

# ISSUE BRIEF: RE-EXAMINING THE TERMS OF AID

ISE Project, September 2017 – December 2018

## BACKGROUND:

The current terms of foreign assistance mean that it often falls short of the goal of supporting countries on their development paths. The way assistance is currently practiced often sees multiple donors support individual projects, selected without any deep engagement of their counterparts, contributing to fragmentation instead of strengthening the institutions of the country. These practices distort incentives for state, society and firms, leading to sub-optimal outcomes.

The international development community has recently come to understand that many practices in assistance are not optimal, and agreed in a meeting in South Korea in 2011 to commit to a new set of principles, which became known as the “New Deal for Fragile States”. This “New Deal” represented a significant breakthrough in the model of international development applied to so-called “fragile states,” agreeing to the following: (i) a single national vision and plan formulated by a country’s leaders and managers; (ii) a country level “compact” between government and donors to implement that plan and build institutions rather than projects; (iii) the funding decisions to support the implementation of this plan, using the country’s own institutions through which the money should flow; and (iv) a set of indicators to track progress.

Since the New Deal was announced in 2011, its participants have struggled to implement it successfully. The operational framework with accompanying rule changes has not been developed to enable these policy commitments to be translated into reality. The available “how to” knowledge has not been sufficiently

mainstreamed and adopted. Despite commitments to reform, and some isolated examples of success, the general picture persists of fragmented, uncoordinated project-based array of approaches. In addition, the New Deal framework left out the requirement for a country to develop its own economic engine and determine a route out of aid toward financial self-reliance.

## PROJECT:

The Institute for State Effectiveness (ISE) has a project underway that seeks to identify the parameters of an operational model to enable the New Deal to be implemented successfully. We are working with multiple stakeholders, including development partners and recipients of assistance, to determine what is needed for development partners to trust governments to come up with a national plan, to flow resources through the country’s institutions, and to foster the economic engines and tax basis of the countries so that they can sustain themselves.

This operational model will unpack some of the issues identified by the G7+ and other forums, issues that development organizations have also acknowledged need solutions:

- i. Failure to read the context in developing countries and define the problem appropriately: External actors often start with a “needs assessment” which documents what is not there – rather than an “asset map” which would take stock of the positive elements in a society and economy from its people to its natural capital to its organizations.

- ii. The two civil services: Instead of nurturing the national civil services of a country, the aid system often underwrites the creation of a “dual bureaucracy.” Some nationals of a country work in an underpaid and under-resourced national civil service, while others work for international organizations, where salary levels can be very high.
- iii. Parallel structures: Actors that arrive and stay in a country are sometimes distrustful of the host government and wary of the fiduciary risks of using its public service as a delivery system, putting these ahead of the risk of not supporting the system to deliver development outcomes. These actors refrain from using the national budget and national systems of delivery, but rather establish parallel structures, drawing the leading talent of the country to work at much higher salaries for newly established aid bureaucracy field offices.
- iv. Multiplication of policy agendas and rule-sets: Bilateral donors and multilateral actors alike have evolved a set of priorities and rule sets that have emerged from their domestic or international constituencies rather than the policy priorities and laws and procedures of the country context at hand.
- v. The proliferation of the project, rather than systems, as the unit of delivery: The dominant mode of delivery is the project, each manifestation of which brings a long tail in administrative procedures, parallel bureaucracy, externally-managed project delivery units and timelines.
- vi. Lack of predictability and flexibility in resourcing: The aid system brings with it short term time horizons and lack of predictability.
- vii. Failure to design appropriate conditions or to measure progress or outcomes in an objective manner: There exist few standard measures that key actors agree to monitor jointly that would enable a common operating picture to be established within a country or compared across countries.
- viii. The poor use of technical assistance rather than an effective policy and capacity building process: While there are instances where people providing targeted knowledge and advice are essential to a development process, a substantial proportion of this assistance is misdirected, ill-utilized, and in many cases serves to substitute for rather than equip and support the national civil services.
- ix. Stove-piping across actors: Challenges across the broader international system include the stove-piping of policy response with the UN’s focus on political affairs, NATO’s focus on security issues, and the International Financial Institutions’ (IFIs) focus on finance.
- x. Substitution for core state functions: Direct substitution for the state is often driven by a dire situation that requires humanitarian intervention. Yet solutions meant for a short-term emergency often extend over years, and external agencies attempt to deliver services that are inherently governmental, standing in the way of the social contract between citizens and their state.

## **DEVELOPING AN OPERATIONAL MODEL FOR IMPLEMENTING THE NEW DEAL:**

Derived from analysis of the aforementioned issues, and the fiduciary requirements that need to be met, the ISE Team is working with country leaders and selected development partners and other partners to explore a number of questions including:

- i. How do development partners work with their country partners to read the country context correctly and define the problem hampering development?
- ii. What policies, protocols and rules of development assistance facilitate and hamper implementation of the New Deal?
- iii. How are compacts between development partners and country leaders best designed to support the development of functioning country systems?
- iv. What measures are best to track implementation, monitor results, and account for expenditures? What conditional incentives or penalties could be tied to results? What is the exit strategy for donor assistance as domestic revenues come on line?
- v. What changes to practices around capacity building would need to be made to build meaningful capacity in country institutions?
- vi. What supporting architecture of knowledge, know-how and skilled personnel can support the new model?

- vii. What are the right parameters for resource mobilization and partnerships to ensure the correct alignment of the new model?

The recommendations will take into account the operational features of the New Deal and include successful examples of practices. The operational framework will build on ISE's last decade of work, including its toolset, case studies, and analyses of successful transitions.

### **PREPARING A WHITE PAPER ON THE FINDINGS AND THE MODEL (ANTICIPATED RELEASE LATE 2018):**

This paper will set out the proposed parameters for the operational framework, including a set of preconditions for country engagement, together with accompanying reports on the country activities and a short brief on policy and legislative implications.

As Renegotiating the Terms of Aid is an ongoing project, ISE welcomes feedback and ideas from like-minded individuals and organizations as we seek to incorporate lessons learned to ensure we advance our goals.

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