

# Aid instruments for peace- and state-building: Putting the New Deal into practice



## Disclaimer

The booklet is a product of the g7+ secretariat and not individual member states. The views expressed in this paper are those of the authors and do not represent any official position of the g7+ or of contributory organisations.

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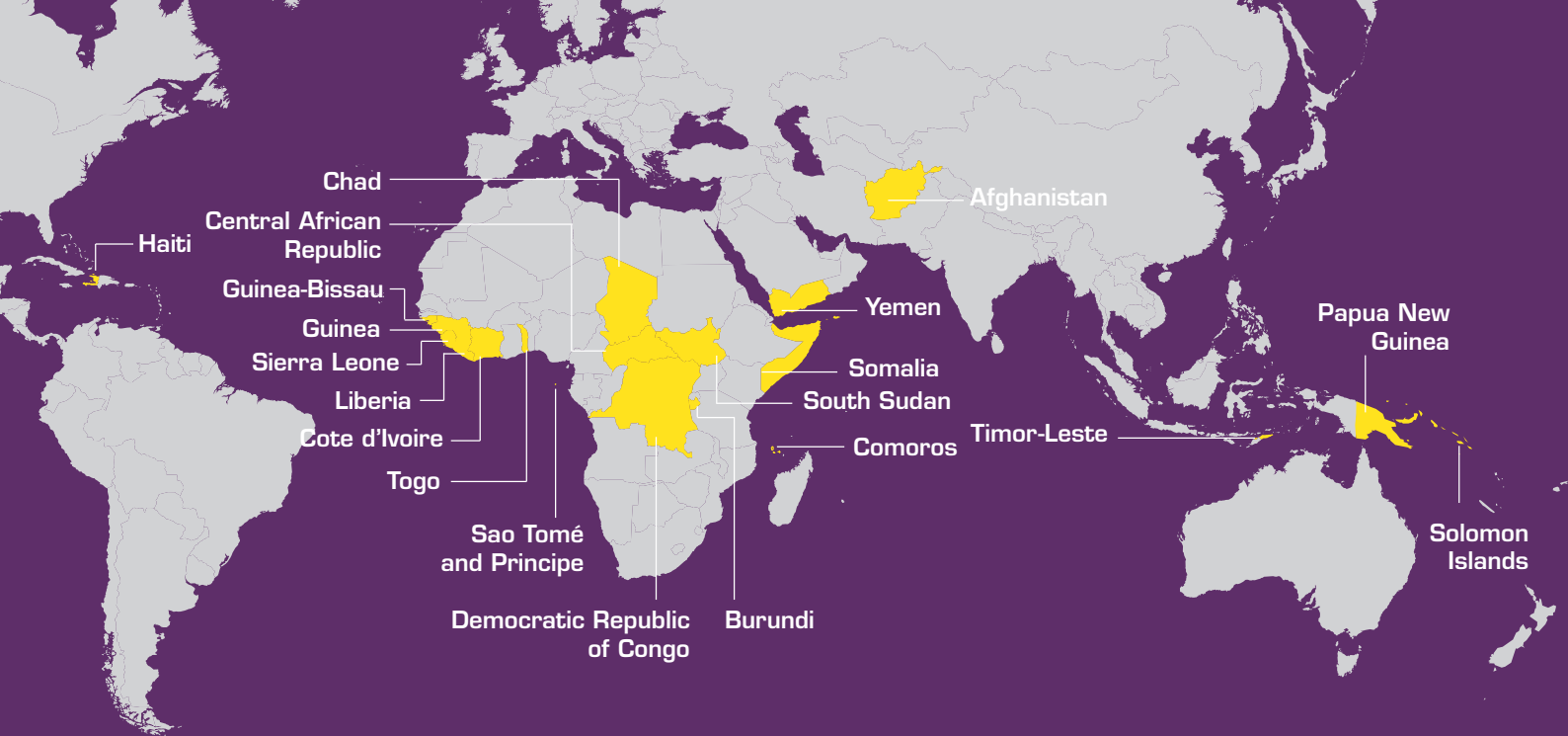
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## About the g7+

The g7+ is a voluntary association of countries that are or have been affected by conflict and are now in transition to the next stage of development. The main objective of the g7+ is to share experiences and learn from one another, and to advocate for reforms to the way the international community engages in fragile and conflict-affected states.

To find out more about the g7+ visit [www.g7plus.org](http://www.g7plus.org).



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## Overview

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## The New Deal and its implementation

In November 2011, at the 4th High Level Forum on Aid Effectiveness in Busan South Korea, the international community endorsed “A New Deal for Engagement in Fragile States”, an agreement advocated for by the g7+ group of conflicted affected countries and developed through the forum of the International Dialogue for Peacebuilding and Statebuilding. The New Deal aims to provide a framework to guide international cooperation to support countries affected by conflict and fragility. It does so by identifying principles and related commitments for action across three pillars, as detailed below:

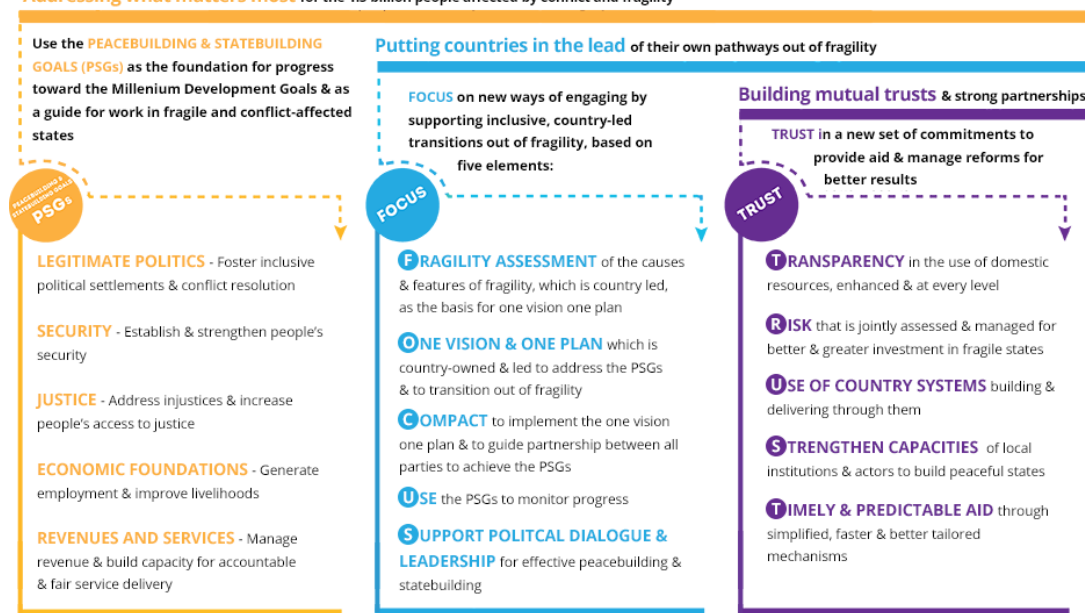
Important progress has been made in implementing the New Deal since its inception. Eleven fragility assessments have been conducted in eight countries; Somalia has adopted a national development plan based on the New Deal, which was also used to guide a donor pledging conference; and Sierra Leone has developed a mutual accountability framework. As reflected in the case studies presented in this report, progress has also been made in a number of countries at the level of individual programmes and instruments which are playing a strategic role in helping g7+ countries to progress from fragility to stability and development.

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## Box 1: New Deal Elements and principles

### THE NEW DEAL CREATES CHANGE BY...

Addressing what matters most for the 1.5 billion people affected by conflict and fragility



Despite this progress, g7+ countries report that in general the results achieved through the New Deal's implementation are far below what was expected at the signing of the New Deal in Busan. It is therefore clear that constraints have emerged which are holding back New Deal implementation, which may in turn be undermining confidence that the New Deal can deliver on its goals.

## The purpose and focus of the New Deal case studies

The case studies presented in this Report aim to contribute to efforts to address some of these challenges that have emerged in relation to pursuing implementation of the New Deal. They focus on a range of innovative aid programmes and instruments which are in line with the New Deal principles and commitments. Five of the case studies focus on programmes in individual countries, with an additional case study focussing on an aid instrument being implemented by one donor in a range of countries affected by conflict and fragility.

Each of these case studies presents an overview of the background and operations of the programme/ instrument being featured, the factors that facilitated its emergence, its impacts and the lessons learnt from its implementation. In presenting this analysis it

is hoped that these case studies will help to strengthen confidence in the New Deal as a vehicle for change and provide practical illustration for how its implementation can be taken forward by both development partners and g7+ member countries. This will in turn hopefully inspire development partners and g7+ members to work together more effectively to address the constraints relating to implementation of the New Deal.

**Overall, these case studies show that – from both a government and a development partner perspective – with political will and committed cooperation it is possible to develop innovative support modalities and programmes to support the New Deal principles, even in some of the most challenging development contexts. Furthermore, they illustrate that it is worth investing time and effort to take such initiatives forward as they can lead to more effective, country-owned and sustainable results.**

The table overleaf provides a brief overview of the programmes and instruments covered by these case studies.

The rest of this overview chapter presents 10 lessons which emerge out of these case studies, which can help to inform the efforts of development partners and g7+ members to take forward the New Deal and pursue more effective cooperation in fragile contexts:

### Key lessons for development partners



Lesson 1: Respond rapidly and flexibly to crises



Lesson 2: Align support with Government programmes, and use dialogue to strengthen collaboration on systems



Lesson 3: Develop long term partnerships and avoid stop-and-go approaches



Lesson 4: Pursue risk-sharing approaches which recognise the risk of inaction



Lesson 5: Recognise the role of multilateral organisations



Lesson 6: Make a particular effort to harmonise with others

### Key lessons for g7+ members



Lesson 7: Develop a clear set of strategic priorities to guide donors



Lesson 8: Progressively strengthen systems, so as to leverage their use by donors



Lesson 9: Understand and respond to donor political constraints with innovative solutions



Lesson 10: Make the New Deal principles more visible in dialogue with donors

Country	Name of programme / instrument	Development partners and funding levels	Activities and focus
Central African Republic	Ezingo Fund	As of November 2015, \$24m in funding had been disbursed to the Ezingo Fund, with contributions including: the US Government's Bureau of International Narcotics and Law Enforcement Affairs/INL (\$11.2m), the Government of the Netherlands (\$6.2m), the UN Peacebuilding Fund (\$4.6m), and the Government of Norway (\$2m).	<ul style="list-style-type: none"> <li>• Immediate Impact Projects</li> <li>• Short to medium term transitional strategic priorities in the short to medium term</li> <li>• Support to pursue Peacebuilding and State-building Goals through helping government provide basic services</li> </ul>
Liberia	Donor support to Government for health worker payments during the Ebola outbreak	World Bank (c\$20m), USAID (\$10m) and African Development Bank (\$4.5m)	<ul style="list-style-type: none"> <li>• Financing of the basic salaries of health workers (USAID)</li> <li>• Financing of hazard pay for health workers (AfDB and World Bank)</li> <li>• Help in curing the disruption of trust between government, health workers and citizens in this situation of crisis</li> </ul>
Somalia	The Special Financing Facility (SFF)	Government of Norway (\$30m was pledged)	<ul style="list-style-type: none"> <li>• Regular payment of civil service salaries</li> <li>• Direct Government delivery of simple development projects of value to local communities</li> </ul>
South Sudan	Donor support to Government service delivery (three projects – i) Local Governance and Service Delivery Program (World Bank); ii) Girls Education in South Sudan project (UK Government); iii) Budget Strengthening Initiative (UK Government)	GESS - £60m UK Government; LGSDP \$99m - World Bank; BSI – c£6m UK Government	<p>Focuses on three projects:</p> <ul style="list-style-type: none"> <li>• LGSDP – Supports counties through 4 components: i) Block grants for service delivery; ii) Community engagement; iii) Institutional strengthening, iv) Project management support</li> <li>• GESS – Four components: i) incentives to households to offset the cost of keeping girls in schools; ii) cash grants to schools to improve the learning environment; iii) mobilisation of parents and communities to retain girls in school and iv) behaviour change communication in collaboration with government, non-state and private sector actors</li> <li>• BSI – Acts as a semi-autonomous provider of advice to the Government, focussing mainly on: i) supporting public finance management reform; ii) support to the planning and budgeting process; and iii) efforts to improve aid coordination and develop aid modalities using Government systems</li> </ul>
Timor Leste	Donor support to the Ministry of Finance	Australian Government (\$16m) and the European Union (\$9.5m)	<ul style="list-style-type: none"> <li>• Financing to support the Ministry of Finance (MoF) to develop its capacity and improve performance (disbursements linked directly to performance indicators)</li> <li>• Technical assistance to strengthen MoF systems and improve performance</li> </ul>
Various	State-Building Contracts (SBCs)	The European Commission (€1.37bn disbursed to date to 15 countries)	<ul style="list-style-type: none"> <li>• Financing direct to Governments to deliver national programmes (with a portion of disbursements based on meeting performance conditions) and strengthen service delivery</li> <li>• Technical assistance to strengthen state systems and improve programme delivery</li> </ul>

# Key lessons for development partners

## Lesson 1: Respond rapidly and flexibly to crises



In fragile contexts where crises are a frequent challenge, these case studies show that political will from development partners to provide rapid and flexible support can be highly impactful, both developmentally and politically.

The [Somalia Special Financing Facility](#) was the first major donor programme to provide support directly to the Federal Government of Somalia (FGS). This programme began shortly after the FGS was formed (following the expiration of the mandate of the Transitional Federal Government). It was initiated in just 8 months and therefore played a critical role in supporting the FGS to project its authority and ability to deliver as it began to function. This outcome was in part facilitated by the flexibility shown by the SFF's funder – the Government of Norway (GoN) – in negotiations over the design of the SFF, in which it agreed to disburse funding directly through FGS institutions rather than through a financial mechanism co-managed by the GoN and the FGS as had been first proposed.

The [European Commission's \(EC's\) State Building Contracts \(SBCs\)](#) have been designed as instruments that can provide rapid support to countries dealing with crises. The characteristic is clearly illustrated by Mali's SBC, which was identified, designed, adopted and disbursed in just five months. This rapid response allowed the SBC to support the July 2013 election, which was vital to promoting stability in the country. The SBC also eased the budget constraint on the Government caused by the instability, allowing it cover its arrears to suppliers, expand planned spending and maintain basic functions.

The [Ezingo Fund in Central African Republic \(CAR\)](#) also provided a rapid response to the instability that emerged in CAR following the outbreak of fighting in 2012/13. A critical element of this response was the Ezingo Fund's support to pay the salaries of gendarmerie and police, to register members of the security services and to upgrade the barracks of the security services. This targeted and strategic response may have played an important role in avoiding a depletion of the security services, an outcome which would have led to a further deterioration in the security situation.

The [Liberia health worker support programmes](#) were initiated at a critical phase in the response to the Ebola outbreak. When these programmes began in September 2014 the number of Ebola cases in Liberia were increasing at their fastest rate, and analysis suggested that infection rates could accelerate (CDC 2014). In the end Ebola transmission rates peaked in that month and fell sharply thereafter. These programmes may therefore have been a critical part of this outcome. It is though important to note that in general the overall donor response to Ebola has been judged as slow (ODI 2015). The first cases of Ebola in Liberia were detected in March 2014, but these major donor programmes to support the Government to respond to the outbreak were not mobilised until many months later. It is possible that a quicker response to this crisis may have limited the impact of the Ebola outbreak on Liberia.



## Lesson 2: Align support with Government programmes, and use dialogue to strengthen collaboration on systems



The case studies illustrate how the alignment of donor support with government programmes can help to ensure that systemic challenges are addressed, that local ownership is promoted and that sustainable impacts can be achieved. They also show that an open dialogue with governments on systems can help to strengthen collaboration on the challenges to be addressed in using them.

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The Liberia health worker support programmes were delivered directly through the Government of Liberia's health systems, which not only helped to support the Government's response to Ebola, but also to ensure that longer term impacts were achieved in terms of strengthening these systems. This point is best illustrated by USAID's financing of health worker salaries, which was made conditional on formalising the health worker payment system and the auditing of payments. This approach led to ghost workers being removed from health worker payrolls and improved systems for processing health worker payments, outcomes which will help this system to function better in the future.

The Australian Government's support to the Ministry of Finance (MoF) in Timor-Leste has involved providing direct financing to the MoF on the basis of its achievement of performance targets. These resources can then be used flexibly by the MoF to support further improvements to its systems and efforts to strengthen performance. This form of financing has allowed Timor-Leste's MoF to take a lead in contracting systems strengthening support and to take stronger ownership of this process.

Making progress in supporting national programmes and systems does though require open dialogue with governments, so as to identify and address constraints and find mutually acceptable approaches. This point is best illustrated by the experience of the donor programmes supporting Government service delivery in South Sudan. Following independence, the Government of South Sudan called on donors to utilise budget support for the delivery of aid. However, through their dialogue with the Government, donors made it clear that while they were not ready to provide aid in this way, they could consider supporting alternative aid instruments which engaged directly with Government systems. This outcome helped to open up space for work to develop such instruments to begin, although the oil shutdown and outbreak of conflict eventually led donors to take a step back from delivering aid through these instruments.



## Lesson 3: Develop long term partnerships and avoid stop-and-go approaches

The case studies illustrate that the development of long term partnerships between donors and Governments can be critical to achieving progress in fragile states, and that stop-and-go approaches can undermine the impacts of such cooperation.



A number of major political crises emerged during the course of implementing the donor programmes supporting Government service delivery in South Sudan, including the dispute over oil transit payments with Sudan in 2012 (which led to the suspension of oil production) and the outbreak of civil conflict late 2013. Despite these crises, donor cooperation to support Government education and other services was maintained, albeit on the basis of evolving its focus away from developing aid instruments to a focus on strengthening service delivery systems. As a result of this cooperation, the Government of South Sudan was able to make significant progress in developing its service delivery systems and in expanding access to services in regions less affected by the conflict during this challenging period

By providing significant levels of financing directly to the budgets of Governments, the EU's State Building Contracts (SBCs) provide an opportunity for donors to engage in high-level dialogue with recipient Governments around systemic challenges, thereby helping to promote sustained cooperation. The SBC in Mali provides an illustration of this point and the potential benefits that can emerge. During implementation of Mali's first SBC, issues emerged relating to problematic procurement contracts and the purchase of a Presidential airplane. The EU led the donor response to these issues,

and through dialogue with the Government helped to secure its agreement to cancel some of the exceptional contracts and strengthen procurement regulations. This type of solution would not have been possible without high level commitment to a long-term programme of engagement by the EU.

Although the Somalia Special Financing Facility made a vital contribution to financing civil service salaries and supporting important small-scale development projects, its implementation was characterised by significant delays to payments for these activities. These delays were partly caused by the practical challenge of finding a viable banking route for transferring payments to the Central Bank of Somalia (a Somali Government demand) in a way that satisfied Norway's concerns relating to anti-money laundering compliance. However, a major contributing factor was a weakening of political support for the SFF from the Government of Norway (exacerbated by a change in Government and the failure of other donors to share the burden of risk in supporting the SFF). This stop-and-go approach to implementing the SFF resulted in civil service salaries going unpaid for a month and significant delays to the initiation of the development projects. These impacts in turn were reported to have undermined the reputation of the functioning of the FGS.

## Lesson 4: Pursue risk-sharing approaches



Ensuring that the risk analysis of donors incorporates an understanding of the risks that partner countries face from the non-intervention of donors can help to facilitate a more comprehensive approach to risk and secure donor support to fragile states.

The EC's *State-Building Contracts* represent one of the most advanced and ambitious efforts across donors to share risks with country partners in the provision of aid. In the process of making decisions on the deployment of SBCs, the EC and the EU member states explicitly recognise the risks resulting from non-intervention (i.e. how the country will be affected by a decision not to provide aid) alongside those relating to their provision of support. This approach to assessing risk has facilitated the approval of SBCs to fifteen fragile states (totalling €1.37 billion in funding) since 2013, and led to SBCs emerging as a significant channel of external funding for many of these countries in recent years.

The risks that were facing Liberia from a breakdown in state health services during the 2013/14 Ebola outbreak were reported to have been the major factor which helped to secure support from AfDB, USAID and the World Bank to provide support for employing Government health workers. In the case of USAID, appreciation of these risks facilitated an unprecedented (certainly in its recent history) commitment to finance the basic salaries of health workers.

## Lesson 5: Recognise the role of multilateral organisations



Multilateral organisations have been prominent in supporting the programmes and instruments addressed by these case studies, helped by their strengths in working in fragile contexts and their role in helping donors to manage political risks involved in providing aid in challenging contexts.

The EC's *State Building Contracts* have been developed and scaled up in a context in which European member states (MSs) have been cutting budget support. This trend suggests that EU MSs value the EC's capacity for delivery in fragile states, its political role in engaging with Governments and its ability to insulate them from the risks involved in providing budget support.

The *Ezingo Fund* in CAR is managed by UNDP, which has extensive experience in managing trust funds in fragile

states. UNDP's role in implementing and overseeing this fund will therefore have been critical in attracting donor support to this Fund.

The World Bank has extensive experience of working in Liberia and a strong country presence. This experience and capacity was reported to have been important in supporting it to play a role in the dialogue between health workers and the Government over hazard pay scales and delivery channels.

## Lesson 6 : Donors harmonization and efficiency in executing aid

Collective provision by donors of aid to countries affected by conflict and fragility can help to leverage the impact of aid programs, with specialised pooled funds also able to make an important contribution and promote harmonization.



The EC's State-Building Contracts have allowed rapid provision of large volumes of support to countries in crisis, an outcome which would be unlikely to have been achieved had individual European Government pursued their own programmes of support. Collective support from EU member states also helped the EC to generate the leverage it required to elicit a response by the Malian Government to concerns about irregularities in procurement contracts and the purchase of a Presidential jet during the course of the SBCs implementation.

The Ezingo Fund in CAR helped to mobilise a coordinated response to addressing concerns about the morale and strength of the security services, and benefitted from UNDP's strong presence on the ground which bilateral agencies would have struggled to match.

# Key lessons for g7+ partners

## Lesson 7: Develop a clear set of strategic priorities to guide donors



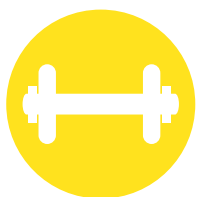
Where countries have developed strong and coherent strategic approaches to their cooperation with donors, this can help to secure donor commitment to respond to their priorities.

The Government of Timor-Leste has been working for a number of years to secure commitment from its donors to strengthen the role of Government ministries in managing technical assistance. This strategic focus may have helped to secure commitment from the Australian Government to deliver funding for strengthening Timor-Leste's Ministry of Finance through the MoF's systems.

The President of the FGS was reported to have been able to secure commitment from the Government of Norway to fund the [Somalia Special Financing Facility](#) through national institutions partly on the basis of a clear strategic emphasis on the importance of donor support promoting the authority and credibility of the FGS.

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## Lesson 8: Progressively strengthen systems, so as to leverage their use by donors



Sustained and committed efforts from Governments to strengthen their systems can help to leverage their use by donors

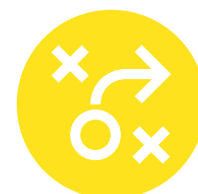
The case study on the Government of Australia's support to the Ministry of Finance in Timor Leste suggests that this funding was secured largely on the basis of significant improvements in the MoF's systems, which helped to reduce the inherent fiduciary, developmental and reputational risks in providing financing directly to the MoF's budget.

USAID reported that its willingness to provide support for Government health workers salaries in Liberia in response to Ebola was facilitated in part by recent progress the Government of Liberia has made in pursuing civil service reform.

It therefore appears from our case studies that where governments are able to make a visible effort to invest in their own long-term capacity, donor staff are more able to argue for increased use of country systems.

## Lesson 9: Understand and respond to donor political constraints

The period since the New Deal was adopted has seen aid budgets cut and come under increased scrutiny in many OECD countries, affecting the willingness of donors to take risks. The case studies therefore suggest that it is important for g7+ members to recognise these political constraints in their dialogue with donors, so that mutually beneficial approaches for cooperation can be identified.



In working with donor programmes supporting service delivery in South Sudan the Government has had to adjust its demand for budget support to respond to the resistance of donors to provide this form of aid to the country. The Government of South Sudan has instead been working to secure commitment from donors to work through alternative aid instruments which use country systems but apply stronger safeguards to satisfy donors.

Similarly, the Government of Timor-Leste has been able to secure commitment from the Government of Australia (GoA) for flexible financing to support the strengthening of the Ministry of Finance on the basis of agreeing to adopt a performance-based model. Such an approach helps to satisfy the GoA's interests in better scrutinising aid programmes and reporting on their impacts to its own institutions.

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## Lesson 10: Make the New Deal more visible in dialogue with donors

The case studies suggest that the New Deal can be a critical tool for helping to secure donor support in fragile contexts, but that g7+ members could be doing more to make this agreement visible in their dialogue with donors.



The President of the FGS was reported to have also used the New Deal principles to leverage commitment from donors to fund Somalia's Special Financing Facility through national institutions.

The case study on Timor Leste also found that the New Deal language and principles helped to facilitate dialogue and agreement on the provision of budget support to the Ministry of Finance in Timor-Leste from the Government of Australia. The leverage the New Deal provided was strengthened by existing high level commitment from the Government of Australia to this agreement.

Liberia's Ebola recovery plan doesn't explicitly mention the New Deal, but is consistent with many of the New Deal principles (especially the focus on economic recovery - PSG 4) and may well have been inspired by these principles. It was though reported that the Government of Liberia could have done more to explicitly make the New Deal commitments visible and a tool for leverage in its dialogue with donors regarding the response to Ebola.

## Conclusion



The New Deal is still a highly relevant approach. While the principles of New Deal have been empirically proved to be valid, this case study has attempted to further collect the evidences it has produced in the early days of its implementation in g7+ countries. The world is presently faced with trying to respond to a number of complex fragility and conflict situations, which require innovative approaches and instruments not a continuation of the old “humanitarian” and “development” approaches. It is hoped that this booklet highlights examples of such responses which have already emerged, and will therefore inspire further efforts to engage in / with fragile and conflict-affected states in this way.



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