragile states, taking into account weak enabling environments.
- **Study on the comparative advantages and synergies between the different global pooled funds, including the UN Peacebuilding Fund (PBF), the World Bank State- and Peace-Building Fund (SPF) and the EU Instrument for Stability (IfS) (DFID, ongoing).**
- **Scoping study on the impact of EU instruments on conflict prevention (and, to a lesser extent, fragility) (FCO/DFID, ongoing).**
- **Policy and operational guidance note on transition financing (OECD-DAC, planned):** This work will draw on a report prepared by the Financing and Aid Architecture Task Team of the OECD-DAC International Network on Conflict and Fragility (INCAF). It will seek to address the challenges associated with transition financing and explore innovative improvements to the current financing aid architecture, notably how funding to countries transitioning from conflict can be more flexible, rapid and predictable.
- **Light-touch review of more recent experiences with MDTFs – the UN CHF and the PBF (OECD-DAC, planned/to be confirmed).**
- **Review of experience with pooled funding for transition at country level (UNDG/ECHA, planned):** This study will aim to analyze how pool funding mechanisms impact on aid effectiveness at country level. It will focus notably on the Paris Declaration principles of country ownership and coordination, and on other aid effectiveness factors that are more specific to transition settings (e.g. speed, flexibility, transaction costs and risk sharing).
- **Priorities and sequencing in fragile and conflict-affected states (DFID, planned):** The purpose of this study is to gain a better understanding of the lessons learned in partner FCAS about priorities and sequencing supported by donors, and the impact on development and conflict prevention objectives. The goal is to inform strategic planning and to develop better operational guidance, notably on policy implementation and aid modalities, at country level.
- **Linkages between service delivery, state building and peace building (DFID, planned):** This study will aim to better understand how effective service delivery (including health, education, water supply and sanitation) can be supported in ways that contribute towards the building of peaceful states and societies. Notably, it will look at the implications of different aid delivery mechanisms on service delivery and state and peace building.

4. Impact of aid instruments on the state- and peace-building agenda

36. This section unbundles the impacts of aid instruments on the four main objectives of state and peace building and on the dynamics underpinning these processes. The analysis draws on experiences in specific countries, covering a range of types of fragility. The evidence available is very limited and patchy, mainly because there is a lack of hindsight with regard to the evolution of state- and peace-building processes in many of the countries reviewed here, which remain fragile. Impacts identified should be seen as the potential, rather than systematic, effects that aid instruments may have on state- and peace-building processes, for donors to bear in mind when designing mechanisms to disburse aid in FCAS.

4.1 Inclusive political settlements

37. Donors cannot determine political settlements, but they can help reshape power and authority as well as the incentive and interest structures that motivate the strategies and behaviour

of key actors through political, technical and financial support. Donors should find ways of contributing positively to the consolidation of inclusive political settlements, while ensuring that these remain country-led processes rather than donor-driven arrangements.

4.1.1 Provide space for political dialogue and negotiations

38. Donors can encourage and facilitate political dialogue around the generation of peace agreements, new constitutions or the intervention frameworks needed to plan and coordinate reconstruction efforts. They can support this through organisation and facilitation of meetings and debates but also through provision of technical assistance to build countries' capacity to conduct these themselves. Such assistance may be targeted towards specific groups and be used to support the resurgence of elite groups and leadership figures that have weight in shaping policy.

39. Post-conflict needs assessments (PCNA), for example, have largely been inclusive and successful in building common understanding and ownership across groups, as well as facilitating dialogue between parties in conflict (UNDG and World Bank, 2007). Similarly, PRSs can provide a platform for the expression of key needs and priorities and serve as a fundamental point of reference for dialogue between government, civil society and donors. They can also help in shaping a shared understanding of political power organisation and agreement around development objectives with a view to consolidating the peace dividend. As such, PRSs are the pivots around which accountability structures can be (re)built, providing a clear and transparent contract between government and citizens which is central to state- and peace-building processes.

In **Sudan**, a Joint Assessment Mission (JAM) was carried out jointly by the World Bank and the UN, with the full endorsement, guidance and participation of Sudanese parties, the Intergovernmental Authority on Development (IGAD) and the International Partners Forum for Peace (IPF), with a view to developing policies to provide the basis of a poverty eradication strategy, to be supported by donors conditional on the signing of a peace agreement.

40. The alignment of donor interventions with such national development strategies through programme aid and budget support can influence the balance of power through their financial and political support to and legitimisation of the political powers in place and their reform efforts. Donors should be aware that this support may also prove counterproductive, as states may, under certain circumstances, lose legitimacy when it is foreigners who define them as leaders (Paris and Sisk, 2007), while social groups that receive assistance from the donor community may be targeted by states for de-legitimisation in the eyes of a population stirred up by nationalist beliefs.

In **Afghanistan**, the Interim Authority Fund was set up as an emergency fund to support the interim authority (January to July 2002) after the fall of the Taliban regime. The fund provided immediate and flexible support and, critically, helped bridge the gap between humanitarian aid and longer-term development assistance. It enabled the Afghan Interim Authority to assume office and exercise a firm leadership on the fostering of peace and reconstruction (UNDP, 2003). Similarly, the Afghanistan Reconstruction Trust Fund has, since mid-2002, supported the government of Afghanistan through funding of the recurrent budget, as well as priority investments in National Priority Programmes. Such an instrument has been a key asset for President Hamid Karzai in establishing his legitimacy, even though it has also been used by his political opponents, who dubbed him the President of the Americans, suggesting that his legitimacy was not coming from the Afghan people.

In **East Timor**, a JAM between the World Bank, the UN and the Timorese led to the creation of a prioritised set of policies and a corresponding budget. The Timorese National Resistance Council further prioritised the policies, which donors financed through a trust fund, thereby aligning assistance with a country-led development framework and providing political support to the newly established government.

41. On the other hand, in difficult partnerships where donors do not want to use budget support as a political strengthening tool, shadow alignment offers the possibility to channel aid funds through the budget but not on budget. This type of arrangement offers the possibility to work with

selected state structures and thus support reformers. It also enables donors to create crucial entry points to scale up reforms and work with the whole government as soon as the situation allows it.

In **Zimbabwe**, the Protracted Relief Programme is implemented by NGOs, UN agencies and international agricultural research centres, which receive grants directly from DFID. At district level and below, activities are coordinated with government agencies, such as agricultural extension services. Close working relationships are developing between implementing partners and government agencies, strengthening local governance structures, despite differences at the national level (Jones et al., 2005).

4.1.2 Enhance degree of inclusiveness of political settlements

42. A top-down approach to state building through policy dialogue at central level needs to be balanced by efforts to empower local communities and encourage participatory processes, in order to enhance the degree of inclusiveness of political settlements and thus their sustainability.

43. Actions may be taken by donors through policy dialogue at central level around programme aid and budget support, to encourage pro-poor expenditures and ensure peace dividends are shared among all groups in society, including minorities. Indeed, failure by the central government to reach specific social or ethnic groups and include them in the political dialogue may risk undermining its own legitimacy and thus the sustainability of the political settlement that underpins its own authority.

44. Beyond policy dialogue at central level, community-based approaches supported by social funds can contribute towards strengthening local governance systems and community participation in national dialogue. Indeed, social funds enable the engagement of societal groups through the provision of direct financial and technical support to build capacity to conduct needs assessment and develop and implement strategies. These approaches also help (re)create accountability structures at local level through the establishment of common priorities and shared responsibilities that provide the basis for clear and transparent political and social interactions among stakeholders. However, despite the promotion of democratic processes to elect community representatives, for example, there is a risk of elite capture and diversion if communities are weak or divided. Local arenas may be afflicted by parochialism, factionalism, elite capture, inequality and injustice. This suggests that minimum standards on the treatment of minority groups within the community need to be incorporated into programme design (Manor, 2007).

In **Afghanistan**, the National Solidarity Programme (NSP) allows for the inclusion of local communities in needs assessments and strategy planning. Community Development Councils are new governance structures that contribute towards strengthened social and political cohesion at local level, enabling communities to voice their needs through a democratic process.

The **Cambodian** local government and decentralisation programme is designed to strengthen the role of communes in local development initiatives, and to involve community-based organisations in decision making and monitoring in order to build local accountability.

45. The parameters of a political settlement have a profound impact on political processes. As such, in the context of newly formed settlements after peace, donors are often confronted with situations where pushing for reform in the way that politics is conducted (more participatory approaches, inclusive vs. exclusionary approaches) risks undermining nascent political agreements. Donors should avoid the trap of imposing cohesion through forced inclusiveness (against political, social and/or cultural facts), by artificially creating communities, for example. They should shy away from 'romantic notions of homogenous groups' in favour of a detailed analysis of the incentives for and against collective action (Manor, 2007) to guide their support.

In **Yemen**, one of the main goals of the Social Fund for Development is to increase female participation in project selection, maintenance and implementation. An independent impact evaluation (Esa Consultores, 2006) recognised that, although the fund 'has to act responsibly within the confines of cultural practices

and beliefs', it provides a number of opportunities to promote women's involvement in development. One key approach to address the cultural biases that tend to discourage female participation in project design is a focus on increased opportunities for discussion and consideration of the role of women in local development.

4.2 Peace building and conflict resolution

46. Donor support to peace building can consist of two windows: a short-term window focused on ending armed conflict and improving security and a longer-term one addressing the causes of conflict and building capacity, at central and local levels, to resolve it. The impact of aid instruments on peace-building can be measured by their conflict sensitivity understood as the degree to which aid instruments are able to incorporate and act on good analysis of the root causes of conflict, paying particular attention to political processes, inclusiveness and accountability to avoid the risks of political exclusion, and loss of state legitimacy.

4.2.1 Address the causes of conflict

47. The reactive nature and short timeframes of interventions in situations of conflict require the use of aid instruments that enable mobilisation of swift and flexible sources of funds. Humanitarian aid, provided in the form of food and cash transfers, bilateral project support or multilateral funds such as the UNDP conflict prevention fund, CHFs or thematic pooled funds (e.g. on disarmament, demobilisation and reintegration (DDR), gender, etc.) offer donors the possibility to provide targeted solutions to address specific causes of conflict. The higher degree of flexibility that these aid instruments offer, in terms of swifter mobilisation of funds and capacity to directly target specific groups or regions, enables donors to conduct quick, targeted interventions to address needs, inequalities and exclusion of specific groups, which can all contribute to instability. The redistributive nature of food and cash transfers in particular can reduce the likelihood of conflict, largely because of their visible and tangible nature in transferring resources from the government, as long as it is or can be seen as providing assistance, to the poor. The end of a conflict can create a new impetus for policy around these transfers and, in a country where the state–citizen compact has collapsed, social protection can support the rebuilding of state–citizen relationships and state legitimacy more generally.

48. However, the need to react rapidly in situations of conflict may tend to exclude possibilities for planning to make a long-term impact on the underlying causes of conflict. Experience shows that poorly planned and/or executed humanitarian aid can inadvertently exacerbate conflict causes, especially where the conflict has its roots in social divisions, by providing direct support that can bestow unrepresentative legitimacy on warring parties and fuelling tensions between communities through the perceived favouring of one community over another (Lange and Quinn, 2003).

In **Sierra Leone**, targeting public works programmes to specific groups (mainly young men, ex-combatants) has been used in an attempt to diffuse social tensions. In **Nepal**, government has focused on extending the cash transfer programme to excluded minority groups. Focusing on specific social groups in this way may mean other poor households are excluded. In a post-conflict context, the implications of such divisions could be detrimental to the peace process, creating tension between the objective of social protection for poverty reduction and the underlying objectives of supporting the peace process (Holmes, 2009).

49. In addition, pushed by the need to ensure rapid delivery, donors tend to bypass government structures by working with UN agencies and international NGOs, thus undercutting funding of government priorities and national ownership, resulting in a slow transfer of responsibilities back to government (Ball, 2007).

4.2.2 Build capacity to resolve conflict

50. Policy engagement and technical assistance at central level can be used to provide selective support to potential allies in peace settlements and key reformers within state structures. Whaites (2008) warns against betting on the ‘wrong elites’ in the pursuit of quick stability: donors need to analyse elites’ claims to legitimacy and their capacity for social mobilisation.

51. To ensure a sustainable and inclusive process, peace, and the capacity to maintain it, also needs to be built at grassroots level. In this purpose, technical cooperation with local institutions and civil society with local name recognition and legitimacy can help build their capacity to resolve conflict. Policy engagement and technical assistance at central level can be used to provide selective support to potential allies in peace settlements and key reformers within state structures.

DFID directly funds international NGOs to carry out a form of community-driven development in Eastern DRC. The programme develops village, community and regional committees, which are provided with grants and must decide on development priorities and allocate funds accordingly. Such programmes aim to improve trust, confidence and cooperation in societies that lack social cohesion following conflict. This can improve relations with marginalised groups and between populations and their local institutions.

4.3 State capacity to carry out survival functions

52. Building state capacity to carry out survival functions, including the rule of law, through security and justice sector reform, and revenue management, is a traditional area of donor intervention – ‘capacity creation’ – pursued in all development assistance programmes (Putzel et al., 2009). By nature, the impact of aid instruments is the greatest, and most documented, on building state capacity to manage public finance.

53. Indeed, it is more difficult to identify impact on rule of law, and ultimately on security and justice, when strictly focusing on systems and processes around aid modalities without looking at activities funded. However, it can be noted that financial aid channelled through government can help increase government reach at national level, expanding its presence at local level through staff, public service delivery (notably to provide security and justice for the population) and thus control over state territory through increased legitimacy. Yet, in fragile situations, state rule of law capacity faces a number of recurrent challenges. These include in many cases the fact that the state does not have a monopoly over the use of force. Moreover, disputes are often resolved through non-state justice mechanisms, which include community forms of justice based on tradition. An important challenge for donor support to security and justice in the pursuit of rule of law lies in learning to navigate the muddy waters of non-state provision in a sector where the risk of doing harm in terms of aggravating conflict or human rights violations is especially complex.

In Yemen, DFID’s Justice and Police Programme (2005-2011) works with the Ministries of Justice and Interior to improve access to policing and judicial institutions. One key issue the programme was designed to respond to is the parallel delivery of justice through informal mechanisms, like tribal conflict mediation mechanisms, which in effect undermined the legitimacy of formal justice sector channels. This DFID project has enhanced, in conjunction with a joint project with UNDP (the Integrated Justice Sector Development Programme), court administration, developed judge and prosecutor roles, and promoted advocacy strategies to enhance the awareness of relevant legal matters (Bennett et al., 2010).

4.3.1 Public finance management

54. State building can be pursued around the process of establishing and managing public financial systems, notably designing a budget and determining priorities for spending, as this is where the interests of state and society meet – where, in exchange for public goods, especially the delivery of essential services, society pays taxes (Putzel et al., 2009).

55. Donors can influence the capacity of states to raise revenues in at least two ways: first, through the impact that aid has as a source of revenue for the state and on patterns of incentives for the state to develop its revenue-raising capacity; second, through the prescriptions that donors offer for building revenue mobilisation and management capacities within the state.

56. Aid flows channelled through state systems can be crucial particularly for governments facing large investment needs but also difficulties in collecting domestic revenue. Yet, this risks creating a dependency on aid flows. Whaites (2008) warns against donors suppressing incentives to build revenue. There is also a risk of losing the opportunity to establish a link between state and citizens, leading to accountability mechanisms being oriented towards donors rather than citizens.

57. Donors' support to building state PFM capacity has been channelled through un-earmarked funds and predictable financial support (budget support), which has encouraged government ownership of the use of funds and contributed towards building state capacity to plan and prioritise public expenditure. Budget support is seen as a way of demonstrating support for budget and PFM reforms, and of creating a more effective, joint platform for donor dialogue around reform priorities.

In both **Pakistan** and **Cambodia**, DFID recognises that governance reforms will have to be long term and incremental, but uses budget support strategically to consolidate reforms and keep the process moving forward. In both cases, the budget support instrument is linked directly to capacity-building programmes designed to build core government systems (Cox and Thornton, 2009).

58. From this perspective, MDTFs, providing funds 'on' or 'through' the budget, can play a major role in weak capacity contexts, not only through provision of financial resources in contexts where domestic revenue mobilisation is difficult but also through capacity development. Although no MDTFs have explicit capacity development objectives, most World Bank MDTFs fund capacity building of the public sector in core areas of public administration: financial management, procurement, human resources management, etc. In the first instance, this is to ensure that World Bank MDTF-funded activities are implemented well. But it also furnishes the public sector with procedures that are accepted internationally. Capacity building is faster and better anchored when resources flow on budget and projects are implemented through government institutions: 'learning by doing' is powerful (Scanteam, 2007).

In **Southern Sudan**, the MDTF and the Capacity Building Trust Fund (CBTF) are aimed explicitly at enhancing public sector capacity, effectiveness and quality of governance. The government contributes directly to MDTF decision making and has a high degree of ownership over it. As one well-placed official explained to the review team: 'we feel like we own the MDTF and CBTF ... These mechanisms develop our capacity both directly and indirectly'. The design and management of MDTF projects has helped the fund play a key role in building government systems (e.g. contracting, procurement and financial management) (Brown, 2008).

59. However, donors need to be aware that the standards promoted through these instruments, based on internationally recognised practices, may prove complex and inappropriate in contexts where capacity is extremely weak. There are obviously major concerns about the sustainability of these initiatives; they also may distract the limited capacity available from more simple, yet fundamental, reforms.

In a recent evaluation of DFID's **Yemen** country programme, PFM capacity-building initiatives were described as 'overly optimistic and complex, probably inappropriate to Yemen's extremely low public sector technical and management capacity' (Bennett et al., 2010). The evaluation found little focus on human resource capacity building and not enough on prioritisation and sequencing within and across components, and that the programme was 'inadequate both in terms of complexity ... and in promoting government ownership'. It concluded that the PFM reform programme had not taken into account slow progress in civil service capacity reform initiatives and continually inadequate public sector salaries. These capacity constraints, coupled with critical programme design flaws, have generated a perception that PFM-related capacity-building initiatives have not been successful in their current format.

4.3.2 Challenges of building state capacity

60. Technical assistance plays a crucial role in fragile states, as it can help build human and institutional capacity (Leader and Colenso, 2005), often lacking in FCAS. However, there are particular risks of undermining state-building efforts (Putzel et al., 2009). Indeed, a major challenge for donors is providing assistance so that immediate service needs are met without pre-empting the creation of state capacity. In countries without reliable state structures, technical assistance has more of a gap-filling character, and it is not easy to call on local management arrangements. In a recent literature review on technical cooperation (JICA, 2007), the Human Development Research Centre (HDRC) reported that, in states with little national capacity, outsiders tend to take over, setting a pattern of limited national participation that is difficult to change.

In **Cambodia**, a decade after the UN handed over power to the new government, spending on technical assistance was still two to three times larger than the total wages of the civil service (Boyce, 2007; Leader and Colenso, 2005).

Rachel Hayman's (2006) study on the impact of foreign assistance to **Rwanda** documented widespread reports that technical assistants were substituting for local staff while not contributing to building local capacity. After the genocide, technical assistance was essential to state reconstruction, as there was a dire lack of skills in the country. State officials were particularly conscious of the need to build their own capacity. One of the more positive experiences was DFID's technical assistance to the Rwanda Revenue Authority, where a large team was deployed on a long-term basis but gradually reduced over time (Putzel et al., 2009).

Afghanistan: The World Bank's LICUS evaluation found that the large volumes of technical assistance 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, 2006). It concluded that attempts to 'buy' capacity through massive technical assistance programmes had not delivered sustainable results, and may even 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 advisors was flawed in an environment of very weak country capacity. The international advisors ended up focusing on project implementation and had little time to ensure the transfer of capacity (World Bank, 2006).

61. In parallel, aid agencies need to keep in mind that their recruitment of local staff creates competition that can inhibit the development of a functioning civil service. Birdsall (2007), discussing 'doing no harm' more generally in aid to Africa, drew on quantitative evidence in Knack and Rahman (2004) to demonstrate a marked decline in bureaucratic quality with increases in aid, reinforcing arguments that aid agencies were drawing off the most skilled personnel from developing country states and perhaps creating perverse incentives for performance and longer-term state-building objectives.

Afghanistan: 'Within six months of starting my job as finance minister, my best people had been stolen by international aid organisations who could offer them forty to a hundred times the salary we could' (Ashraf Ghani, Finance Minister, 2002-2004).²

62. Furthermore, technical assistance is often provided to temporary bodies, and it is not clear where the newly built-up individual skills or organisational competencies and institutional memories will end up – or if they will simply wither away once the particular task is no longer required.

DDR trust funds in the **Great Lakes region** and in **Sierra Leone** have supported capacity development for DDR agencies which in principle are to fade away once the demobilisation and reintegration have successfully been completed. These expenditures have raised questions with regard to medium-term impact, and hence effectiveness (Scantteam, 2007). To address this, a Transitional Demobilisation and

² <http://news.bbc.co.uk/1/hi/business/4714116.stm>.

Reintegration Programme has been set up to run between 2009 and 2010, with capacity building and inter-organisational learning key objectives in addition to DDR.

In **Pakistan**, DFID has provided a mix of budget support and technical assistance to strengthen the capacity of the Earthquake Reconstruction Rehabilitation Authority (ERRA) to manage and coordinate the reconstruction of the North-West Frontier Province and Pakistan-administered Kashmir. The assistance is intended to ensure that the agency can take the lead on the coordination of macro planning and develop sectoral and financing strategies in crisis/disaster situations. DFID initially provided a mix of humanitarian assistance, capacity-building technical assistance and budget support following the 2005 earthquake, enabling the ERRA to position itself as the central coordination body in Pakistan in the event of crisis. This has been demonstrated by the activities that the ERRA undertook in the wake of the displacement following the North-West Frontier Province and Federally Administered Tribal Areas conflict in 2009.

63. One way to ensure ownership and long-term sustainability of technical assistance and to move towards the state assuming responsibility over it is for donors to pool such resources so that state officials can then take charge of identifying and managing them (Leader and Colenso, 2005). However, evidence suggests that this approach may be viable only for counterparts that already have a solid core of capacity, typically ministries of finance.

Cambodia: A pooled fund for technical assistance to support public finance management (PFM) reform has been set up by donors, managed directly by the Ministry of Economy and Finance. This approach is feasible because the ministry is powerful and well resourced, with highly qualified personnel at senior levels, willing and able to provide effective leadership. However, many observers doubt that the model can be replicated across line ministries, many of which are at full stretch in discharging their basic functions and lack either the incentives or the resources to take a long-term approach to capacity development. Where ministries depend on external technical assistance to discharge basic functions, they are reluctant to move towards indirect forms of capacity building (Cox and Thornton, 2009).

64. Yet, technical assistance and other capacity development efforts often fail to provide adequate support to non-state actors and bottom-up state building, as a strong focus is given to building state capacity at central level: top-down approaches carry the risk of promoting uneven, and thus unsustainable, state building. Evidence from post-conflict situations (e.g. East Timor) shows that an unbalanced state-building process can undermine the legitimacy, accountability and performance of the state, and eventually political stability and security.

In **Southern Sudan**, the MDTF and CBTF have made a significant contribution to building government capacity at regional level (in Juba). Given Southern Sudan's starting point and the limited resources available, it has been crucial for donors to focus on Juba-level support. However, this top-down approach has not provided adequate support to non-state actors and bottom-up state building. As a result, state building has been 'hazardously uneven' and has not paid adequate attention to building legitimacy and accountability (Brown, 2008).

In **Nepal**, DFID's assistance programme has developed a mixture of government and NGO provision to increase its territorial coverage and make the programme more robust to a volatile political situation. The programme has used a mixture of government and non-government channels to provide assistance to both government- and insurgent-controlled areas.

4.4 State capacity to meet public expectations

65. Donor interventions can have an impact on state–society relations by contributing to improved state accountability to society, state capacity to respond to social demands and societal capacity to make demands on the state. Donors can also influence social expectations of the state (Putzel et al., 2009), including 'doing harm' by creating unrealistic expectations. Expectations of the state are based on its image, its actual practices and context-specific attitudes and beliefs about the role of public authority. Donors should be aware of the political dimensions involved in choosing service providers, including in relation to country-specific features of social expectations. Social

expectations may also be varied depending on the nature of cleavages of exclusion and discrimination.

4.4.1 Support delivery of basic services

66. The provision of basic services can contribute to strengthening the legitimacy of the state by allowing it to re-shoulder responsibilities for ensuring the survival of its citizens and so contribute to reducing political fragility and reducing the risk of a lapse back into crisis. In contexts where the state is unable to provide basic services to its citizens, where conflict is still ongoing (as in Afghanistan), where humanitarian needs are still acute and there is a risk of return to conflict (as in southern Sudan) or where states are blocking access to vulnerable populations (Somali Region in Ethiopia), international humanitarian actors have taken on this role and this has long served as an instrument of last resort in fragile states.

67. Until recently, relief provision has been dominated by the in-kind provision of assistance in the form of food aid, seeds, shelter materials and non-food items (buckets, blankets). However, there is a growing interest in and experience with the role of cash transfers in both emergency relief and longer term social protection. Cash transfers have been successfully delivered in fragile states such as Somalia, Afghanistan and DRC, even where conflict was still ongoing (Harvey, 2009). Projects also prove to be adapted instruments to provide quick, targeted, flexible responses to urgent needs. Humanitarian and early recovery pooled funds such as CHFs can be set up to cover emergency needs, channelling funds through UN agencies or international NGOs familiar with local conditions and challenges presented by relief support.

In **DRC**, DFID is supporting delivery of services through non-state channels, principally NGOs, taking the view that restoring services is a more urgent priority than capacity building (Cox and Thornton, 2009). In addition, this can build on local capacities to deliver services and thus provide job opportunities locally and contribute to economic growth.

The value of quick impact projects – small, localised development activities chosen for visibility purposes – has been questioned following experience from **Afghanistan**, where the population appeared unimpressed by small infrastructure projects and more interested in the re-establishment of a functioning administration and the commencement of major infrastructure development (Foster, 2007; Leader and Colenso, 2005).

68. However, the focus of humanitarian aid on delivering lifesaving assistance in crisis contexts requires maintaining space for independent and neutral action which may in some cases conflict with a longer term state and peace building agenda. Indeed, there can be a number of limitations with humanitarian aid, not least because it is primarily delivered by international actors, there are concerns that it undermines national and local capacities and could thus be detrimental to notions of state-building and the political contract between a state and its citizens (De Waal, 1998). In particular, project approaches/parallel mechanisms have the potential to undermine the fledgling state because this modality of assistance is designed specifically to avoid state structures, resulting in a deficit of delivery capacity for the state once donor/humanitarian agencies leave (Foster, 2007). Ghani et al. (2007) and Boyce (2007) suggest that the most damaging impact of aid on processes of state building may well be the way in which foreign assistance gives rise to a dual public sector. When this develops, decision making on spending moves beyond the purview of the state. If power to decide on spending is located in NGOs and contractors, those who wish to make a claim on these resources will look to and interact with those NGOs and contractors, not the state. In addition, this reinforces the tendency noted above for qualified people to be recruited to the non-state organisations to which resources are being channelled (Boyce, 2007). This leaves the central state weaker, giving much more room to organised rivals to emerge as more important actors than the state.

69. When conflicts wreak havoc or state institutions become or are seriously incapacitated, human and interpersonal resources and bonds often suffer less damage at the local level than at

higher levels (Manor, 2007). As a result, in the short term, support to regional and local government or community-driven development approaches, supported by social funds, can represent alternative ways to ensure quick-impact service delivery and contribute to both bottom-up state building and longer-term foundations for improved socio-political dynamics at local level. Frontline service provision not only offers a tangible peace dividend and the foundations for human development, but also provides the state with an important entry point for strengthening local governance.

In **Cambodia**, a local government programme was set up to provide resources to regional and local government for social infrastructure. Communes (the lowest level of elected government) prepare their own development plans, with the participation of NGOs and local communities. Funds are provided via the provinces for the implementation of these plans, which appear as a form of budget support for the communes. At the outset, the programme operated substantially in parallel with government systems, but it then piloted new planning and financing mechanisms at local level and helped institutionalise these into the national legal framework, with supporting guidelines and capacity building. This enabled the programme to make the transition from parallel structures to use of government systems, via the long route of creating new systems where before they had been dysfunctional or non-existent.

70. Social funds are usually structured to pay for the capital costs of projects, with the running of organisations then handed over to communities, which have to finance the recurrent costs of basic services, to which they can often contribute in terms of days of labour. These financial mechanisms, along with the fact that needs are usually identified by beneficiaries themselves, promote local community ownership of projects implemented. These arrangements can also create economic and employment opportunities, as materials, services and the labour force are usually procured locally. In addition, if services are seen as coming from the state, this can lead to increased state legitimacy.

Lessons learnt from **Afghanistan** show that NGOs can implement national programmes (NSP) and assist in the delivery of national health services (Basic Health Packages), with the understanding by the general population that NGOs are delivering on behalf of government and with public funding. Public communication campaigns prior to and during the implementation of these programmes have strengthened the partnership and enhanced government credibility. That the NSP is a government programme and not the product of an NGO is widely known (Scanteam, 2007). Furthermore, NSP has as its key objective strengthening community level governance in order to address the lack of social cohesion brought about by almost three decades of conflict and provides a vehicle for re-building the trust between the central government and its citizens (NSP, 2007).

71. Even if basic services are provided primarily through non-state actors there may still be a need to respect state sovereignty and to attempt to involve the government, where possible. In improving contexts for example, there may be enough state capacity or willingness for the state to play a central role and for humanitarian and development donors to be willing to fund a state. Where this is the case, it is clearly preferable and can enable service delivery to fulfil state building objectives. Where government capacities are limited it may still be possible to engage with relevant line ministries in the development of policy. Engaging relevant line ministries in debates about social protection policies may be part of the process of rebuilding some analytical and implementation capacity within governments to deliver social protection (Harvey, 2009).

In **Zimbabwe**, even though direct support to the government is not possible, DFID's programme has ensured that health services appear to the end user to have been delivered by the state, in order to preserve what remains of the public health service. At present, all assistance is delivered through multilateral partners and NGOs. However, programmes are designed as far as possible to leave government with overall responsibility for service delivery (e.g. by ensuring that vital medicines support and HIV/AIDS testing and treatment are delivered through the public health service). DFID has also used intermediaries (principally the UN) to maintain a technical dialogue with certain government agencies, such as the National AIDS Council and the Ministries of Health and Social Welfare. By working in this way, DFID Zimbabwe hopes to be able to shift rapidly into financial support to the government without a break in its programming.

4.4.2 Influence on public expectations

72. Donors can have a direct impact on the evolution of the relationship between the state and society, both by building capacity within the state to listen to, respond to and deliver on society's demands and by channelling support to social groups to enhance their capacity to exercise voice and make demands of the state.

73. Donors need to note the impact aid instruments and associated practices focused on accountability and transparency and promoting participatory approaches may have on social expectations. Indeed, raising society's expectations of the state beyond what it can reasonably deliver could affect a state's legitimacy or even its stability, and in this way harm state building.

74. In much of the 'good governance' agenda that donors promote, there is a presumption that, by reforming states to make them more transparent and accountable to society, society can exercise more supervision over the public authority and make demands on it. The donor community's preoccupation with improving transparency and fighting corruption has also been promoted in fragile states and states emerging from conflict, and this can have a major impact on social expectations of the state. By promoting programmes of good governance, donors can help influence the standards by means of which social groups can hold state official and organisations accountable, but such programmes can also raise expectations far beyond what can be achieved by government. Some have argued that enormous and untargeted attention to corruption can actually do harm to the legitimacy of state organisations, contributing to a general distrust of and cynicism towards politics (Putzel and van der Zwan, 2006), radically lowering social expectations of the state. There appears to be little effort to systematically assess what impact anti-corruption programmes have had on state-building efforts, and particularly the way society views the state. Donor requirements on transparency can overwhelm capacity in a fragile context, and repeated calls for transparency can affect perceptions of legitimacy for fragile states and their governments (Putzel et al., 2009). Donors push standards of probity on fragile states that were only achieved in today's developed countries at much higher levels of economic progress.

75. Donor support to NGOs at times creates an island of civil society that is entirely dependent on external resources and sources of protection. Thus, it becomes important to analyse NGOs within emergent civil society and to assess how support to these organisations contributes to or detracts from the expansion of civil society in relation to the state. In situations of repressive state authority, donors can open up spaces for dialogue between the state and civil society, if they take care not to allow such processes to lead to the capture of associations by the state. Yet, even in the most unsavoury states it would be an error to shift all resources to civil society, as this would create the danger of creating 'parallel structures' that could impede progress in state building.

5. Conclusion

76. Particular challenges lie in identifying aid approaches and particularly aid instruments that can consistently contribute to state- and peace-building objectives across a wide variety of situations in FCAS.

77. One of the main reasons for this is that state and peace building are highly complex processes that are ultimately endogenous and deeply political. Donors cannot 'do' state and peace building but can only impact the trajectories taken by local stakeholders towards these objectives. Moreover, donor options will be constrained and shaped by context-specific conditions regarding the particular features of the state- or peace-building objectives they wish to support, and the particular configuration of power and structures and state capacities in question.

78. As a result, donors should remain flexible and take opportunities for innovative intervention design, with a view to finding ways of positively contributing to country-led state- and peace-building

agendas that include accountability and responsiveness. But they should remain realistic about the extent to which they can influence them.

79. The relevance and effectiveness of aid instruments to state and peace building may evolve over time, and the choice of aid instruments will depend on the context of intervention. In some cases, the provision of basic services through community-driven development approaches may be the most efficient way to promote state and peace building in the aftermath of a conflict or in difficult partnerships. But these may have opposite outcomes in situations where the central state has the willingness and capacity to meet such public expectations, and may contribute to undermining state authority. Thus, context specific analyses should guide the choice of aid modalities.

80. In addition, there are technical difficulties to define, and as a result assess, for effective and successful state-and peace-building interventions, given that these are largely relative, qualitative and non-linear processes. An impact that is considered positive in the short term may well appear unsustainable or negative in the longer term, e.g. capacity development support provided to temporary institutions.

81. As a result, an improved understanding is needed of the opportunities and potential risks for state and peace building presented by different aid instruments and mixes of instruments. This study provides a first overview of these issues, which would need to be complemented by additional research, especially on the following areas:

Box 3: Suggested avenues for further research

Aid instrument level: A wider range of aid instruments should be evaluated through in-depth reviews of their impacts on state- and peace-building processes. Most commonly used modalities, such as non-budget aid, including project support, should be better assessed, as there is little documentation of their positive aspects. The fact that most aid is channelled through these modalities, however, suggests that there is some confidence in their potential among donors, which would need to be clarified. More generally, alternative modes of engagement to programmatic aid should be further researched, as these provide opportunities to work with sub-national and non-state actors. Indeed, donors' contributions to state- and peace-building efforts tend to concentrate on the central level of the state, focusing on building capacities within central government. However, some aid instruments offer the possibility to build capacity at sub-national level as well as among non-state actors (including communities, civil society and the private sector), offering the opportunity for bottom-up state-building processes and strengthened state and peace building through increased inclusiveness and improved accountability between the state and its citizens. For this purpose, a mapping of non-state as well as sub-national stakeholders and their linkages with the state- and peace-building process would be useful. This could help inform the design of bottom-up peace- and state-building approaches that would complement the prevalent top-down mode of engagement.

Country level: Additional research should also be conducted at country level to develop an improved understanding of the potential synergies between different aid instruments, both over time, looking at the rationale and impacts of the sequencing of modalities used, and at specific moments in time, analysing their complementarities and the advantages offered by mixes of aid instruments. Such country case studies would also make it possible to take account of country context and its impact on the effectiveness and efficiency of aid instruments, through the conduct of in-depth economy analysis around the choices and uses of aid instruments. Mapping of different aid instruments used and volume of funds engaged would also be useful to conduct cross-instrument comparisons and to better understand the weight of different aid instruments and evolution of this weight over time.

Sector level: The analysis conducted in this report focuses on process and substance of aid modalities, looking at how they interact with state- and peace-building dynamics. Yet, the degree to which the different aid instruments contribute to state- and peace-building objectives depends on both the processes and arrangements attached to the instrument, and also on how funding decisions are made and what is being funded. For this purpose, it would be interesting to conduct sector-focused analysis looking at the impacts of aid instruments used and activities funded on specific aspects of the state and peace-building process, to better understand how the impacts of aid instruments on state and peace building may differ depending on activities funded.

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