INTERNATIONAL DIALOGUE ON PEACEBUILDING AND STATEBUILDING

THE USE OF **INNOVATIVE AID INSTRUMENTS** IN SUPPORT OF PEACEBUILDING AND STATEBUILDING

A. INTRODUCTION

There is a growing awareness in the international community that low income countries with fragile institutions are not just a more difficult case of development, but require a fundamentally different approach to delivering assistance.[1] In fragile situations the normal political and social processes for resolving conflict are weak and armed violence is a substantial risk. Violent conflict does not only have a cost in terms of life and property – Paul Collier puts the average cost of a civil conflict to a country and its neighbours at $64bn[2] – but sets development into reverse. Per capita incomes fall and institutions that were built slowly before the conflict are destroyed. Conflict in one country tends to spread to others in the region, or even further abroad; refugees flee violence and conflict provides an environment for organized crime that is manifest in the trafficking of people and drugs.

In many fragile states (and in 15 of the 17 g7+ states) the international response has included large scale investment in UN or regional peacekeeping/peace building forces. Such investment tends to be much larger than the parallel investment that is also made through development assistance. In Sierra Leone and Liberia the cost of the UN force was five times that of aid flow at the time. In Afghanistan spending on military support is some 20 times that on civilian support. There is a striking disconnect and lack of policy coherence between the level of investment in peacekeeping forces and the degree of risk that is involved and the way aid is provided. In most cases aid has been provided in the same way as it is in stable countries with the same procedures applying and the same approaches to risk being followed.

As a consequence, aid – and the results of aid – has been delivered far too slowly. It is only in a few cases - such as Afghanistan - where there has been clear break from the "business as usual" model in the delivery of aid – where results been achieved at anything like at the pace needed. But as the recent poor rates of progress in South Sudan and Haiti have revealed these positive lessons are not being consistently applied elsewhere. The cost of this collective failure to fully adapt the aid system to the needs of fragile states is primarily borne by populations who suffer from the lack of access to infrastructure and basic services. But the irony for donors is that the failure to take risks in aid delivery has been at the cost of taking much greater and potentially much more expensive risks of renewed conflict. For both fragile states and donors there is a pressing need to break with the past partial incremental approach to changing how aid is delivered.

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[1] Report of the UN SG on peacebuilding in the immediate aftermath of conflict (A/63/881-S/2009/304); the World Bank's World Development Report 2011; Keynote Speech by Robert B. Zoellick, President, The World Bank Group, at International Institute for Strategic Studies event: Changing Trends in Global Power and Conflict Resolution, 12th September 2008

[2] Professor Paul Collier, 2009, the Bottom Billion

B. EVIDENCE AND ANALYSIS

As the OECD has noted, there are essentially six categories of aid instruments in common use:[3] General Budget Support; Sector Budget Support; Government-Managed Pooled Funds; Jointly-Managed Trust Funds; Project Support; and Support to and through non-state actors. These can be examined along a range of dimensions, and the below table contains outline descriptions of these six different types in relation to their use of country systems and their performance in three of the Paris criteria for aid effectiveness: Alignment, Harmonisation and Ownership, as well as their ability to deliver direct results.

Table 1. Aid instrument expenditure, use of country systems and Paris principles

Expenditure through each aid instrument has…	Use of country systems (of 8 total[4])	Policy alignment	Process *(or shadow)* alignment	Harmon-isation	Ownership	Delivery of direct results
Domestic Revenue	All 8	Automatic	Automatic	Automatic	Automatic	Depends on expenditure capacity of government, including contracting/ procurement capacity
***1.* General Budget Support**	All 8, can include additional safeguards	Automatic	Automatic	Automatic	Strong	
***2.* Sector Budget Support**	Usually all 8, can include additional safeguards	Policy-aligned to an agreed sector plan	Automatic	Automatic	Strong, but depends on extent to which sector plan is owned, and extent of earmarking	Depends on expenditure capacity of government, potentially supported by donor programme
***3.* Government-managed pooled funds**	Ranges from none to all 8, can include additional safeguards	Policy-aligned to an agreed sector plan	Could be done, especially if any PIU is embedded in government	Automatic	Moderate, but depends on extent to which sector plan is owned, and extent of earmarking	Depends on effectiveness of expenditure systems used – whether government, donor or mix of two
***4.* Jointly managed trust funds**	Usually uses parallel systems	Can be policy-aligned to an agreed sector plan	Could be done, especially if PIUs are embedded in government	Automatic	Depends on Ministerial involvement in decision-making	
***5.* Project support**	Usually uses parallel systems	Only if aligned to the overall development plan or sector plan	Not automatically but could be done	Not automatic: requires coordination	Depends on Ministerial involvement in decision-making	Depends on effectiveness of implementing agency
***6.* Support to and through non-state actors**	Uses parallel systems	Only if aligned to the overall development plan or sector plan	Not automatically but could be done	Not automatic: requires coordination	Weak for government – may be ownership at community level	

[3] DAC Guidelines and Reference Series, 2011, Supporting Statebuilding in Situations of Conflict and Fragility

[4] Which are: planning, budgeting, parliamentary approval, Treasury, procurement, accounting, auditing and reporting, according to "Aid on Budget", CABRI, 2009 – although there are alternative views that include a wider view of country systems such as HR, and decentralisation functions.

The evidence suggests that the delivery of results – including aspects of speed, flexibility and risk management – are key aid effectiveness indicators in fragile states, but are not mentioned in the Paris Declaration. And while it is possible to identify the factors affecting the direct, project-level results of each type of aid modality (the column on the far right) it is much more complex to rate the types of aid instrument in terms of the indirect results they bring – including in statebuilding and peacebuilding objectives – which will depend to some extent on their performance against the Paris indicators.

Country context and the mix of aid instruments

Each fragile state has its own specific context and no single approach can fit all the contexts. The content of the mix needs to be determined based on country context. Similarly, each donor has its own methodology for analysing fragility and these methodologies are not always shared between donors or with the government itself. At the same time the structure of international support to peacebuilding and statebuilding is rather complicated with many different actors including military; international financial institutions; humanitarian agencies and organisations; donor agencies and civil society organisations. Different actors have their own specific legal constraints on how they can operate; different tolerance of risks and hence different sets of instruments they can use. The mix of instruments in each state should be based on which instruments would most effectively help the transition from fragility to stability in that particular context with that particular set of actors involved. Some foreign assistance should not pass through the government budget in principle, e.g. support to build political parties and civil society organizations that amplify the public voice and develop the national conscience.

An example of a useful mix of aid instruments is the dual track approach taken in Afghanistan, with the Afghan Interim Authority Fund set up to get funds moving, while the longer-term Afghanistan Reconstruction Trust Fund was established. In the immediate post-conflict moment, both short-term and long-term approaches can be taken simultaneously, as long as the short-term does not undermine or detract from efforts to put in place long-term processes.

Specialised aid practices for all fragile states

While it is clear that each fragile state is unique and should be treated as such by external actors, there are some common characteristics of fragility. The most visible of these are the difficulty in achieving development progress such as the MDGs within fragile contexts. The plethora of donor methodologies of defining fragility, and the absence of a universally-accepted dividing line between fragile and non-fragile states adds an extra layer of uncertainty and divergence to an already confusing arena. It is also becoming apparent that donors need to put in place specialised aid practices in fragile states to take account of the particular circumstances in these countries, including weak capacity and institutions, the imperative of statebuilding, and the difficulties in delivery – for example, as exemplified in the OECD Fragile States Principles. For example, the evidence suggests that the Paris Declaration Principles might not be sufficient in fragile states, where issues of flexibility in aid allocations and risk management are critical to delivering results.

One of the key lessons from the international campaign to provide debt relief is the need early on to agree on a list of which countries could benefit. It was important that this list was seen to be transparent and fair and not just the arbitrary decision of donors. If a new deal is to be agreed at Busan there needs to be early agreement among the g7+; multilateral agencies and bilateral donors on the countries that would be eligible for differential treatment. The aim would be to identify a group of fragile states where the risks of the return to conflict are so high and the needs for rapid development are so great– and that a set of standard changes or exemptions to normal aid regulations/practices – such as those called for in the action plan – should be applied.

Speed and flexibility of aid

The key frustration with current aid systems is the slow pace of delivery. And the most oft cited desirable attribute for support to post conflict countries is flexibility. Yet as progress in some countries show there are a range of practical steps that could be taken to speed up assistance and make it more flexible. The experience in Afghanistan in particular has demonstrated that where there is clear urgent need and a keen political interest among donors to act quickly it has been possible to do things differently and break with the business as usual model. Such an approach needs to be applied to a wider – but still ring fenced and limited - group of fragile states

The benefits of this willingness to act differently was vividly illustrated by the speed of operation of the Multi-Donor Trust Fund in Afghanistan and by the flexibility it had to finance a wide range of items – including recurrent budget items. [5] This was supported by a focus on developing capacity for government procurement and a willingness to use emergency procurement rules for a full ten years after the end of conflict. One source of inflexibility in fragile states is the demarcation between development and humanitarian funding. As a result of the WFP's successful track record in rehabilitating roads in S Sudan the government asked it to develop and extend its programme and in effect start the delivery of nationwide road master plan. However in the process the WFP was delayed by difficulties in accessing development funding from the World Bank-managed Multi-Donor Trust Fund. The WFP was also constrained by its own Board requirement that WFP roads could only be built to a certain quality which was appropriate for securing humanitarian access in the short term but was inappropriate for a longer term road programme.

One specific approach that has delivered relatively rapid and flexible support is the Community Driven Development (CDD) programme. Such programmes have demonstrated that services with local ownership and accountability can be delivered at the village or community level with acceptable fiduciary risks. Yet these programs have the potential to build peace at the local level, contribute to statebuilding by connecting communities to legitimate authority and developing citizenship skills, as well as building government from the ground up. CDD is an underutilised instrument that has proven effective in fragile settings.

Good practices for using government systems - with safeguards if required

There is a range of ways to provide more aid through government systems and to the recipient country's budget - through direct budget support, pooled funding arrangements, or national program or project financing that flows through the budget and uses national fiduciary and reporting systems.[6] Providing aid in such a form plays a critical role, in particular during the early post-conflict stages, to support the transformation by ensuring continued functioning of key government function, and to deliver on critical priorities that can provide legitimacy to emerging governments A substantial shift in this direction is not only likely to deliver faster development outcomes, better aligned with country priorities, but also strengthens the accountability of government to citizens for delivering services; builds legitimacy, and deepens organizational capacity through "learning by doing".[7] Assistance to

[5] Alastair J. McKechnie, 'Post War Program Implementation' prepared for ODI 2010; Steve Symansky, Discussion Paper for ODI/IMF Conference 2010

[6] See for example, CABRI, 2009, "Putting Aid On Budget: A Case Study of Rwanda",

[7] Stephen Knack, Aminur Rahman "Donor fragmentation and bureaucratic quality in aid recipients", J. Development Economics 83 (2007) 176-197

fragile states is highly fragmented into small projects that are often neither coherent nor coordinated with national priorities.[8]

Aid through national systems may appear more risky than donors delivering projects directly or through NGOs or humanitarian channels, but these risks can be managed.[9] Strengthening national capacity for procurement, accounting, and auditing, reporting and program implementation is clearly part of the solution and may take time.[10] But in addition many fragile states, including g7+ states, have demonstrated their willingness to accept additional short term safeguards to manage the risk involved. Some of the services can be contracted out, dual country-donor decision processes put in place, and donors could collectively establish special accountability or audit checks. The Liberia GEMAP dual signatory approach is one positive example.[11] In Sierra Leone initial provision of budget support was accompanied by international accounting firm monitoring flows within government through to schools etc.[12] Other examples include the use of international accounting firms to undertake additional audits; the provision of additional financing to enable national audit offices to undertake more frequent audits (e.g. at sub national levels); the support for value for money audits and the introduction joint government-donor results monitoring approaches in ministries of finance and/or in sector ministries.

It is striking than in S Sudan despite the conflict essentially ending in 2005/06 donors are only now discussing putting money through government systems and even then many donors are arguing that it will take five years before the government is ready. It will thus be over ten years after the conflict before money will flow through the government systems. By contrast Sierra Leone received general budget support 2 years after the conflict and Rwanda did in around the same time frame. The Afghanistan trust fund started to provide funding for the recurrent budget after just a few years. It was this early support – i.e. within the first five years – that was critical in rebuilding the state in all three countries. Yet despite all the lessons learning of the last ten years it would seem that donors are collectively now less willing to take on risk and deliver through government systems.

Pooled funds, including sector pooled funds as well as broader multi-donor trust funds (MDTFs) have been shown to provide close alignment with national priorities, consolidate small projects into scalable national programs, use national systems and harmonize and simplify the transaction costs of foreign assistance. Such pooled funds can also include dual signatory provision. Pooling funds also pools risks among donors and shifts the accountability for risk management to the multilateral organizations that usually administer them. However while some pooled funds have worked well in difficult environments,[13] others have had weak management and slow disbursements.[14] Key factors

[8] OECD DAC Draft Report on Division of Labour: Addressing Fragmentation and Concentration of Aid across Countries Processes (2010)

[9] DFID has developed a new approach which assesses partner governments on both (a) partnership commitments (including domestic accountability) and on whether budget support can achieve better results and value for money than other instruments (Implementing DFID's strengthened approach to Budget Support: A Technical Note)

[10] For example, public financial management reforms have been gathering pace in the Democratic Republic of Congo (Baudienville G (2010) 'Financial Management Reforms in Fragile and Conflict-Affected States: Democratic Republic of Congo Case Study', Draft (ODI unpublished research))

[11] Final Evaluation of USAID GEMAP Activities (Governance and Economic Management Assistance Program) 2010

[12] DFID Practice Paper: Briefing Paper E: Aligning with Local Priorities

[13] Good examples include the Liberia Health Pooled Fund and the Yemen Social Fund for Development, see ODI 2011; Hughes 2011, and DFID (2010e)

[14] One example is the Multi-Donor Trust Fund in South Sudan, which was characterised by cumbersome procedures and slow disbursement rates. Sources: Bennet, J et al (2010) Aiding the peace: A multi-donor Evaluation of support to

behind the more successful funds seem to be the degree of government ownership; the physical location of the secretariats; the extent of the pools in year flexibility and their ability to finance recurrent expenditures. One of the key constraints to the development of such funds is the unwillingness or inability of some donors to co finance/mingle their funds with those of other donors.

High levels of foreign assistance do not mean that recipient governments should neglect their own revenues, through rationalizing taxes and fees and collecting those that are due. It is encouraging that in practice many countries emerging from fragility with high levels of donor support have at the same time sharply increased their domestic revenues. The ultimate shared aim of g7+ countries and donors is to escape aid dependency.

Good practices when not using government systems - aligning aid to the budget

Not all foreign assistance can use national fiduciary systems and some aid will continue to be provided in parallel. Coordinating this assistance has proven almost impossible for states with weak capacity. In addition many fragile states highlight the lack of transparency and accountability of this assistance. The costs of military support are often not reported in country and the provision is often poorly integrated with domestic funding of military and security. When military support comes to an end – in terms of foreign troops or financial support to national army – the security budget can suddenly appear to rise sharply.

Roughly half of Official Development Assistance (ODA) is provided through humanitarian channels, and about half of this is for the provision of public services such as education, health and clean water. While humanitarian channels may be faster than using national systems and donors are more ready to run risks with humanitarian aid, it is often characterized by fragmented projects that are difficult to scale up. As humanitarian support comes to an end government spending on basic services needs to rise rapidly to ensure there is no a sudden drop in the provision of services.

Donors often continue to use parallel systems even after the humanitarian phase is coming to an end, which can mean that the country ends up with patchy service provision, some areas benefiting from high cost services that can't be replicated or sustained, while other areas have no access. When more normal conditions for state building are established, integrating these differing services into something coherent and affordable is difficult. This touches both on issues of coordination issue and ownership, but the practical need is for an economic assessment of what services are affordable in the medium-long term, and institutional arrangements to reach and sustain agreements on service standards, to avoid establishing services for the few that will lead to inequality and integration problems later when a future state is unable to staff and pay for them without starving underserved areas.[15]

Most agencies do publish at least some information about their support. But much of this information is still presented and published in donor capitals. The data is often not available in local currency terms or for the government's own financial year. Some donors have signed up to new international benchmark for aid transparency the International Aid Transparency Initiative (IATI) which ensures that aid information is given at the right time and in the right format for governments

Conflict Prevention and Peacebuilding Activities in Southern Sudan 2005-2010. ITAD Ltd, United Kingdom; Ball 2007

[15] One successful example of a transfer from non-state to state provision comes from Timor-Leste's health sector, Source: DFID (2009) Engaging in Fragile States, 2009, p 20, referencing Rosser, Andrew (2004) "The First and Second Health Sector Rehabilitation and Development Projects in Timor Leste" in World Bank (2005) Making aid work in fragile situations case studies of effective aid financed programs.

to use. However the IATI standard spending classifications do not yet automatically map onto the varying domestic expenditure classifications used by each fragile state. When donors publish information at the same time as government budget processes, using the same classification, this is known as "shadow alignment",[16] shown in table 2 below.

As the below table shows, shadow alignment – where donors publish their own, separate, financial and performance reports with an aligned timing, content and classification to the government – is different from donors using country systems – where donors engage in joint planning, execution, monitoring, evaluation and reporting etc. activities along with the government.

Table 2. Schematic of using government systems compared to shadow alignment

Government systems	Using government systems (give GBS or…)	Shadow alignment
Budget Formulation • Planning process (PRS and sector plans) • Budget Framework Paper (or similar) • Compiling the Budget • Parliamentary approval	**Budget Formulation** • Donors engage with PRS and sector plans • Donors report plans for project/SBS spending in next fiscal year to MoF, to be reflected in Budget	**Budget Formulation** • Donors publish forward spending ceilings at same time and classification as Budget Framework Paper • Donor publish finalised plans for spending next fiscal year at same time as Budget is published
Budget Execution • Treasury execution • Procurement systems • Accounting systems	**Budget Execution** • Donors use government systems for their expenditure: treasury, procurement and accounting	**Budget Execution** • Donors publish in-year reports using same timing and classification as government
Budget Reporting & Audit • Donors engage with shared reports and audits (e.g. by sector)	**Budget reporting & audit** • Donor use government reporting systems and auditing systems	**Budget Reporting & Audit** • Donors publish end-year reports and audits using same timing and classification as government

Using country systems often means that donors are more likely to align their aid to government policies and priorities. However, in some cases policy alignment – i.e. aligning aid behind the government's policy objectives (not just its processes as in the case of shadow alignment) may not be appropriate, for example where is a clear disconnect between the needs of the poorest and most marginalised groups and the allocation of the national budget and the potential for such disconnect needs to be explicitly recognised and managed.

The alignment of most of the support around the budget means that it is easier for the government to coordinate aid spending with government spending, and also lays the foundations for the project/program to move towards Sector or General Budget Support at a later date. It also makes it easier to ensure that external support is prioritising peacebuilding and statebuilding objectives – and the International Dialogue's draft objectives in particular. When support is fragmented there is a

[16] An example of shadow alignment comes from DFID's work with orphans in Zimbabwe, Source: DFID (2010) 'Working Effectively in Conflict-affected and Fragile Situations', Briefing Paper E: Aligning with Local Priorities, p. 7

greater risk that individual donors' and project managers' objectives take priority and the focus on peace and statebuilding is diluted.

To reap the benefits of donor alignment, the government must have a strong aid coordination and management function – ideally housed in within the fiscal authority[17]. In view of the benefits to the effectiveness of their aid, the need for greater coherence between domestic resources and aid, and the critical issue of building strong institutions to oversee public expenditure both on and off-budget as part of an effective state, donors should be ready and willing to support these Units, including through funding, staff, and complying with their requests for data and information.

The need for predictable, sustained financing

This is needed to avoid either stop go patterns of aid, or excessive concentration of assistance immediately after the end of a crisis, e.g. at the conclusion of a conflict. The transition from fragility to resilience requires national institutions to take root, a process that may take forty years or more.[18] Statebuilding is not a linear process and is characterized by setbacks as well as leaps forward.[19] As the WDR 2011 states "volatility greatly reduces aid effectiveness, and it is twice as high for fragile and conflict-affected countries as for other developing countries, despite their greater need for persistence in building social and state institutions." In addition, the peacebuilding and poverty implications of changed funding should be assessed, particularly when a donor is taking actions related to political changes within the country that may be disconnected from the population who would be affected by changed levels of aid. Donors also need to take into account the state of development of domestic bond markets, recognising that in some countries governments are unable to increase domestic borrowing to cover even very short delays in donor disbursements.

Transparency, results, accountability and value for money

The recent World Development Report[20] highlighted the importance of legitimate institutions for exiting fragility, and defined two types of legitimacy:

- **Political legitimacy:** "or the use of credible political processes to make decisions that reflect shared values and preferences, provide the voice for all citizens equally and account for these decisions"; and
- **Performance legitimacy:** "earned by the effective discharge by the state of its agreed duties, particularly the provision of security, economic oversight and services, and justice".

Transparency and accountability of governments and donors are required in fragile states for several reasons: (i) by governments to understand how budgets are spent, strengthening performance legitimacy through service delivery, and to give confidence to the public and civil society, strengthening political legitimacy by supporting state-society relations (ii) by donors to ensure that there is a clear link between externally funded activities and national priorities and that aid impacts positively on governments' ability to deliver its own priorities; and (iii) at the global level to enable sharing of lessons and experiences with different aid instruments, to enable country actors to make

[17] Budget Practices and Procedures in Africa (CABRI, 2008) generated an Aid Management Index, which gives countries a higher score if their aid management unit is located within their Central Budget Authority.

[18] Lant Pritchett Harvard Kennedy School Frauke de Weijer, Fragile States: Stuck In A Capability Trap?, 2010 Harvard Kennedy School and CID, WDR Background Paper

[19] DAC Guidelines and Reference Series, 2011, Supporting Statebuilding in Situations of Conflict and Fragility,

[20] World Development Report, 2011, Conflict, Security, and Development, World Bank

informed decisions about what aid instruments will best deliver results in different context. This underpins greater aid effectiveness in fragile states.

Good examples of transparency include Timor-Leste's and the Palestinian National Authority's publication of fiscal data, the Haiti Aid Map,[21] and Uganda's publication of expenditure data at the local level.[22] There are also a range of instruments and policies that can ensure greater mutual accountability between donors and government, supporting broader transparency and accountability goals. These include the use of mutually accountable compacts, such as in the case of the Afghanistan compacts, or dual accountability frameworks such as the GEMAP programme in Liberia.

[21] AidInfo, http://www.aidinfo.org/this-is-how-aid-transparency-could-look.html

[22] Reinikka R and Svensson J, 2004, The Power of Information: Evidence from a Newspaper Campaign to Reduce Capture" Working paper, IIES, Stockholm University

C. RECOMMENDATIONS AND PROPOSED ACTIONS

1. Identify and agree on the most appropriate and coordinated mix of instruments (domestic and foreign) required to meet country-specific priorities, based on specific fragility context

The g7+ should develop a fragility assessment and related indicators (Fragility Index) to identify the level and underlying causes of fragility in individual countries, in consultation with their own citizens. The Index would act as a starting point to identify peacebuilding and statebuilding priorities, inform political dialogue, and provide the basis for the design of strategies and plans to support the transition from fragility to stability. International partners should agree to use this index as a basis for agreeing on the right mix of instruments that would address the causes of fragility. National partners and international partners should recognise that the mix needs to include appropriate levels of direct support through civil society organisations and humanitarian instruments.

2. Make a "New Deal" with fragile states to adopt policies and procedures and increase the speed and flexibility of aid to fragile states

Donor countries should identify a group of fragile states where the risks of the return to conflict are so high and the needs for rapid development are so great– and that a set of standard changes or exemptions to normal aid regulations/practices – such as those recommended in this paper – should be applied.[23] The types of policies that would come under this "New Deal" could cover the whole gamut of aid policies covered by the International Action Plan such as different procurement procedures; greater use of country systems (with appropriate additional safeguards) and stronger mutual accountability and transparency processes.

Donors should allow their emergency financial management and procurement procedures to be used in fragile states during the first ten years. Most donors have special procedures for emergency assistance and these could be used for at least the first decade after the arrival of UN/regional peacekeeping mission. This was done by the World Bank in Afghanistan and is estimated to have halved the time taken for procurement accelerating cutting months and sometimes years off the normal process. These experiences should be monitored and the evidence used to help international partners adapt their rules and regulations for engagement in fragile states.

Donors should also develop simplified procurement arrangements for use in fragile states. This might involve using national procurement rules, with appropriate international oversight, for all procurement other than very large contracts procured through international competitive bidding. It would shift donor oversight from ex ante to ex post reviews, with contracts that failed to meet the agreed standard being financed from the government's own resources, not donor funds. When an

[23] One option would be to use two UN led processes and agree that any Least Developed Countries where there has been a UN/regional peacekeeping mission in the last five years should be eligible. The LDC criterion would keep the focus on the poorest countries. The presence of a UN/regional mission would serve as an indicator of the seriousness of the conflict and the requirement that the mission had to be present in the last five years would serve as an indicator of the risk of renewed conflict. In this option 16 states would be eligible including 14 of the 17 g7+ states. See background paper for full details.

insufficient number of bids are received the government would be permitted to negotiate with the lowest evaluated bidder, rather than rebidding the contract. The role of donor fiduciary staff would shift from external regulators of their own rules, to facilitators of good procurement outcomes from national rules, even if this involved donor staff participating in host government procurement decision making. Multilateral organisations could develop a common set of rules and contract documentation for international bidding.

All major donors should be required to deploy senior procurement staff with appropriate levels of delegated authority in all g7+ countries. Similarly, donors should deposit 5% of their annual aid programme in a Conflict Prevention Fund[24], from which the government could borrow to fund urgent disbursements for conflict prevention activities, within 48 hours and without requiring donor approval from capitals.

3. Recognise the g7+ has a clear preference for more aid through government systems and use joint oversight mechanisms to strengthen country systems and to link aid with national budget and priorities

The g7+ should identify what instruments would count as providing aid through government systems and what constitutes an effective pooled fund. In order to increase the proportion of aid provided through government systems there needs to be greater clarity on which aid instruments would be included. The CABRI ten point measure of whether an instrument provides funding "on budget" is one potential approach. In addition a g7+ review of good and poor performing pooled funds would be invaluable in guiding the design and redesign of future funds.

The g7+ should identify a set of potential additional safeguards that could be introduced. The willingness of the g7+ to adopt additional safeguards in order to ensure more aid is provided through government systems is not widely recognised. An explicit set of recommended potential safeguards would send a clear political message to all donors ahead of Busan. An alternative would be just to produce list of safeguards that have been adopted by g7+ members. Even the alternative would still be powerful demonstration of the willingness in practice of g7+ states to introduce such safeguards. It would also help to accelerate conversations in country between governments and donors around possible safeguards.

Major donors should amend their aid regulations/practices to ensure that where there are appropriate additional safeguards in place they can provide 50% of their aid through government systems as soon as the conflict ends. Donors who are not among those providing 80% of the assistance to a country, or where the country is not one of the top 10% of their aid recipients, should provide their assistance through pooled funds. There should be regular reports from those administering pooled funds at country and global levels. Poor practices can easily persist where their limited accountability or transparency. Options to improve accountability include reporting at the global level on the performance of these funds, joint donor-country in depth reviews of pooled funds at least every three years, and for administrative agreements for pooled funds to have provision for termination and transfer of the administrator.

The g7+ countries should commit to increasing the proportion of the budget funded by domestic revenue and the international dialogue should review progress to date and monitor future progress. Such a commitment and review would answer the argument sometimes made that support to government systems undermines government's own efforts. The review could compare progress made by g7+ countries with rates of progress in other countries.

[24] Managed according to effective MDTF principles

4. Align all support in fragile states – including project aid, humanitarian aid and security support – to the country's budget to support greater coherence between domestic resources and aid

All flows – included non aid flows such as military support – should be reported on and published locally in time for the budget and in the same format as the budget. All assistance, development, humanitarian and security related that does not go through the budget, should be "shadow aligned" with national budget and the multi-year frameworks that underlie it. This requires that donors contribute timely information to the budget preparation process in the appropriate format, and provide reports that link to the national review of budget implementation. The donor funded portion of the budget would pass through the national budget approval and review process. Humanitarian agencies in particular should ensure that all their aid is reported on and that governments are including appropriate provision in the medium term budget frameworks to compensate for any expected changes in the level of humanitarian support.

Before Busan, the g7+ should pilot in at least three fragile states the conversion of IATI data into local budget compatible data. Local donors already report aid flows through processes such as Aid Management Programmes and Aid Tracking Programmes. Each g7+ country should review all the support that is provided in the light of the emerging International Dialogue's peacebuilding and statebuilding objectives.

Donors and government should recognise the role CSOs can play in ensuring that the voices of the poorest and most marginalised are listened to the budget preparation process.

5. Provide more transparent, predictable, sustained financing in fragile states

The g7+ group of fragile states should improve transparency and accountability of the national Budget by committing to as many actions as possible from the following list:

- Publish summary Budget outturn data on a monthly basis, for example the fiscal data they report to the IMF (excluding any market sensitive data), following the example of the Palestinian National Authority.
- Publish key financial and operational information on an annual basis.
- Publish budget outturn data for previous 5-10 years (as Timor-Leste has done).
- Publish Citizens' guides to the Budget and the Budget process.
- Open up as many of the key steps of the Budget process to public engagement drawing on emerging international best practice standards, such as the Open Budget Index.
- Become formal member of Extractive Industries Transparency Initiative and the Construction Transparency Initiative (CoST), and subscribe to Natural Resource Charter.

Aid flows through the budget should not change during the course of a budget and donors should give a two year notice of changing funding levels. The only exceptions should in the case of a human rights violation bringing a UN resolution or ICC proceedings against a country. Budget support should also be disbursed on a monthly basis. This will reduce the fiscal risks that result from possible delays to lump sum annual payments, and support good budgeting and expenditure planning practice. All aid agreements involving aid conditionality should be made public; if there is a disagreement donors should offer to transform a grant into a loan.

6. Agree on country-level mechanisms to strengthen partnership between national and international partners, based on mutual accountability, to enable better results delivery, value for money and the alignment of resources to national plans and priorities

g7+ and donors should develop appropriate country level mutual accountability frameworks and compacts that are deliver stricter prioritisation and better use of different resources without being overburdened with cumbersome bureaucratic procedures. The agreement should to be based on commitments from national and international partners and should reflect the agreement between citizens and the state. As part of this agreement, a joint government-donor Financing Strategy should be developed in each country. This would ensure there is a common understanding of the level of fragility at play and the range of instruments available and hence would enable an explicit identification of the right mix of instruments that would help the country move from fragility to stability. The strategy could also commit donors to certain behaviours, and could also set the rules of the game for the level of external controls that would be acceptable to receive more aid on budget, as well as the transition away from such additional controls towards using country systems.

g7+ countries should prioritize efforts that can mitigate risks to aid investments, recognizing the strict accountability and reporting requirements that donors often face in fragile states. Donors should undertake joint assessments of risks, share these with national governments, and take steps towards more joint risk management –recognising that risks are bigger to individual donors than to a collective group. g7+ countries should undertake a regular review of the international performance of donors in their countries and of the effectiveness of different aid instruments, and should consider risk management as an important element in such reviews. g7+ countries and donors should also develop appropriate indicators to determine aid effectiveness in fragile states, which could include speed, flexibility and risk management as well as the Paris Declaration indicators, and consider publishing joint assessments every three years on the implementation of aid agreements, the results that have been achieved and their cost.

International partners should commit to engage in mutual accountability arrangement and contribute up to 5% of their overall aid[25] to a joint government-donor Accountability Fund.[26] In some countries one constraint to introducing greater transparency is simple lack of resources. Where this is the case donors should be willing to jointly finance a fund which could cover the costs of a range of activities that support domestic and mutual accountability, including: government-led donor coordination (which good practice suggests should be housed within the fiscal authority); international sector-wide value-for-money assessments; publication of government transparency information.

[25] Excluding diplomatic activities that are covered by international conventions

[26] Managed according to effective MDTF principles