

Executive Summary

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

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

Harmonisation and alignment

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

- Bypassing the state and setting up parallel systems produces high transaction costs for governments. This may serve to further weaken already fragile states.
- Contexts in these countries are highly complex with a high fragmentation of actors. As government leadership on policy priorities is often absent, harmonisation and alignment of donor action is key to the creation of an enabling environment for building state capacity and willingness.

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

Aid modality choices

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

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

Need for extensive political analysis

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

Long term commitment

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

Governance as key focus

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

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

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