From aid effectiveness to development effectiveness: strategy and policy coherence in fragile states

Background paper prepared for the
Senior Level Forum on Development Effectiveness in Fragile States

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Background

There is a growing recognition among donors that their core business is development effectiveness, not just aid effectiveness. The impact of non-aid policies on development outcomes is gaining ever-higher priority, with an emphasis on securing coherence across government departments. The concern is not only that a lack of coherence between aid, trade, finance, security, immigration and drugs policies can result in contradictory outcomes, but also that it is impossible to achieve certain policy goals without mobilising a range of complementary policies. At the same time, there is growing consensus that in the medium term building the effectiveness of the 'beneficiary' state is central to wide range of goals including security, political and economic.

Policy coherence is even more important in relation to fragile states.[2] While poverty reduction remains an important goal in these contexts, the goal of strengthening the institutions of the beneficiary country is also a high priority. This task will encompass a range of functions including the security, political and economic. To reach this goal, it is now acknowledged that donor governments have at their disposal a range of tools and resources across the security, diplomatic, development, humanitarian, legal, trade and investment and migration spheres that can be employed. There is also increasing awareness that if interventions across these domains are costed over time, trade-offs between efficiency of intervention become startlingly clear. Using aid to unleash private sector energies can save significant amounts in future years, while conflict prevention activities can save significant military budgets. However, there is not yet consensus either on the means of setting precise objectives and on designing policies and implementation

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[2] For the purposes of this note, the working definition of fragile states used by DFID as "those countries where the government cannot or will not deliver core functions to the majority of its people, including the poor" is adopted. It is worth noting that while many of these countries will be in conflict, emerging from conflict or at risk of degenerating into conflict, the set of countries is not limited to these and includes isolationist regimes and 'rogue' states.

mechanisms to reach those objectives that ensure coherence across these different domains.

This note seeks to set out the key issues relating to the challenge of policy coherence in fragile states; to summarize some mechanisms emerging from broader donor government practice to address this challenge; and to identify some of the questions and challenges that remain unaddressed. It draws heavily on and summarizes some recent work relating to policy coherence in fragile states, particularly the work commissioned by the Learning and Advisory Process of the DAC on donor policy coherence and development cooperation in difficult environments[3].

What is policy coherence?

Policy coherence is defined by the DAC Poverty Guidelines as "the systematic promotion of mutually reinforcing policies across government departments and agencies creating synergies towards achieving the defined objective". The DAC Journal of Development Cooperation defines policy coherence slightly differently, as the "different policy communities working together in ways that result in more powerful tools and products for all concerned. It means looking for synergies and complementarities and filling gaps between different policy areas to meet common and shared objectives".

A useful approach to policy coherence proposed by Robert Picciotto suggests that it spans four dimensions: the first referring to the *internal* consistency within the aid programmes of donors; the second called "*whole of government*" coherence, referring to the consistency between the aid and non-aid policies of a donor government; the third to the consistency between the aid and non-aid policies across donor countries (*harmonization*); and the last to consistency between a donor government policy and the overarching strategy at a country level (also referred to as *alignment*).

While this note focuses on the second type of coherence, between aid and non-aid policies of a donor country, it is clear that all four types of coherence are relevant to fragile states. Action will be needed at each level to ensure coherence between strategic goal, policy objectives and implementation mechanisms at a systemic level.

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[3] Robert Picciotto, Charles Alao, Eka Ikpe, Martin Kimani, and Roger Slade *Striking a new balance: donor policy coherence and development cooperation in difficult partnerships* Global Policy Project December 30 2004

Issues relating to strategy and policy coherence in a fragile state context

Donor governments have tended to respond to fragile states through a 'silo' approach, involving policies generated separately by their defence, diplomatic, finance, trade and development ministries. Ministries of justice, interior, health, and education, as well as legislative or federal bodies may also be involved with stand-alone inputs. Each has differing goals, languages, approaches, methods and instruments. There are many examples of incoherence resulting at a strategic level. For example, small arms exported by OECD countries can sustain civil war, undermining conflict reduction efforts. Aid programmes outside government can leach managerial staff from critical government positions, hobbling state capacity and resilience. Support to small projects can create horizontal and vertical inequalities and undermine impact. Donor governments can form contradictory alliances within government, which promote opposing policy stances. Failure to exercise international oversight of revenue systems can exacerbate the channelling of financing to militias.

Also evident are many cases of donor support to projects which do not add up to support a coherent strategy. Dan Smith in his study of peacebuilding initiatives in the four Utstein Countries (UK, Netherlands, Norway and Germany) identified that the major constraint to successful intervention was the focus on the implementation of a range of projects that were not linked to a broader strategy, in some cases because a broader strategy did not exist, and in some cases while an overarching strategy existed, but the projects appear to be "strategy resistant". This amounted to a "strategic deficit"[4]. Either way, it is often the case that the whole (the strategic impact of all interventions) is less than a sum of the various interventions.

At the level of setting objectives, it is unavoidable that if each part of the government proceeds in setting objectives and designing interventions that there will be potential conflict between interests of different stakeholders within a government system. They may act at best in parallel, at worst at cross-purposes to each other, as each will have differing organizational mandates.

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[4] Dan Smith *Towards a Strategic Framework for Peacebuilding: Getting Their Act Together (Overview Report of the Joint Utstein Study of Peacebuilding)* Evaluation. The recommendation of the report is that two strategic frameworks need to be adopted- the first to assist in formulating peacebuilding intervention strategies in specific countries and regions when need arises, and the other to assist in formulating a general peacebuilding strategy for donor governments.

Emerging approaches to policy coherence

There are a range of initiatives currently underway- at the level of strategy and policy setting, project design and analysis- that are designed to promote better policy coherence within donor governments. Some of these have been catalyzed by the Policy Coherence for Development (PCD) initiative promoted by OECD, which seeks to promote "greater policy coherence in support of the internationally agreed development agenda"[5] through the integration of trade, security and private sector investment agendas with aid agenda. This agenda mirrors the call for integration of the policy fields of development, foreign affairs and defence in 1990s, known as 'de-compartmentalisation'.

At the level of *strategy and policy setting*, some examples of initiatives are:

➤ Canada's "3D" model of coordination across the domains of Defence, Diplomacy and Development at a strategic level.

➤ The Netherlands[6] sets out a commitment to an integrated policy "combining diplomacy, political dialogue and pressure, security policy, trade, market access and development cooperation".

➤ Sweden in December 2003 adopted a bill[7] which requires all major policy areas to contribute to equitable and sustainable global development (security and defence, trade, migration, finance, agriculture, environment, education, social welfare, public health, industry and employment) and to promote the same goals internationally, especially within the EU. This bill reflects Sweden's commitment to an integrated approach to fragile states.

➤ The calls within the UN and EU for interlinkages between relief, recovery and reconstruction to be made.

Analysts pose the question as to how effective these types of initiatives will be at linking program and project design to broader strategic goals, while budgets and programming are largely set by autonomous aid agencies, tied to very different sets of goals and operating principles. It is however too early to evaluate the actual impact of this reorientation on actual policy directions.

At the level of *project financing*, the following have been established:

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[5] Ministerial Statement, in Action for a Shared Development Agenda, OECD, Paris 2002

[6] Netherlands 2003 policy report "Mutual Interests, Mutual Responsibilities – Dutch Development Cooperation en route to 2015"

[7] Shared Responsibility: Sweden's Policy for Global Development Government Bill 2002/3: 122; Act of Parliament 2003/04: UU3

- The UK has created two special funding pools, one for Sub-Saharan Africa and one for the rest of the world, which finance interventions at the intersection of security and development, some of which may not be eligible under Official Development Assistance definitions. The funds are pooled by the FCO, MoD and DFID, and topped up by the Treasury to promote inter-departmental cooperation and joined up government. There is evidence that this promotes shared problem solving and policy analysis across departments. Some examples of cross-government cooperation are evident in joint approaches to peace settlement in DRC and Burundi, conflict resolution in Sudan, Somalia and Uganda, capacity building programs directed to ECOWAS.
- The Netherlands has created a Stability Fund to enable rapid decisions to release money for activities to promote peace, security and development, which combines resources drawn from aid and foreign policy budgets, and can apply its proceeds to low and middle income countries that are conflict prone or conflict affected. Canada has set up a similar $50m Human Security Fund which operates on similar principles.
- In Norway, a transitional funding mechanism has been established.

While these mechanisms may encourage policy dialogue and cooperation across ministries within a particular country, it may lead primarily to cooperation at the level of a series of individual *projects* rather than necessarily to cooperation at the level of *strategy* or *policy*.

At the level of *analysis*, the following approaches are being tested:
- Existing tools such as PRSPs are being adapted by including conflict analysis within their methodology
- The Netherlands Ministry for Foreign Affairs is piloting the use of the Stability Assessment Frameworks to integrate analysis across a range of domains.

In some cases, *cross-ministry/organizational units and task forces* are being established:
- The UK has established a new integrated Post Conflict Reconstruction Unit, to contain specially trained civil and military personnel.
- The US has established the Office of the Coordinator for Reconstruction and Stabilization at the State Department, established in July 2004 to lead and coordinate civilian capacity to prevent or prepare for post-conflict situations and to help stabilize and reconstruct societies in transition from conflict. It reports directly to the Secretary of State with a staff of 35 professionals drawn from across

a number of departments. A Stabilization and Reconstruction Fund has been established. Another emerging model is that of the Reconstruction Group, as emerged in the form of the Iraq Reconstruction Group and the Afghanistan Reconstruction Group, where a series of professionals were appointed on the ground in country to develop a coherent US approach to the situation.

➢ Japan has established several cross-organizational task forces, consisting of representatives from the MFA, JICA, JBIC and in some cases JETRO.

➢ Work to create coherence at the level of planning and intervention by UN agencies. The report of the UNDG/ECHA working group on transition issues recommended that the function of the United Nations Country Teams should be strengthened to enable integrated planning across UN agencies.

A number of actors are expanding their traditional remits to focus on a *broader range of activities*:

➢ The World Bank is engaging in demobilisation, refugee reintegration and conflict-prevention programs and activities and has made efforts to integrate attention to political and security issues in budgeting work (although continues to stop short of engagement in security or political issues), and is adopting operational tools such as the transitional results matrix which covers political and security actions in addition to economic and social reconstruction[8].

➢ The US military is engaging pro-actively in reconstruction activities at a project level, and through initiatives such as "Operation Strong Angel" is seeking to find mechanisms and approaches to enable it to engage productively in pre-conflict and post-conflict activities and cooperate more effectively with the humanitarian and development communities.

➢ The United Nations agencies are recognizing the challenge of engaging not only at project level but at the level of national budgeting, planning and policy-formulation.

Ensuring system level coherence (between goal, objective, policy and implementation mechanisms)

It is not clear that greater "coherence" within a particular donor government, or within a domain (e.g. the security sector in a particular country), will lead to a coherent approach at

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[8] United Nations Development Group – World Bank *Transitional Results Matrix* UNDG-WB 2005

country level. Policy coherence in a donor capital may actually undermine inter-donor coherence at the country level.

To reach strategy coherence, there must be system-wide coherence, across different actors and activities. This strategy may or may not be government-led, depending on the context. To reach this, an agreed strategic process is required, which encompasses setting a goal, a hierarchy of objectives, a set of policies and implementation mechanisms; and monitoring mechanisms. It is clear that for coherence between actors and activities to exist, there must be agreement on a *single strategic process* between those actors, and that the perpetuation of competing or parallel strategies will undermine coherence. Accordingly, actors with clear levels of authority must be afforded incentives to participate in the strategic process. Such a strategic process may be anchored in a budget process, or in a joint planning tool. In any case, transparency in accounting and record keeping across all activities would be important to allow measurement of whether activity and expenditure is aligned with goals.

As part of a single strategic process, coherence is required in each of the following levels:
> *Goal and objective setting*: Common agreement on a hierarchy of objectives.
> *Policy and implementation mechanisms*: Once an objective is defined, it is possible to relatively simply work backwards to delineate who has what function to perform. This enables an approach of moving from focusing activities on outcome rather than specific inputs. The most cost-effective and appropriate range of interventions should be designed to achieve the goal, whether by national, bilateral donor, multi-lateral or military actors. Roles and responsibilities need to be clarified, and incentives aligned to achievement of the over-arching goal as well as the specific sub-objectives.
> *Analysis and monitoring mechanisms*: The process needs to be underpinned by analysis that underpins the strategic formulation process, which examines the interactions between interventions in different domains and assesses them against their impact on the overarching goal. Analysis and monitoring should also take place on a continuous basis, to ensure readjustment and reformulation where required.

If the problem is fragility of the state, and the goal in many contexts is to restore the state's central functions of maintaining a monopoly of force, guaranteeing security and provision

of rule of law, and provision of some public goods are taken, it is clear that the state itself must provide these functions. Accordingly, the unit of analysis and engagement will in most cases be the state. But where sub-national fragility is involved (e.g. northern Uganda), or where cross-border issues are critical (e.g. external involvement in eastern Democratic Republic of Congo), analysis and engagement need to be sufficiently flexible to move to the sub-national or regional level. This can pose an organisational challenge for donors geared to working with single nation-states alone. Global issues are often central too, so more creative ways of achieving coherence with the Security Council and other global actors are needed.

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