



**DEVELOPMENT CO-OPERATION DIRECTORATE
DEVELOPMENT ASSISTANCE COMMITTEE**

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POOR PERFORMERS: BASIC APPROACHES FOR SUPPORTING DEVELOPMENT IN DIFFICULT PARTNERSHIPS

(Note by the Secretariat)

This note is submitted to stimulate DISCUSSION at the DAC Senior Level Meeting on 12-13 December 2001, under agenda item 2.

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POOR PERFORMERS: BASIC APPROACHES FOR SUPPORTING DEVELOPMENT IN DIFFICULT PARTNERSHIPS

EXECUTIVE SUMMARY

1. The DAC's focus on a partnership model which the partner country government steers has led to increasing attention to the issue of what to do in countries where this model does not fit. What can donor agencies do in situations where this partnership model, and in particular the role played by the government, does not seem likely to lead to effective use of aid? This is a topic relevant to essentially all DAC guidance and working groups. DAC-related discussions in 2001 have included an experts' seminar in January on "Aid Effectiveness, Selectivity and Poor Performers" (in collaboration with the Development Centre); a forum on elusive partnerships in April focusing on "Working in countries with poor policy and governance environments"; and a discussion on "Poor Performers" at the April High Level Meeting (HLM).

2. The April HLM meeting asked that further work be done on this topic for the December 2001 Senior Level Meeting. As a result, the DAC Network on Good Governance and Capacity Development (GOVNET) was then tasked to produce the current paper, in co-ordination with the DAC Networks on Conflict, Peace and Development (CPDC) and Poverty Reduction (POVNET), and the Working Party on Aid Evaluation (WP-EV).

Purpose

3. In keeping with the objective of the HLM request and the discussions at earlier meetings, this paper focuses on a definition of "poor performers" which is particularly relevant to the DAC work – i.e. on difficult partnerships where the usual DAC country-led model does not apply rather than on cases where government efforts are good but capacity is weak or outcomes poor.

4. It focuses on the active role donors can play in these difficult circumstances to: ensure that development assistance continues to reach the poor; remains effective as much as feasible, even where government-to-government aid is curtailed; and, importantly, helps to build the conditions for moving out of a "difficult partnership" situation to one of country-led poverty reduction. It addresses how development agencies might work to improve a "difficult partnership" situation with a key player, the government, as well as with civil society organisations.

5. In cases where the partner government is making its best efforts at taking the lead and performance, in the sense of outcomes, is country-led but weak, the DAC partnership model still applies in general. The issue is how best to assist that country in its efforts to address capacity, policy and outcomes. Almost all cases of "difficult partnerships" are compounded by weak capacity – not only in the public sector. This note considers what can be done in such cases, where weak capacity is an aggravating factor of a "difficult partnership".

6. From the donor perspective, “difficult partnerships” arise where development objectives play little role compared with prolongation of power, with the result that partner governments do not have credible commitment to effective policies and their implementation. Genuine participatory development is fundamentally compromised. Corruption and political repression, among other characteristics, are commonly associated with such regimes. The partnership cannot function properly according to this DAC partnership model, because of the lack of the key elements of ownership and commitment. As a result, donors are reluctant to maintain a full government-to-government relationship or to base their assistance on partner development frameworks. Thus, for example, “difficult partnership” countries would generally not qualify for donor-supported PRSPs.

7. At the HLM it was clear that “it is important to support the poor in countries with severe governance problems, including conflict-prone countries”.¹ There are options, which vary with the context and country, for maintaining support for economic and social development, and good governance. These options include the involvement of civil society among other steps to address the underlying issues that lead to difficult partnerships. In some cases, agencies need pragmatically to focus on shorter-term progress while at the same time taking steps to build longer-term capacity. An example would be recruiting members of the diaspora to return home to help improve key public sector programs while domestic institutions are being rebuilt.

8. Possible ways of nurturing the conditions in countries that are expected to lead to more pro-poor commitment and more effective partnerships include the following.

A. *Promoting pro-poor change*

- There are no simple rules or dividing lines that distinguish difficult partnerships, although this paper notes the most common underlying factors. While agencies should analyse the extent and severity of such problems in a given country, ultimately, they need to determine, in close co-ordination and based on intensive on-the-ground experience, where the DAC’s usual country-led approach generally does not apply. In making this judgement they should pay close attention to assessing commitment and partnership potential, taking a medium-term perspective and emphasising trends rather than absolute standards.
- In maintaining support to development, donors should involve change advocates from both inside and outside the state, involving actors such as parliamentarians, judges, the media, professional associations, trade unions etc. Civil society, despite the weaknesses it faces in such situations, can play a key role in filling the gap between government and the population. When it is not possible to engage with the central government, it may be feasible in some cases to work with sub-national government structures, as well as with civil society, to provide short-term support for poverty reduction and to support agents for change. The private sector can also play a constructive role, regarding employment, direct provision of social services, and revenue mobilisation.
- However, the necessary change options require time, and some of the most powerful influences may well be intergenerational. There are major development penalties from entirely withdrawing from a country. Agencies need to carefully consider the costs of disengaging in terms of heightened risks for further destabilisation, increased violence and long-lasting consequences for the civilian population. In addition, there are intergenerational consequences if education and health systems fall apart, as well as

1 DAC High Level Meeting Policy Statement on Poverty Reduction “Rising to the Global Challenge: Partnership for Reducing World Poverty”, Paris 25-26 April 2001 [DCD/DAC(2001)3/FINAL].

possible worsening of conflict dynamics and negative environmental consequences. But the modalities for engagement need to be assessed in each case.

B. Maintaining development activities in support of the poor

- Maintaining dialogue with governments in a difficult development partnership situation – even in the most difficult cases – is vital. It can help promote change, which will eventually lead to pro-poor policies and help prevent the sense of isolation and despair that may provide a fertile breeding ground for conflict, extremism and terrorism. This does not mean that all donors need to stay involved, or work at the same level of intensity, in any given situation. Rather donors should co-ordinate closely on these issues.
- Donors are aware that aid is less effective in countries with a poor policy environment. When considering allocations to difficult partnership countries, agencies should keep in mind the opportunity costs on the margin measured by poverty reduction foregone in countries that use aid effectively. Nonetheless, in some cases difficult partnerships require significantly more aid than efficiency criteria alone would suggest, for example to help prevent conflict or state collapse.
- In selecting aid instruments, donors need to remain flexible and focus on the poverty reduction outcome, for example, supporting basic health and education through local government in some areas of a difficult partnership country and through NGOs in other areas.

C. Adapting donor co-ordination and enhancing policy coherence

- Donor co-ordination is key to improving difficult partnerships. Often, ad-hoc steps need to be taken when usual aid co-ordination mechanisms and similar fora do not exist or have been suspended. Effective co-ordination requires more efforts in: sharing analysis; building common criteria for assessment; agreeing on the most appropriate conditions for engagement; tasking focal lead agencies; and building on the comparative advantages of both bilateral and multilateral agencies. Co-ordination on difficult partnerships needs to take account of regional dimensions, including spillover to neighbouring countries, or opportunities for constructive participation of regional organisations.
- All policy instruments (e.g. foreign policy, trade, investment, environment, drug control and national security issues, arms exports, etc.) need to be taken into account so as to ensure greater coherence of relations with countries in difficult partnerships.

Areas for further DAC work might be made in:

A. Donor co-ordination

- Reviewing mechanisms for ongoing sharing of assessments and information regarding difficult partnerships, especially where formal co-ordination mechanisms do not exist or have lapsed and regional dimensions are important.
- The World Bank Group has set up a task force on assistance to poor performing low-income countries. The Secretariat is in contact with the task force and would coordinate closely with its members on future work.

- Building on existing country case studies, examples of best practices could be developed for donor co-ordination in situations of difficult partnerships. This would require continued collaboration between the concerned DAC subsidiary bodies: the DAC Networks on Good Governance and Capacity Development (GOVNET), Conflict, Peace and Development (CPDC), Poverty Reduction (POVNET), and the Working Party on Aid Evaluation (WP-EV).

B. Evaluation strategies and instruments

- Donor agency experience of operating in difficult partnerships has not yet been sufficiently evaluated from the perspective of strengthening partnerships and maintaining development effectiveness. This review of experience could be conducted in collaboration with the Working Party on Aid Evaluation (WP-EV). It would draw on case studies of donors' experiences, positive and negative, with difficult partnerships, as well as existing evaluations. It would extract commonalities that relate to relative success or failure of different types of interventions. It would consider the long-term role of OECD countries in terms of policy coherence and donor co-ordination such as factors that increase chances of success of non-governmental organisations' (NGO) projects in service delivery or of the sustainability of institutional strengthening in the public sector.

BACKGROUND

I. Introduction

A. Rationale

1. The DAC's focus on a partnership model which the partner country government steers has led to increasing attention to the issue of what to do in countries where this model does not fit. What can donor agencies do in situations where this partnership model, and in particular the role played by the government, does not seem likely to lead to effective use of aid? This is a topic relevant to essentially all DAC guidance and working groups. DAC-related discussions in 2001 have included an experts' seminar in January on "Aid Effectiveness, Selectivity and Poor Performers" (in collaboration with the Development Centre); a forum on elusive partnerships in April focusing on "Working in countries with poor policy and governance environments"; and a discussion on "Poor Performers" at the April High Level Meeting (HLM).

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B. Purpose

3. In keeping with the objective of the HLM request and the discussions at earlier meetings, this paper focuses on a definition of "poor performers" which is particularly relevant to the DAC work – i.e. on difficult partnerships where the usual DAC country-led model does not apply rather than on cases where government efforts are good but capacity is weak or outcomes poor.

4. This paper then identifies how development agencies might work to improve a difficult partnership with a key player – namely the government – while maintaining development support for poor people in these situations. In particular the paper attempts to address the following questions:

- What has the DAC concluded about the nature of difficult partnerships and the strategies that development agencies might adopt?
- How can we promote pro-poor change in difficult partnerships?
- How should poor performance affect aid allocations?
- How can we maintain some form of development assistance in difficult partnerships so that it benefits poor people and remains effective?
- How should we adapt arrangements to co-ordinate our approaches to difficult partnerships?
- What further work could the DAC usefully commission that would improve understanding of these issues?

C. *Approach*

5. The work has been guided by a Steering Group, led by the Chair of GOVNET, consisting of the Chairs of the DAC working groups on conflict (CPDC), evaluation (WP-EV) and poverty (POVNET) as well as members of the Secretariat.

6. This paper builds on a study carried out by a consultant between July and October 2001. That study reviewed recent material from the DAC and its members, and drew on interviews with key informants in bilateral development agencies, some multilateral organisations, NGOs and research institutes. This paper has been drafted jointly by the Secretariat and the Chair of the GOVNET, and reviewed by the Steering Group. It has also been revised on the basis of comments received by DAC Members.

II. **Defining poor performers**

7. As noted, we distinguish “difficult partnerships” from cases where the partner government is making its best efforts but “performance”, in the sense of outcomes, is weak. In this latter case the DAC partnership model still applies in general; the issue in such cases is not partner country leadership but how best to assist that country in its efforts to address issues of capacity, policy and outcomes. This case of reasonable partnership but weak capacity may arise, for example, when a new, reform-oriented government, succeeds one that left behind very weak public sector and civil society institutions. We do not consider such cases in this note. But almost all cases of “difficult partnerships” are compounded by weak capacity, so this note covers what can be done to improve capacity – not only in the public sector – in such cases.

8. From the donor perspective, “difficult partnerships” arise where development objectives play little role compared with prolongation of power, with the result that partner governments do not have credible commitment to effective policies and their implementation. Genuine participatory development is fundamentally compromised as corruption and political repression are commonly associated with such regimes (see below para. 14 for fuller list of factors associated with difficult partnerships). In the case of “difficult partnerships” the key elements of ownership and commitment are missing so the partnership cannot function properly according to this DAC partnership model. As a result, donors are reluctant to maintain a full government-to-government relationship or to base their assistance on partner development frameworks. Thus for example, “difficult partnership” countries would generally not qualify for donor-supported Poverty Reduction Strategy Papers – PRSPs – and related poverty reduction strategies, which are strategic for translating the Millennium Development Goals (MDGs) into policy and action. In its April 2001 statement on poverty reduction, the HLM recognised that:

“Development co-operation will support goals and priorities as set out in national strategies for sustainable poverty reduction, which should be country-driven, participatory, comprehensive and results-oriented. To ensure ownership and sustainability, the development community should be moving from agency-driven to country-led activities, creating space for partnership through integrated programme, project and sector-wide support. Key priorities for supporting the implementation of partner strategies include resources for capacity building, institutional reform and broad participation of local partners.”²

2 Ibid.

9. The partnership model set out in the *Shaping the 21st Century* strategy highlights the key principles and elements necessary for the relationships between donor and developing countries to be partnerships. Actors playing a role in partnerships include governments, civil society organisations, the private sector, and other non-state actors. Based on these principles, partners should discuss and agree to a division of labour, mutual expectations of various actors, and responsibilities.

10. In the case of “difficult partnership” situations, the key elements of ownership and commitment are missing, so that the partnership cannot function properly according to this DAC partnership model. DAC statements are clear that “it is important to support the poor in countries with severe governance problems, including conflict-prone countries”.³

III. Responding to difficult partnerships

11. For those considered as “difficult partnership” countries, there are three priority areas identified as a result of the work and discussions conducted to date:

- Promoting pro-poor change.
- Maintaining development activities in support of the poor.
- Adapting donor co-ordination and enhancing policy coherence.

A. *Promoting pro-poor change*

i) *Understanding commitment*

12. Where governments lack commitment, promoting a partnership that is more responsive to pro-poor agendas is likely to involve long-term and structural influences as well as more short-term and contingent factors. So while government leaders are clearly important, and their individual motivation and the policies they pursue can make a crucial difference, their values, incentives and room for manoeuvre will have been shaped by the context in which they operate. Their options are substantially constrained both by their limited resources and by expectations amongst their supporters and more widely in the society about what is legitimate behaviour.

13. However, lack of representativeness, responsiveness and accountability by government and by political élites to the concerns of the poor, are a key dimension of poor governance that underlie “difficult partnerships”. A government which felt itself committed to poverty reduction, but which represented only one group in a polarised society (based on ethnic, religious or other forms of identity), or which otherwise did not have broad legitimacy, might still be judged by donors as a “difficult partnership” case. Its lack of capacity to govern is different from how the term “capacity” is used elsewhere in this note. Donor action in promoting better governance, favouring the creation of conditions conducive to pro-poor reform and encouraging change processes is particularly important even in the most difficult contexts.

ii) *Assessing partnership potential*

14. Relationships between donors and partner countries do not divide themselves neatly into difficult and strong partnerships. Rather it is a spectrum. Development agencies find some element of fragility in many of their development partnerships, with important differences across sectors and over time. The

3 Ibid.

Forum on “Elusive Partnerships” stressed that the complexity of “the cases of poor policy and governance environments... deriving from a broad range of structural causes” makes it “problematic to categorise them”. However, participants agreed on “a number of common characteristics... the most striking of these being that many were countries in or just emerging from conflict. Other characteristics include: serious corruption; lack of transparency; and severe human rights violations, often associated with repression of minorities”.⁴ These factors relate to governance matters, whether linked to the structure of power, lack of participation and voice particularly by minorities, lack of transparency and accountability, exclusions or violations of human rights. While these are all contributing factors, further work is required to identify the key determinants. Some of them impact both on commitment and on capacity. Ultimately, it requires careful consideration, based on on-the-ground experience and close co-ordination among donors. A notable case where this is now being done is on donor judgements on countries that would qualify for Heavily Indebted Poor Countries (HIPC) treatment, regarding whether the country is considered eligible for an “Interim PRSP”.

15. The key consideration for development agencies should be whether the partner government has the commitment to engage in partnership. In making this judgement, the crucial factor is the effectiveness of institutions and their policies for poverty reduction. This judgement would take account of the initial situation from which a developing country was assessed and identify the trend in the development of its policies and institutions over the medium term. Such assessments should cover past performance, current policies, and commitment for the future and the political capability to deliver.

16. Where these assessments point to a positive trajectory, DAC partnership in support of country leadership in poverty-focussed development becomes increasingly viable, even though the course may not be smooth. Where such assessments reveal a disappointing trend in policies and institutional development and a lack of commitment from the government, development agencies may choose to reduce the volume or flexibility of government-to-government aid and to look for other ways of encouraging change.

iii) Incentives for change: the conditionality approach

17. There has been much debate on the effects of conditionality. Recent evidence, including particularly in the World Bank study “Aid and Reform in Africa”, suggests that it works only where there is internal ownership of the conditionality by reformers who are in a position to use it to advance their reform programmes. This is generally the opposite of the case in “difficult partnerships”. Here, with lack of commitment, odds of success of conditionality are extremely low. Moreover, the record in countries like the former Zaire shows that when there is lack of commitment at the top, even impressive-sounding agreements for reform are unlikely to result in any lasting change.

iv) Working for better pro-poor partnership

18. Because lack of political commitment to partnership and poverty reduction is related to long-term structural issues and weak social and economic development, development agencies should if at all possible maintain some support for development. This support should aim to reach rather than abandon the poor because of weak governance. It should where feasible also try to directly or indirectly address the roots of the performance problem. Thus, where development agencies seek to encourage economic and social change, they should try to do so in ways that involve change advocates in civil society and potentially reformist political actors and forces.

4 “Forum on Elusive Partnerships: Working in Countries with Poor Policy and Governance Environments, Paris, 5-6 April 2001” [DCD/DAC(2001)13].

19. Clearly there are limitations and risks to what can be achieved in promoting development – economic, social, environmental and political – when governance is weak and the political context is unfavourable. But development agencies should not overlook other medium-term change agents that may work only over a generation. The most powerful of these intergenerational changes is education and especially the literacy of women. This engenders not only greater understanding, but also the confidence to participate in political discussion and in policy formulation and implementation. Such participation can change the nature of politics. It may be legitimate to work even with an unacceptable regime on such intergenerational change in order to contribute over time both to poverty reduction and to building conditions for better governance.

20. The difficulties in the short term of engaging with economic and social development where the political environment is unfavourable underline the benefits of governance reform where such action is allowed politically and is technically feasible. The structure of formal political institutions and how they work is important. There is a role for development agencies to nurture actors from both inside and outside the state who can have influence. Even in difficult contexts, there are cases of: parliamentarians who join together to make their committees hold governments to account; judges who band together to secure greater independence for the judiciary and to raise standards of integrity; political parties which agree on rules for engagement during elections; the media which publish stories of high-level corruption; professional associations and trade unions which denounce abuses etc. Such examples need to be encouraged even if governments and leaders seem reluctant to move forward in response to these forces initially.

21. There is a need for further work to understand how societies nurture political participation necessary to promote the elaboration, adoption and implementation of pro-poor policies. In situations of difficult partnerships, civil society organisations often face problems of weak capacity, legitimacy and representativeness. However, civil society is clearly a key arena because it can fill the gap between government and people. This is not just an issue about the supply side – which involves developing capacity in advocacy NGOs, trade unions and professional associations. It also concerns the responsiveness of those in government and the links between government and civil society. The private sector can also play a constructive role, regarding employment, direct provision of social services, and revenue mobilisation.

22. A constructive engagement in difficult situations comprises risks related to potential indirect support to the regimes donors are trying to work around. However political leaders, policy reformers and other elite groups can play a decisive role. They are likely to have multiple interests and may be persuaded to make new trade-offs between personal and public, and short and long-term interests. The prospects for involvement by elites in the interests of the poor may increase when the benefits of poverty reduction are framed in terms of public goods, such as greater security and less disease, from which they also benefit. Elites will be influenced by ideas especially when they grow out of their educational background. As examples, during the Pinochet regime in Chile, the Canadian International Development Agency (CIDA) provided scholarships to selected individuals to enable them to study abroad. The first post-Pinochet government had eleven ministers who had benefited from these scholarships. Similarly the scholarships offered to Black South Africans during Apartheid were instrumental in preparing African National Congress (ANC) politicians and officials for government, and contributed to the skill and speed with which the new ANC Government defined its strategies.

23. New forces for change are arising from globalisation. These include the wider and faster dissemination of information, ideas, opinions and learning. Other incentives include the potential benefits from meeting the entry requirements of regional economic blocs, or from creating the enabling governance environment required for investment.

B. *Maintaining development activities in support of the poor*

24. In parallel with promoting change, development agencies have attempted to maintain development support even where they feel unable to provide aid on a government-to-government basis. This section explores the possibilities that exist.

i) Engaging with government

25. There are substantial disadvantages in withdrawing from policy dialogue and development programmes with government. If development agencies are unable to support the state in some, at least, of its unique and vital roles, the consequences are that development efforts will influence policy less directly; the scale of engagement may be reduced because of a lack of suitable partners, higher transaction costs and other obstacles; and investments in capital and skills may be less sustainable. But development agencies should also take a view in each case on the extent to which government-to-government aid offers moral or practical encouragement, albeit inadvertently, to unacceptable regimes or, will prove worthless because of other failings in the state.

26. Even in extreme cases where government-to-government is halted, complete isolation because of a difficult partnership with central government may play into the hands of unrepresentative or self-excluding regimes. This could in turn, lead to a worsening of the internal situation, including environmental degradation, to increasing tensions and possible eruption of violent conflict, and risking inappropriate actions that could destabilise neighbouring countries or contribute to terrorism. Thus it is important that one or more development agencies maintain a dialogue with government.

27. Dialogue should be supported by aid that focuses on the development of ideas, approaches and coalitions, which can take root - even in difficult political and policy contexts. Emphasis should be on reformers and those parts of government that support poverty reduction policies and retain some capability.

28. In some cases development agencies may prefer to engage at the sub-national level with local administrations to reach out to the poor in difficult partnerships without directly dealing with central governments. However, some of the obstacles met in engaging with national governments apply to sub-national administrations as well. Even in those cases donors should promote pro-poor change through nurturing the forces that can influence the underlying rules of the game and institutional setting. Alongside encouraging longer-term processes, there are other means of maintaining aid in such difficult partnership situations by focusing on identifying those state and non-state actors that can deliver better outcomes for poor people over the short-term. It should be possible to go beyond humanitarian aid even if traditional capacity building is difficult. In such circumstances, more pragmatic approaches may prove successful. For example, in some post-conflict countries, development agencies have focused their efforts on filling key posts in government with appropriate skilled members of the country's diaspora. The result has been a rapid improvement in the quality of government. Provided such policies are affordable, they can lead to valuable outcomes even if they are not sustainable.

ii) Levels of aid allocations

29. Aid should be used effectively, because it is scarce and because effectiveness is necessary to maintain and build public support. This suggests that more aid should go where it will reduce poverty more, and that all poor countries should get something, balancing their needs against likely effectiveness. Aid is less effective in countries with a poor policy environment, but in some cases of difficult partnership, even more so where there are externalities for neighbours or donors, allocations often need to be higher than would otherwise be the case. For example, preventing conflict has significant benefits for the country

concerned as well as for neighbours and the international community in general. These benefits include mitigation of worsening of poverty and weakening of the social fabric that binds society together, as well as of factors impacting on conflict dynamics and domestic stability. Even in the case of rogue states donors need to consider the level of assistance justified to address the humanitarian needs of people living in poverty – taking account, though, of how their assistance may be diverted or misused.

30. Thus it is not possible to say *ex ante* whether aid from a particular donor, or even aid in general, should go down in a given year when a country becomes a “difficult partner”. However agencies should keep in mind when considering allocations to difficult partnerships the opportunity costs on the margin measured by poverty reduction foregone in countries that use aid effectively. Overall, allocations to difficult partnerships should not be so large that the broad principle of using aid effectively for poverty reduction is not seriously compromised, and should be additional in cases where large amounts are involved. Timely constructive engagement and dialogue may not necessarily require extra financial resources.

iii) Choice of aid instruments

31. With difficult partnerships, development agencies require flexibility in the choice of instruments while remaining focused on key poverty reducing outcomes. Agencies have adopted graduated responses to difficult partnerships by adjusting their choice of aid instruments to reflect their confidence in their development partner.⁵ For example, the use of budgetary support and sectoral aid would in general not be appropriate for difficult partnerships, since they require support of country-led programs. Rather, project aid would be indicated. Similarly, as noted, development co-operation might often move through NGOs or local government rather than through the usual government-to-government aid instruments.

iv) Working to promote private sector growth

32. While the enabling environment for the private sector ultimately is largely controlled by government, support to building the analytical capacity of business and trade associations can strengthen their engagement with international institutions and with the government on economic policy decisions. For example, USAID invested in capacity building for policy analysis and advocacy in the business sector in Indonesia. This yielded virtually no pay-offs while the Suharto regime remained in power, but the moment it disappeared this investment proved critical to policy change. This approach can be used to increase the voice of smaller business interests and of labour, which might help the poor particularly in contexts where élites have captured the gains of economic reform processes, such as in Eastern Europe or Central America. One way of engaging with private sector groups in more conflict prone countries is to hold business round-tables to promote dialogue and shared understanding between citizens, government and business. This has been shown to be effective in the case of Colombia.

33. Where the financial and banking sectors are privatised and relatively independent, it may be possible to address the enabling environment for private sector growth more directly. In addition at the more micro level, development agencies can continue to support the development of small and medium enterprises (SMEs), start-up enterprises and non-farm rural employment without direct government partnership, by working through NGOs and business associations. Enterprise development training for entrepreneurs might also form a part of such a strategy and has been successful in the case of Rwanda.

5 Centre for Aid and Public Expenditure, Overseas Development Institute (ODI), “Choice of Aid Instruments”. Unpublished, 2001.

34. There is evidence of a correlation between poor performance by poor countries on poverty reduction and the dependence of their governments on revenue from extractive industries. Multinationals are heavily engaged in these industries, but are susceptible to the rising consumer pressure for them to be more accountable and socially responsible. For example, in Angola, British Petroleum (BP) has supported the International Monetary Fund (IMF) measures to restore financial stability and improve government transparency by publishing its royalty payments to government. Donor governments could engage more intensively with such businesses to encourage a greater focus by them on broader development issues in countries with difficult partnerships, beyond their interest in buying off local residents and concerned shareholders through welfare projects.

35. Developed country governments as a whole could provide more coherent messages to multinationals operating in difficult political environments, based on the need for them to be accountable and transparent. These might be reinforced by collective action, for example, OECD governments have agreed to strengthen their laws and implementation on corruption in accordance with the 1997 OECD Convention on Combating Bribery of Foreign Officials in International Business Transactions. Other international instruments include the OECD Principles of Corporate Governance, the OECD Guidelines for Multinational Enterprises, and the DAC Recommendations on Anti-Corruption Proposals for Aid-Funded Procurement.

36. Development agencies should be aware of the risks in engaging with the private sector, where for example its leaders are closely allied with the élites in government responsible for the difficult partnership; or where the private sector has undermined the authority of a legitimate government.⁶

v) Working to improve service delivery for the poor

37. Although it may not be possible to support the provision of services by the public sector, non-state actors are often among the principal suppliers of services that poor people actually use in many poor countries. Important suppliers include religious groups, the for-profit sector and NGOs. There are therefore substantial opportunities for development agencies to work outside the structure of the state and to achieve good and, in some cases, sustainable outcomes. Support can be organised through religious groups and international NGOs.

38. The involvement of non-state actors, including the private sector, applies more strongly in some sectors and countries than in others. Retaining some engagement with government may be desirable. But particularly where government commitment and capacity is weak, development agencies should make special efforts to ensure that communities are empowered to help manage and monitor services.

39. Funds supported and administered by donors independently from the government are one such mechanism. They aim to involve communities in development by enabling them to participate in the design and implementation of small development projects to improve basic services. Their advantages in poor performing environments are direct resource transfers to the local level, flexible procedures and largely working independently of government agencies. Social funds attempt to do the same thing, but go through the national government. In most cases of difficult partnerships they would not be appropriate, because they can be susceptible to misuse or capture by national authorities and local élites, or to exclusion of regional or ethnic minorities. Development agencies might also support household level data collection

6 The statement and guidelines on "Helping Prevent Violent Conflict: Orientations for External Partners" approved by the HLM in April 2001 consider how working with business can contribute to improving difficult partnerships for conflict prevention.

as a way of improving poverty targeting, whether through social funds or otherwise – e.g. in design of NGO-implemented programs.

40. Working with non-state actors could be a means for engaging at the sub-national government level when central government is weak. For example, during the military dictatorships in Nigeria, it was possible to work collaboratively at the district level through NGOs who operated alongside central technical departments, such as forest services. Innovative programmes were also more acceptable to the Vietnamese Government when they were operated at district level through a collaboration between international NGOs and local government. Where such programmes are successful, they may provide models that influence national policy decisions and other local governments.

41. There is also a moral case for working with government where the scale of the problem and its urgency demands action at the national level. This has been the case in Zimbabwe recently, where other development programmes that involve working with the government have been terminated but co-operation on HIV/AIDS and condom procurement has continued.

42. More generally, there are risks in building up NGOs and the private sector to be the principal service providers. Government may feel even less responsible for basic service provision. Moreover the poor cannot expect to hold NGOs and the private sector to account in the same way that they ought to expect to hold government to account. Furthermore evaluation results show that NGO performance varies widely. Many NGOs/CSOs (civil society organisations) have a narrow regional or ideological mandate. Scale is also a potential problem. This variation in performance applies also to international NGOs, some of which have produced excellent results and others of which have contributed to marginalising local NGOs, inadvertently adding to tensions by not adequately understanding the complexities of the local situation. Despite the difficulties, development agencies can and should still work to help build longer-term capacity of civil society, for example through training for the future. In situations where civil society is fractious, development agencies should be particularly careful in choosing which civil society organisations to support.

vi) Working to promote civic participation in public policy decisions

43. There is a range of approaches to civic advocacy work including addressing the preconditions for its effectiveness: supporting economic literacy projects at the community level; translating International Financial Institutions' or other policy documents into the vernacular to promote broad-based discussion on economic reforms; promoting Internet access to disseminate government information; and providing capacity support to a broad range of civil society groupings including the independent media. But NGOs' ability to mobilise their client groups will depend heavily on the political environment, particularly the degree of political repression. OECD support for local demands for the fundamental freedoms of association and speech can help.

44. Experience in Latin America points to the substantial influence that a group of like-minded reforming technocrats can have on the quality of economic management and of partnerships with development co-operation agencies if they come together in key institutions. These individuals have often expanded their horizons by working or studying abroad. Action-oriented research inside government or possibly in think tanks or academic institutions can promote policy change without direct donor engagement with the state and as a result with greater legitimacy. One advantage might be that development agencies could increase their legitimacy by providing policy advice to development partners based on analysis by local experts. Development agencies need to be alert to institutions that are so closely aligned to the regime that their independence is constrained.

C. Adapting donor co-ordination and enhancing policy coherence

45. Donor co-ordination, a key factor for well-founded partnerships, is even more critical for difficult partnerships. Co-ordination should be most active when development agencies perceive relationships going into crisis. There are excellent examples of co-ordination in such cases. For example, the Economic Governance Group in Kenya engages the Kenyan Government in dialogue about key policy commitments in a comprehensive, expert and efficient style.

46. Differing objectives tend to lie at the heart of lack of co-ordination. These different objectives can arise from three sources: differing analysis; differing remits; or differing domestic pressures. Differing remits may vary to some extent between multilaterals and bilaterals. For example, it is easier for bilaterals to raise issues of human rights. But the distinction on remits is not a sharp one. Although multilaterals may be constrained to economic governance, they do in practice manage to address a broader range of issues that impact on poverty reduction, including corruption and exclusion of minority groups. Thus, there are potential high returns for close co-ordination between multilateral and bilateral donors across the full range of issues impacting on poverty reduction. Multilateral organisations can play a key role in promoting the necessary donor co-ordination, building on their comparative advantages and their presence even in situations in which bilateral organisations may not be able to act. The World Bank Group has recently set up a task force on assistance to poor performing low-income countries "to take stock of research findings and of the lessons learned from past donor efforts to help such countries, as a basis for setting out pragmatic approaches through which the Bank can strengthen its assistance to these countries"⁷. The Secretariat is in contact with the task force and would coordinate closely with its Members on future work.

47. There are risks that in the absence of collective co-ordination with government some or all development agencies will misread the development need. For example, economic and political competition among donors to the former Zaire in the 1980s led to sustaining aid in the face of growing evidence of a lack of commitment. If this is a false positive about the level of commitment, there may be false negatives as well. Agencies, especially if they are not represented in country, may misinterpret the impact of external shocks as a lack of commitment. This would be especially unfortunate as recent research suggests that where policies are reasonably adequate, aid can have a particularly positive impact to countries going through such shocks. Without adequate information and co-ordination, development agencies may miss both positive and negative changes in partnership potential.

48. Co-ordination for improving difficult partnerships is more challenging when there is not a government-led multi-donor support programme in place. This is often the time, though, when close co-ordination is all the more needed. In addition, co-ordination costs increase even more as even basic parameters need to be discussed and frequently revised. In general, the worse the situation, the fewer the number of donors that would be involved in any substantial way – whether for concerns about effectiveness or for signalling. It is vital that one or more development agencies maintain an active dialogue with government even in the most difficult circumstances, though. In Mozambique in the late 1970s and early 1980s, for example, Sweden played a valuable role, as a sole donor representative remaining in dialogue with government and keeping other developed countries informed.

49. Organising co-ordination for a difficult partnership where a number of development co-operation agencies remain involved could include identifying focal development agencies (one or two) for certain tasks: policy analysis; support to the private sector; support to strengthening political system (Parliament,

7 "Impact of Recent Events on Low- and Middle-Income Countries: Response of the World Bank Group", paper prepared on 7 November 2001 (DC2001-0028) by the staff of the World Bank for the 64th meeting of the Development Committee in Ottawa, 18 November 2001.

parties, auditor-general's office); or sectors. The focal role in each area should be primarily to act as a gateway, *not* to monopolise policy space on behalf of the development agencies. More piloting, innovative work, encouraging new networks and actors to enter should be part of the risk-taking role of a focal donor. In most cases it is useful to have an agreed broad strategy document, preferably one on which – even if the government has not played a leadership role – there has been as broad consultation as feasible with civil society as well as government. Unfortunately, in cases of difficult partnership there will not be a current PRSP to serve this purpose. So substitutes will have to be found, building on the base provided by existing international agency or other donor strategic analysis, as well as relevant work done by civil society and government.

50. Agencies should also make a special effort not to place unnecessary burdens on governments in difficult partnership as their capacity as well as commitment is likely to be weak where possible agencies should use each other's studies and missions, and strive to build common criteria for assessments. Receiving multiple missions and reading long studies leaves governments little time for taking action, and provides plenty of excuses for not doing so. Careful consideration should be given to how government or civil society can best strengthen its own capability before deploying consultants and long-term experts. Agencies should also make efforts to explain and account for their policies to the public of the country concerned in order both to illustrate the practice of accountability and to reach out to civil society.

51. In many cases co-ordination on difficult partnerships needs to take account of regional dimensions, including spillover to neighbouring countries. Co-ordination is key to the adoption of regional approaches based on a combination of three elements: (i) working with appropriate regional and international institutions to help improve the governance environment of difficult partners, as well as making use of peer pressure; (ii) taking a regional view, to help generate economic benefits and build economic and political ties to neighbouring countries; (iii) discouraging states from policies and actions that destabilise their neighbours.

52. Policy coherence in donor countries is also key since development assistance is only a part, usually not the most important, of relations with problem countries. There are issues of exports of arms, foreign policy including terrorism, drugs and national security issues, trade (particularly access to raw materials), investment, security reform – that involves actors ranging from the military and police, judicial and penal authorities to ministries of foreign affairs, trade and commerce – as well as historical ties. It is important to have clear, coherent national policies for dealing with these countries and to align policy instruments behind that policy. Development agencies and foreign ministries often have more knowledge than other parts of their governments about developing countries, and development agencies are best placed to put current problems in the longer context of development – and of the broader consequences for the country and its neighbours of development failures. Thus they need to be speaking out on broader issues of policy coherence and development within their own governments, rather than sticking only to aid issues.