

MARCH 2010

Working Effectively in Conflict-affected and Fragile Situations

Briefing Paper E: Aligning with Local Priorities

DAC Principle 7: Align with local priorities in different ways in different contexts

- Where governments demonstrate political will to foster development but lack capacity, international actors should seek to align assistance behind government strategies. Alternative aid instruments, such as international compacts or multi-donor trust funds, can be used to facilitate shared priorities and implementation arrangements, even where capacity is limited.
- Where alignment behind government-led strategies is not possible due to particularly weak governance or violent conflict, international actors should consult with a range of national stakeholders in the partner country and seek opportunities for partial alignment at the sectoral or regional level.
- Where possible, international actors should avoid activities that undermine national institution building, such as developing parallel systems without thought to transition mechanisms or long-term capacity development. It is important to identify functioning systems within existing local institutions and to work to strengthen them.

Introduction

Alignment is the use of a partner country's policies, strategies and priorities to guide donor action – including programming choices and administrative, budgetary and other systems for aid management and delivery. Under the Paris Declaration, greater alignment is the cornerstone of improved aid effectiveness. But even in countries with well-developed strategies and effective and transparent budgetary systems, alignment can be difficult to achieve. In countries affected by conflict or fragility, a lack of effective strategies and policies and weak administrative systems tend to be the norm – especially where government is not fully recognised as legitimate or does not control all of its territory.

It is important to seek opportunities for alignment wherever possible. Where donors disregard country policies and systems, the capacity and legitimacy of the state may be undermined as key functions (planning and financing) become donor-driven. Poor aid practices can make partner countries more accountable to donors than to their own citizens. In post-conflict situations, extending the use of humanitarian aid modalities to provide services beyond the short term can undermine state-building.

Conversely, rapid alignment with country policies and systems can provide the support a government needs to establish itself. Aligning with national systems can help restore government service delivery, increasing the legitimacy of the state and providing a peace dividend to the population. Under certain conditions, early systems

alignment – including budget support – can help to secure initial reforms, as well as stabilising government financial and administrative systems. The timing and pace of alignment is also important, however. Gradual steps *towards* budget support and other forms of alignment can be particularly crucial to achieving initial reforms in some contexts. If progress towards full alignment is too rapid, this can discourage further reform.

Donors do not always face positive incentives for alignment. Their own rules and procedures often promote short-term results over long-term impact, while making them more concerned about the risks of alignment than its potential benefits. There may also be competing objectives and perspectives from development, diplomatic and security actors within a donor government. Donors are becoming more aware of these incentives, and are adjusting their approaches to risk management to encourage greater alignment, such as World Bank-EU-African Development Bank (AfDB) attempts to coordinate the use of state-building budget support in fragile situations.

Alignment also depends on the willingness of a partner government to open up its systems to donor participation and influence and to manage its relations with donors in a strategic way. Some governments prefer to deal with donors individually, whatever the transaction costs, and find the idea of donor coordination threatening. This may be most acute for militarised regimes, or governments created by former rebel movements. If the transparency and openness required for alignment is missing, the challenge is to build good relationships, and to demonstrate over time the benefits of more coordinated and aligned donor support.

The extent of alignment that is feasible, and the selection and sequencing of aid instruments, depends heavily on the country context, and it is difficult to be too prescriptive about the choices involved. To inform their choices, some donors have developed typologies of fragile situations. DAC Principle 1 suggests a typology of four situations: (i) post-conflict/crisis or political transition situations; (ii) deteriorating governance environments; (iii) gradual improvement; (iv) prolonged crisis or impasse. Countries can move between these situations, which are more usefully viewed as scenarios rather than static descriptions of individual countries. Typologies can also be defined using axes of comparison, such as high/low levels of capacity and political will. Different approaches are described below, but these should not be used as a blueprint.

To avoid blueprint approaches, DFID places a strong emphasis on in-depth contextual analysis and regular situation monitoring to inform the level and type of alignment that is most appropriate. This includes using the analytical tools and approaches referred to in *Briefing Paper A: Analysing Conflict and Fragility* for understanding the country context, as well as specific diagnostic tools for country systems, such as Public Expenditure and Financial Accountability (PEFA) assessments.

There is an important distinction between aligning with country policies, strategies and priorities, and aligning with systems and procedures. Policy alignment can be achieved with any aid instrument, provided that government has articulated its goals and objectives. However, in fragile situations with weak partner capacity, policy

alignment is often more nominal than real. Systems alignment is a key tool for supporting government capacity and accountability, and should be pursued to the extent possible.

Approaches to alignment

This section provides examples of different approaches and instruments for alignment, and considers when they are likely to be appropriate. The examples show a spectrum, with instruments such as budget support that deliver funds *through* government systems at one end, to options such as shadow alignment and bottom-up approaches, which work *with* some state and non-state actors but do not channel funds directly through government systems, at the other end. Along the spectrum are flexible instruments such as Multi-Donor Trust Funds (MDTFs) which can provide budget support (with additional safeguards) or project support through a range of partners.

Using aid instruments in different fragile contexts

One of the main messages of DFID's work on instruments in fragile states is that there is no single approach. However, taking DFID's understanding of fragile states as a starting point (i.e. the notion of state capacity and state commitment to poverty reduction) it is possible to make some broad-brush suggestions for different contexts:

Where there is state capacity, but no commitment to poverty reduction: Consider working **with**, or if necessary **outside**, the state, using off-budget, joint, national or regional programmes with pooled funding, perhaps with the UN having oversight as a legitimate, neutral intermediary. Use humanitarian projects, but in response to humanitarian need. Partner with non-state actors, and with state actors where possible, such as local government or reformist elements in central government. Shadow align with state systems. Support key reformers in government, perhaps with selective technical cooperation focusing on a few key 'zero generation' reforms.

Where there is both little capacity and little commitment: Similar to above, considering working **with** or **outside** the state, but a lack of state capacity can mean there are more opportunities to work with local government, communities, civil society and the private sector. Focus on strengthening the capacity of vulnerable communities themselves.

Where there is commitment, but little capacity: Here there are the biggest opportunities to work **through** the state. Ensure an overarching strategic framework is in place between government and donors, covering political, security and development strategies. Consider budget support, using Multi-Donor Trust Funds if necessary, large investment projects, security sector reform etc. Provide technical cooperation for capacity building, but ensure it is government-led, not donor-led. Align behind government budgeting and planning by ensuring all donor projects and programmes are 'on budget', even if not 'through budget'. Complement with social fund or social protection arrangements to get resources to communities and begin to build from the bottom up. Use direct contracting of the UN and NGOs where national programmes are insufficient, but 'on budget', not 'off budget'.

Adapted from Colenso and Leader, 'Aid Instruments in Fragile States', DFID Working Paper (July 2005).

Poverty Reduction Budget Support

Poverty Reduction Budget Support (PRBS) provides full alignment to partner government systems and policies. It is generally provided by DFID where we have made the following assessment:

- (i) There is partner government commitment to:
 - reducing poverty;
 - upholding human rights and international obligations; and
 - improving public financial management, promoting good governance and transparency, and fighting corruption.
- (ii) PRBS will produce significant development benefits relative to other forms of aid delivery.¹

There is increasing evidence that PRBS can have a positive impact where country leadership is strong, even where country systems are relatively weak. The DFID guidance states:

“while risks of delivering budget support may be high in many fragile states, possible benefits are also likely to be high and so PRBS may well be an appropriate way to deliver aid, provided risks are well managed.”²

However, when systems are excessively weak and reform processes have much to achieve, the use of PRBS can be problematic. Realistic assessment of fiduciary risk and the use of specific interventions to minimise risk (such as providing yearly disbursements and heavier internal auditing requirements) are needed, but these may lead to forms of PRBS that have greatly reduced benefits compared with those in less fragile, higher capacity states.

The commitment made by donors at the Accra High Level Forum (HLF) in 2008 to provide predictable aid commitments over the medium term encourages the use of PRBS and favours three-year minimum commitments. The Accra Agenda for Action that was signed at the HLF was the culmination of reviews of the Paris Declaration monitoring process and recognition that predictability was key to achieving better aid effectiveness.³

Examples such as Sierra Leone (see box below) and Rwanda provide evidence of mixed success in the provision of PRBS in fragile and post-conflict environments. They suggest that where strong country leadership and commitment are a precondition, impact is possible. The example of Burundi shows that progress can be slow and that levels of fiduciary risk in volatile political environments may be unacceptable.⁴

¹ DFID Policy Paper, *Poverty Reduction Budget Support* (2008).

² *Ibid.*

³ See Accra Agenda for Action: www.accrahlhf.net.

⁴ OPM/IDL, *Evaluation of the Implementation of the Paris Declaration: Thematic Study - The applicability of the Paris Declaration in fragile and conflict-affected situations* (2008).

Budget support has been used by the EC and World Bank in conflict-affected or fragile states for some time, often as a short-term or 'one-shot' instrument to stabilise post-conflict states, support specific policy commitments and finance core state functions and public sector salaries.⁵ However, short-term budget support of this kind may not deliver all the benefits associated with a more predictable, longer commitment, such as serving as a platform for dialogue on reform or improving budgeting and planning.

Multi-Donor Budget Support in Sierra Leone: High-risk, high-benefit?

DFID, the EC and the World Bank have provided Multi-Donor Budget Support (MDBS) to Sierra Leone since 2001. Under a ten-year memorandum of understanding between Sierra Leone and the UK, DFID provides £10 million annually, plus an additional £5 million performance tranche, to recognise progress towards the MDBS benchmarks. The benefits of MDBS to Sierra Leone have included:

- a non-inflationary boost to public spending, stimulating demand and improving business confidence, contributing to more rapid economic growth in the immediate post-conflict period;
- higher spending in MDG-related areas, with some evidence of direct impact on service delivery in the education sector; and
- significant improvements in public financial management, against a low base, leveraged by MDBS dialogue and disbursement conditions.

In addition, in a fragmented aid landscape, MDBS dialogue arrangements have become the most robust donor coordination mechanism.

Reviews have highlighted that the MDBS is a high-risk, high-benefit strategy.⁶ Predictability of funding has been a key challenge. In order to manage fiduciary risk, DFID only makes commitments for the current financial year, making it difficult for government to plan its expenditure in the medium term. Lack of predictability has led to heavy reliance on unplanned domestic borrowing, threatening the positive impact of the MDBS. An ODI review stated that DFID should either make its contributions more predictable or move to other forms of programme funding. The implication is that without accepting higher risk by increasing predictability, the reward cannot be maximised.

Five years into the post-conflict period, the development outcomes are mixed, with Sierra Leone remaining at the bottom of the Human Development Index (HDI), and progress against MDG 5 particularly slow. This suggests that MDBS on its own is insufficient in a weak capacity environment. MDBS donors may have to consider developing sector-specific programmes in parallel with MDBS, to strengthen service delivery and improve development outcomes.

Sector Budget Support and Sector-Wide Approaches

PRBS may not lead to sustained improvements in government service delivery if it is not accompanied by capacity development support channelled to priority sectors. For this reason, sectoral budget support may be more effective in addressing specific challenges in sectors such as health or education. It may enable a more focused policy dialogue at the sector level, and can be linked effectively with other

⁵ European Union/World Bank Policy Paper – forthcoming.

⁶ ODI, *DFID Multi-Donor Budget Support to Sierra Leone, 2004–2007 Review Report* (2007).

programming to build the capacity of the sector to make effective use of the additional budgetary resources.

In some fragile contexts, short-term emergency support for service delivery has evolved into more harmonised Sector-Wide Approaches (SWAs), leading to improved sectoral policymaking and budgeting capacity and an eventual shift to sector budget support.⁷ This sequence may allow for more effective capacity development, while gradually building an effective partnership between donors and national institutions. Sector budget support may also be attractive to donors unable to provide PRBS, improving harmonisation.

When PRBS and sector budget support are assessed as too high risk, there are other methods of aligning assistance with local priorities. An innovative example is the Ethiopian Protection of Basic Services Programme (see *Briefing Paper B: Do No Harm*), developed when PRBS was suspended due to human rights violations by the government. DFID led other donors in continuing to support basic service delivery through local government, remaining aligned with local priorities. Other elements of the new programme included support for civil society participation in public budgeting processes, to improve demand for services and public accountability.

Multi-Donor Trust Funds

Multi-Donor Trust Funds (MDTFs) have often proved an attractive alternative to PRBS, particularly in immediate post-crisis and post-conflict situations.⁸ MDTFs can promote policy alignment by providing a joint forum between government and donors for decision making and policy dialogue. They can also provide a mechanism for progressive alignment with government systems, and are flexible enough to support service delivery through multiple providers (government, NGO or other). However, MDTFs can often be overambitious, with long start-up times and cumbersome procedures, and if poorly designed they can also undermine state-building objectives. See *Briefing Paper F: Practical Coordination Mechanisms* for more detail on MDTFs.

Technical assistance

Where government leadership and legitimacy is strong but government systems need to be rebuilt, capacity-building and technical support for Public Financial Management (PFM) reform is an early priority. In some cases, DFID has supported PFM reform as part of a PRBS package. In Rwanda, for example, where government systems and capacity were largely destroyed during the genocide, technical support to the Ministry of Finance, and discretionary funding for other ministries, helped bring about fundamental reform to the government's planning and budgeting systems over the following decade.⁹ Donors need to ensure that the incentives for reform are in place – good political economy analysis can help identify key drivers.

Technical assistance must always support the development of sustainable, indigenous capacity. In post-conflict environments there are trade-offs involved between the rapid restoration of services and long-term capacity development.

⁷ OECD-DAC, *Service Delivery in Fragile Situations* (2008).

⁸ Scanteam/Norway, *Review of Post-Crisis Multi-Donor Trust Funds* (2007).

⁹ DFID Evaluation Summary Note, 'Joint Evaluation of Rwanda Partnership Budget Support' (2006).

However, experience shows that taking the time to build ownership and re-establish local institutions results in more rapid progress overall, and will almost certainly produce stronger country leadership and more sustainable outcomes¹⁰ (see references to capacity development in *Briefing Paper B: Do No Harm*). Avoiding ‘capacity substitution’ requires careful design of programmes, and technical assistance providers with the right skills and experience, including experience in training.

Shadow alignment

In states where the government’s legitimacy is in question, or where relations between government and the international community are strained, the options for alignment are more limited. Nonetheless, there are mechanisms available for aligning aid programmes behind local priorities, and for delivering aid in ways that strengthen (or at least refrain from undermining) national systems. ‘Shadow alignment’ is the practice of providing aid in such a way as to mirror national systems, to enable rapid conversion to ‘real’ alignment as soon as conditions permit.

Even in the most difficult political contexts, some level of technical dialogue and policy alignment with national authorities may be feasible – for example, in basic service delivery. As the Zimbabwe experience shows, even where assistance is provided through non-state channels, it can still be delivered in ways that support public sector service delivery, to avoid undermining the relationship between state and citizen (see *Briefing Paper I: Monitoring and Evaluation* for additional information on DFID’s HIV/AIDS programme in Zimbabwe). Part of shadow alignment is to provide space for the government to maintain a policymaking and supervisory role over non-state service delivery.

Zimbabwe: Protection for orphans and vulnerable children

One in four Zimbabwean children has lost at least one parent. Launched in 2005, the National Action Plan for Orphans and Other Vulnerable Children (NAP for OVC) is a government-led programme to “improve the health, education, protection and nutrition of the country’s orphans and vulnerable children”. While DFID wished to support the NAP, it was unable to provide assistance directly to government. DFID therefore funded UNICEF to implement a one-year, fast-track programme to develop and test a model of shadow alignment, based on three core principles: one action programme, one national authority and one Monitoring and Evaluation (M&E) system.

This ‘Three Ones’ pilot proved successful, and a multi-donor Programme of Support (PoS) was established in 2006. An OECD-OVC group, chaired by UNICEF, meets monthly to coordinate efforts, and includes donors unable to channel funds through the PoS Fund. The PoS has increased external funding from an estimated US\$4 million p.a. to over US\$84 million in commitments up to 2010. While UNICEF currently manages the donor funds, the guidelines allow future assistance to be channelled through state actors when circumstances permit.

There may be political risks associated with shadow alignment, including providing support to a repressive regime or allowing a crisis situation to continue by addressing

¹⁰ Foster, M., *Aid Instruments in Fragile and Post Conflict States: A desk review for DFID Nepal* (2007).

only its symptoms. The tensions between using shadow alignment to improve aid effectiveness and deliver benefits to the population and the political or diplomatic measures taken by the international community in pursuit of a long-term solution to a protracted crisis need to be carefully managed. The decision-making process regarding where and how to 'shadow align' should involve other HMG partners to ensure developmental objectives are in line with agreed political goals and all HMG objectives are mutually reinforcing.

Burma (also known as Myanmar): Three Diseases Fund

The Three Diseases Fund (3DF) in Burma aims to reduce the burden of communicable disease for tuberculosis, malaria and HIV/AIDS. It is supported by Australia, the EC, the Netherlands, Norway, Sweden and the UK, and was established in October 2006.

The UK supports an EU Common Position prohibiting funding to central government in Burma. Given the limited donor presence in country, there are few formal donor coordination mechanisms in place. The 3DF offers an alternative approach.

3DF donors recognised that, with limited policy dialogue with government and major data shortages, a strategic approach coordinated by donors was needed to address the complex delivery issues in Burma. The design built on the successful record of small-scale, dispersed projects – specifically the Fund for HIV/AIDS in Myanmar (FHAM). It aligned with existing Ministry of Health five-year plans, which reflected a high level of technical expertise. The 3DF also sought to address challenges such as high prevalence of drug resistance or limited access in remote areas. The design of the 3DF was agreed with government and also with opposition and civil society groups (including the National League for Democracy, which won the 1990 elections).

DFID and five other donors have pledged US\$100 million to the 3D Fund to date. Following approval by a donor Fund Board, a Fund Manager makes grants to UN agencies and NGOs to fund activities in support of the five-year plans. This mechanism has allowed funds to be disbursed quickly, transparently and accountably. In two years of operation (2007 and 2008) the 3DF has:

- distributed over 15 million condoms;
- reached over 450,000 people with HIV prevention activities;
- provided antiretroviral treatment to 6,773 people living with HIV;
- reached over 800,000 people with bed nets; and
- supported drug distribution to over 123,000 tuberculosis patients in all townships in the country.

Bottom-up alignment

Governments are not always able to provide a clear lead on development priorities, particularly in conflict-affected situations, so aligning with local priorities may require other approaches.

Where a minimum level of security has only recently been established, Quick Impact Projects (QIPs) are often used to provide rapid, small-scale support for local infrastructure or human security. Experience with QIPs has been varied. There is evidence that they can be strongly aligned with the priorities of local communities, and help to re-establish dialogue between communities and government, supporting the emergence of a political settlement. The UK Stabilisation Unit has developed guiding principles on how QIPs can support stabilisation.¹¹ However, reviews of QIPs

¹¹ Stabilisation Unit, *Issues Note: Quick Impact Projects* (draft) (2008).

in Afghanistan suggest that the population may place a higher priority on the restoration of public services and large-scale infrastructure than on small projects.¹² QIPs are not a substitute for the restoration of effective public services. Careful analysis is required to determine the priorities of local communities and groups (and also who is in a position to speak for them).

Where the context allows for larger scale programming and donors are committed to working at the national level, Community Driven Development (CDD) programmes, or Community Based Approaches, can be a useful alternative to alignment with central government systems. CDD encompasses a range of programming techniques for channelling funds directly to local communities while building local governance capacity through participatory approaches. CDD involves beneficiaries in the identification, design, management and monitoring of local interventions. Because local needs in a post-conflict situation are highly variable, involving communities in the allocation of resources can be an effective way of targeting resources and a useful strategy for rebuilding social capital.¹³

There is some evidence that in post-conflict environments the local level may offer greater capacity and willingness to innovate than central government. However, a World Bank study warns against idealising the community level. Local arenas may be “afflicted by parochialism, factionalism, the danger of elite capture, inequality, and injustice”.¹⁴ To counter this danger, minimum standards on the treatment of women and minority groups may need to be incorporated into programme design. Communities are not always well equipped to decide equitably on the allocation of financial resources. The quality of the participatory processes that are put in place and their sensitivity to local context are therefore critical and often need support from external facilitators. Key issues in designing CDD programmes include the following:

- **Defining the community:** Determining the boundaries of the community is a key decision point. We should avoid the trap of artificially creating communities or “romantic notions of homogenous groups”¹⁵, in favour of detailed analysis of the incentives for and against collective action.
- **Relationships with local authorities:** CDD generally operates to some degree in parallel with local government structures, and is often chosen precisely because there is a legacy of mistrust of government by communities. However, one of the goals should be to bridge these divisions. CDD can also build local government capacity and mitigate fragmented provision through NGOs. Some degree of buy-in from government is therefore important. Community-based organisations can be encouraged to become intermediaries between communities and local government.

¹² DAC/ODI, *Harmonisation and Alignment in Fragile States* (2005).

¹³ This point is reflected in the case studies by James Manor in ‘Introduction: Synthesizing case study findings’, in J. Manor (ed.), *Aid That Works: Successful development in fragile states*, Washington DC: World Bank (2007).

¹⁴ *Ibid.*

¹⁵ Hughes, Caroline “The Seila program in Cambodia” in Manor, James (ed.) (2007) *Aid That Works: Successful Development in Fragile states*, World Bank (2007)

Yemen Social Fund for Development

The Yemen Social Fund for Development (SFD) is a special institutional vehicle for delivering social infrastructure, microbusiness support and capacity development directly to poor communities. It was created in 1997 to serve as a model of an effective and transparent mechanism for delivering development programmes. It employs a bottom-up, demand-driven approach, involving beneficiaries in the identification, design, implementation and maintenance of community projects.

Participatory appraisals help mediate local conflicts. They create a space where diverse views can be articulated, conflicts of interest identified and solutions negotiated. This generates consensus on, and ownership over, investment choices. It has also helped to revive local traditions of community self-help. The SFD is assessed as having contributed to state-building in Yemen in a number of ways: by increasing the visibility of the state as a service provider for rural communities; by introducing democratic practices into local communities; and by building links between communities and local authorities.

The SFD is administratively and financially autonomous, with its own legislative framework, and operates outside the regular ministerial structure. However, it is also strongly country-owned, with a board of directors that includes six cabinet ministers, under the chair of the Prime Minister, and representatives of civil society and the private sector. It is not subject to regular public service employment rules, allowing it to pay attractive salaries and recruit competitively. With focused technical assistance from donors, it has developed expertise in financial management, project management and M&E which far exceeds anything found in the line ministries. With civil service reform a long-term objective, the government sees the SFD as a way of delivering development despite deep-seated capacity constraints.

The SFD is also an effective institutional vehicle for addressing urgent social and economic challenges related to Yemen's stability. For example, it is currently undertaking a US\$19 million project to develop rain-fed agriculture, to help address the water crisis. The SFD is widely regarded as the most effective channel for development finance in Yemen, attracting some ten OECD and Islamic donors.

However, there are trade-offs involved in channelling a large share of donor resources through a parallel (albeit country-owned) structure. The SFD makes investments in social infrastructure (particularly classrooms, health facilities and local roads) that have solid ownership from local communities, but not necessarily from the public authorities responsible for staffing and maintaining them. The long-term sustainability of these investments remains an open question.

With a large share of development finance passing through the SFD, it is less likely that the regular budget will evolve into a tool of development policy. To address this problem, DFID and other donors are encouraging the SFD to develop stronger relationships with central government, and to fit its activities into the government's national and sectoral development strategies. The SFD has produced a medium-term vision that is aligned more closely to the objectives of the national development plan. It has also supported national legislative and policy processes in the microfinance, education, environment and local government sectors.

Maintaining flexibility and a balanced mix of aid instruments

The degree and type of alignment possible in fragile and conflict-affected situations is likely to change over time, and not always in a linear manner. Donor programmes that perform best are often the ones that accept the dynamic nature of fragile situations, by employing a range of instruments and partnerships or by responding quickly and flexibly to changes. These approaches require an acceptance of risk and a commitment to monitoring the context to enable risk mitigation and rapid adjustment.

When Hamas was elected to the Palestinian Authority in 2006, DFID and other donors adhered to the principles laid down by the Middle East Quartet (which require that Hamas renounces violence, accepts the right of Israel to exist and accepts previous peace agreements). Given the failure by Hamas to accept those principles, most donors were unable to engage with the Palestinian Authority. To prevent the diversion of funds they therefore moved away from a situation of full alignment and provision of direct financing to the use of other systems. The UK supported development of the Temporary International Mechanism, which proved to be an innovative, fast-response mechanism for continuing the provision of aid to much-needed services and commodities. This enabled donors to pursue a policy of flexible alignment, supporting local priorities while leaving the door open for greater systems alignment at a future date.

DFID Nepal's programme underwent a series of changes after 2000, when analysis showed that the programme needed to work *on* conflict, rather than *around* it. The resulting programme used a combination of robust scenario planning, regular context analysis and risk management to develop the right mix and balance of aid instruments for a volatile environment. By using a range of delivery channels – including government, NGO and international agencies – DFID was able to ensure its assistance reached the rural poor.

Nepal: Adapting aid modalities to changing conditions

In Nepal, DFID has adapted its aid modalities in recent years to reflect changing country conditions and programme objectives. In 1998, when the country office was established, DFID's strategy was to tackle poverty by strengthening the state through sector-wide programmes in key service-delivery areas and governance programmes emphasising public sector management and accountability. By 2002, however, the conflict between government and Maoist insurgents had affected almost every part of Nepal, and aid delivery faced significant security constraints. Against a backdrop of escalating conflict and apparent government disinterest in reform, DFID concluded that it needed to adopt a more conflict-sensitive approach.

Major analytical work in 2000–2003 (including Strategic and Programme-level Conflict Assessments, and a Gender and Social Exclusion Analysis with the World Bank and National Planning Commission) provided a better understanding of the socio-economic roots of the conflict, particularly patterns of exclusion across ethnic, caste and gender lines. The conflict came to be seen not solely as a law and order problem, but as a result of legitimate grievances among the poor and excluded. DFID shifted towards a strategy of addressing the root causes of conflict directly, using a flexible range of aid modalities and partnerships. The programme also developed an 'inclusive targeting approach', whereby programmes targeting poor and excluded

groups also provided sufficient benefits for the community at large to avoid creating tensions or exacerbating conflict.

There was a reorientation towards demand-side governance programmes, such as support to civil society organisations representing women and excluded groups, anti-corruption work and the media. Rather than producing a definitive governance strategy, DFID chose to maintain a flexible approach to planning based on scenarios and options, enabling it to respond to changes in the environment. Funding from the Global Conflict Prevention Pools was used to support QIPs and peace-building activities, many of them small in scale (50 of 86 projects between 2000/01 and 2006/07 were less than £1 million in size).

DFID chose to retain its support for government-led service delivery in health and education, through SWAPs and sectoral budget support. However, it switched into direct service provision in programming areas where government was not seen as a credible partner (such as forestry) and in geographical areas where government delivery was limited by the conflict.

To enable it to engage in rural districts controlled by the Maoist insurgents, DFID shifted to a strategy of direct grants using experienced local partners, and developed novel approaches to supporting their operations in a difficult security environment (see *Briefing Paper H: Risk Management*). One of its largest programmes – the Community Support Programme, a £9 million programme to support livelihood security in conflict-affected rural areas – utilised three parallel providers (a DFID team, CARE and a local NGO, Rural Reconstruction Nepal) to ensure access across the country. In light of this flexibility, the 2007 Country Programme Evaluation noted that “the Nepal programme should be considered a key learning model for DFID’s evolving approach to working in fragile states”.

Key lessons

- **Analyse context, undertake systems diagnostics:** Decisions about the type and degree of alignment should be based on analysis of the local context, the risks and the potential benefits and an assessment of country policies and systems. Continued monitoring of the situation will help programmes respond to changes in context.
- **Don’t assume local priorities are obvious:** The failure of many QIPs and other projects has often been down to ineffective participation of the community or a lack of needs analysis when designing projects.
- **Recognise trade-offs:** Decisions on how far to align with a partner government often reflect a trade-off between supporting state-building by aligning fully, and ensuring aid reaches those in need as quickly as possible by bypassing state systems. Striking the right balance requires innovation and is always context specific.
- **Align fully where possible:** In situations of strong government leadership, sound pro-poor policy and reforming and improving administration, alignment to government policies and systems is possible and preferable.
- **Budget support is high risk, but potentially high return:** PRBS remains a powerful instrument even in situations of conflict and fragility, but it is also high risk. It needs to be embedded in robust capacity –building approaches in order to deliver returns. It needs predictability over the medium term and may

require additional sector-specific programmes and technical assistance to ensure service delivery gains.

- **Support and incentivise system reform:** If the quality of government systems prevents full alignment, plan for (and track progress on) progressive alignment over time. Focus on supporting reform, but recognise that PRBS or progressive alignment may also provide a platform to make technical assistance more effective. Poor quality technical assistance and capacity substitution can do more harm than good.
- **Shadow alignment is possible:** However, it can be politically sensitive. Working with diplomatic colleagues in a ‘whole of government’ manner is essential. Total disengagement should be avoided where possible, as re-engagement is harder to achieve. Some level of policy alignment is often possible, as governments are never monolithic.
- **Remain aware of changing context and be flexible in your response:** Maintaining a flexible approach to alignment through the use of analysis, scenario planning, situation monitoring and combining different instruments to maintain a balanced portfolio and spread risk is the most realistic and practical way of operating in fragile situations.

Further guidance and information:

- DFID Policy Paper, *Poverty Reduction Budget Support*, February 2008.
- Andrew Lawson, *DFID Budget Support to Sierra Leone, 2004–2007: Achievements and lessons for the future*, August 2007.
- *DFID How To Note: Managing fiduciary risk in bilateral aid programmes*, January 2008.
- PEFA Secretariat, *PEFA PFM review guidance*.
- Mick Foster, *Aid Instruments in Fragile and Post-conflict States: A desk review for DFID Nepal*, DFID, 2007.
- DAC/ODI, *Harmonisation and Alignment in Fragile States*, January 2005.
- *Service Delivery in Fragile Situations*, DAC publication, 2008.
- OECD-DAC, OPM and IDL Group, *The Applicability of the Paris Declaration in Fragile and Conflict Affected Situations*.
- Nicholas Leader and Peter Colenso, DFID Working Paper, ‘Aid instruments in fragile states’, 2005.
- DFID Country Programme Evaluations, Nepal and Sierra Leone.
- Stabilisation Unit, *Issues Note on Stabilisation Quick Impact Projects*, Draft 2008