Query

Could you please: (i) highlight what new risk emerges for development programming as fragile/post-conflict states enter a transition phase? What suggestions are made for mitigating these risks?; and (ii) point us to recent and relevant writings on fiduciary mismanagement and managing corruption risk in Afghanistan

Purpose

The answer will be used to inform development policy and a risk strategy for programming in Afghanistan.

Content

1. Risks for development cooperation in post-conflict transition states
2. Lessons learnt in addressing risks for development cooperation in post-conflict transition states
3. Literature on fiduciary mismanagement and managing corruption
4. References

Caveat

There is very little publicly available information on the risks that will emerge as Afghanistan enters a transition phase, particularly with regard to corruption. This answer thus focuses on risks for developing programming in fragile and transitional states more generally and on how these risks relate to corruption.

Summary

As many countries and regions emerging from armed conflict or violent instability, Afghanistan is entering into a transition phase where the international military presence will be scaled back and more resources will be channelled through the country system and managed by the Afghan state. Considering the highly complex environment in which such countries find themselves, this process is associated with major corruption challenges as well as other risks for donors.

As international engagement in such transition periods typically combines humanitarian, development and security-related interventions as part of a broader peace-building and state-building agenda, risks for development programming should be considered at different levels, such as contextual (e.g. analysis of external facts which have an impact on developing programming such as security, economic and political environment), programmatic (e.g. risks of programme failure due to unrealistic approaches or unintended consequences), and institutional (e.g. fiduciary and reputational risks due to corruption). Donors will have to tailor their risk management approach to address...
transition priorities, particularly by balancing risks and opportunities (rather than engaging only in less risky programmes) and selecting the aid instruments which are most appropriate for the specific context.

1 Risks for development cooperation in post-conflict transition states

Fragility, conflict, and transition

The World Bank refers to fragile states as countries facing particularly severe development challenges, such as weak institutional capacity, poor governance, and political instability. Often these countries experience ongoing violence as the residue of past severe conflict (World Bank, 2012a).

There is a broad consensus that delivering aid in these contexts requires a coordinated, cross-sectoral approach that combines support to state-building and peace-building and should involve departments responsible for security, and political and economic affairs, as well as those responsible for development aid and humanitarian assistance (World Bank, 2012a). Therefore, donors should analyse a wide range of issues when planning their development agenda in fragile states.

The current set of principles and guidelines available for donors (i.e. The Paris Declaration on Aid Effectiveness; Principles of International Engagement in Fragile States and Situations, and the Good Humanitarian Donorship) are often contradictory when applied to work in fragile states, where national governments lack capacity, control, and legitimacy (OECD, 2011a). Donors therefore frequently face dilemmas related to the aid effectiveness agenda, such as the dilemma concerning national ownership versus greater accountability to the people in the donor country.

As fragile and conflict states transition to peace, several challenges and risks emerge, particularly related to widespread corruption and weak government capacity. International cooperation is seen as key to support these countries, but assistance so far has achieved only limited results in terms of supporting sustainable development (OECD, 2012a).

The term “transition” describes situations when countries and regions emerge from armed conflict or violent instability. “These are countries where the political, economic and social change is matched by uncertainty, and where international aid may be one strategic part of a wider foreign policy agenda” (OECD, 2012b).

Within this framework, there is also often a transition from the external provision of services by donors towards greater state ownership and responsibility for both the safety and welfare of the citizens, which will certainly poses new challenges and risks for development cooperation, as conflict states in transition lack the human and institutional capacity to take responsibility for delivering on aid programmes and are plagued by corruption (OECD, 2010).

In addition, international engagement in transition typically combines humanitarian, development and security-related interventions as part of a broader peace-building and state-building agenda. This means that different communities, government agencies, and donors are expected to operate in parallel and in a shared space, raising the challenges related to coordination, effectiveness, accountability and risk management (OECD, 2012a).

Development cooperation and post-conflict transition

Operating in fragile and transitional contexts entails high operational, financial and reputational risks for donors. Against this backdrop, when engaging in fragile states and post-conflict states, donors have developed different typologies of risks of development cooperation. For instance, the DFID programme in Iraq, Yemen and Palestine, has established three broad categories of risks: (i) country risks (e.g. internal and external political context as well as insecurity); (ii) partner risks (e.g. low partner capacity, fiduciary and corruption risks); (iii) programme risks (e.g. infrastructure, supply and security affecting the implementation of projects) (DFID, 2010).

More recently, an OECD publication analysing aid risks in fragile and transitional states, has made a slightly different distinction between the types of risks affecting development and humanitarian cooperation in transition countries (OECD, 2011a). Risks are analysed at three levels (i) contextual risks; (ii) programmatic risks (iii) institutional risks. While the distinction among these risks is not fully clear and there is some overlap among them, this typology helps understand how to manage such risks when developing a country programme:
(i) **Contextual risks**

Contextual risks usually relate to adverse events in a particular country context that can have an impact on the governance and stability of the country, and therefore should be considered by donors when developing their country-strategy. While the analysis of contextual risks is complex, requiring a good assessment of the country in question, such risks often relate to (i) political and social risks (e.g. political destabilisation; conflict between communities); (ii) economic and developmental risks (e.g. negative growth; inflation; failure of delivering basic public services); (iii) humanitarian risks (e.g. displacement and refugee flows); (iv) security (e.g. rampant crime, return to conflict) (OECD, 2011a).

In Afghanistan, for example, the transition period brings several good opportunities for change, but also challenges and uncertainties that should be considered when programming. With regards to contextual risks, political uncertainty, insecurity, and economic recession combined with widespread corruption could undermine transition and development efforts.

**Security**

In 2013, Afghan troops start to take over responsibility from the NATO-led International Security Assistance Force (ISAF), in preparation for the end of the international mission in the country by the end of 2014, leaving a lot of uncertainties and open questions regarding what will happen in the country. Against this backdrop, developments on the security front will have an impact on how donors programme their activities in the country.

While the contingent to the Afghan security forces has been hired (more than 350,000 men), soldiers still need to be trained, equipped and deployed by the end of the year. It is still uncertain whether without the support of the ISAF the Afghan national security forces will be able to both fight the Taliban insurgency and ensure that the government can provide basic services to the whole country. Besides the lack of technical capacity and logistical resources there is also evidence that the security forces are plagued by corruption (SIGAR, 2012; The Economist, 2012). Thus far, the national forces have not being “tested”, as they are only responsible for the security of less problematic areas and can still rely on the support of external advisors (Radin, 2012).

In addition, the security situation in the country will certainly have an impact on how the economic and political situation develops during the transition. If the Afghan government fails to maintain a certain degree of security, the political environment is likely to deteriorate – power-brokers and criminal organisation may capture the state – and the possibility of economic recovery will be more difficult as investors will be discouraged to invest in the country.

**Political environment**

Afghanistan will also pass through another important transition in the coming years which may affect political continuity and the stability of the security transition, offering risks for development cooperation. Presidential elections are to take place in early 2014 and parliamentary elections in the following year. However, so far the country lacks the necessary instruments to hold clean and fair elections (International Crisis Group, 2012).

According to the International Crisis Group (2012) the current political environment in Afghanistan is rather unstable. Serious reforms, such as of the electoral law and oversight mechanisms, are necessary to avoid that the next elections are plagued by corruption and fraud leading to political instability and disputes over power.

**Economic conditions**

Economic conditions are also uncertain, putting a threat to development. The country relies heavily on foreign aid, and with the troops leaving the country by 2014, it is expected that aid will be reduced significantly, with consequent implications for economic growth, fiscal sustainability and service delivery (United States Institute of Peace, 2011). In addition, with less money available, the Afghan government is likely to make difficult trade-offs between security and civil spending (World Bank, 2012b).

Donor aid currently accounts for more than 95% of Afghanistan's GDP, and replacements for external funds of that extent are hard to identify (Katzman, 2013). The extractive industries could prove to be a crucial source of independent revenue when development aid decreases. The government is expecting the development of 11 mines, in addition to the ones already being explored by China (World Bank, 2012b). However, in the current context, there are serious risks that funds will be lost due to corruption and mismanagement.

According to the Extractive Industries Transparency Initiative, Afghanistan has a very weak capacity to collect and manage oil, gas, and mining revenues.
Risks for development cooperation in fragile and transitional states

Preliminary findings already have shown that companies have reported paying approximately $5.7 million to the government, which however was not reported as received by the government (Extractive Industries Transparency Initiative, 2012). Donors will have to be alert to the risks that corruption and mismanagement in the extractive sector can pose to the economy and to the sustainability of their programmes in general.

In addition to the challenges discussed above, the World Bank underscores the fact that a weak economic environment could also change perceptions of the government capacity and encourage political actors and armed groups to challenge the state’s authority – creating further political instability (World Bank, 2012b). In 2006, the UNODC already shed light on the fact that some government agencies at the local and provincial levels had been compromised by drug interests (Shaw, 2006). Economic recession and political instability could pose even greater risks of state capture, allowing criminals to gain influence on both politics and business (Chene, 2008).

There is also the risk that the decrease in aid resources could lead to an increase in the reliance on the opium economy and other illicit activities (World Bank, 2012b). This could be extremely problematic in a country where the opium economy represents about one-third of the national economy, with the added risk of it being a great source of corruption (Shaw, 2006).

(ii) Programmatic risks

Programmatic risks relates to the failure of achieving programme aims and objectives, as well as the risks that the programme will cause unintended harm to the external environment (OECD, 2011a).

The risk of programme failure is often related to contextual, institutional and political factors, but operational and management failures, failures of planning and coordination, and over-ambitious goals may also contribute to not meeting the expected outcomes.

The risk of causing harm relates to the fact that donor interventions may both exacerbate and mitigate contextual risks, by, for example, damaging the economy (e.g. economic risks of using international procurement instead of local), or the government (e.g. aid having an impact on power-sharing and transitional arrangements that reinforce elites; aid bypassing country systems and creating aid-dependency). Aid may also deteriorate the security situation if the resources, for example, benefit insurgency groups through contracts or other activities (OECD, 2011a).

With regard to corruption, over-ambitious anti-corruption plans may generate frustration among both donors and citizens from the beneficiary country, undermining trust in state-building efforts. In environments where corruption is widespread, capacity is very low, and political will is often lacking, donors should consider timing and sequencing to help committed leaders show results and manage citizens’ expectations, as well as focus on mainstreaming anti-corruption in their sector programmes (Hussmann, Tisne and Mathisen, 2009).

In Afghanistan, according to the World Bank, while aid has been responsible for much of the progress since 2001, it has also weakened governance, and brought a series of problems, such as corruption and a fragmented and parallel delivery system created to circumvent the government’s weak absorptive capacity. In fact, aid inflows have become a source of rents, patronage, and political power in more insecure and conflict-affected areas, sometimes even increasing conflict and social divisions (World Bank, 2012b).

Moreover, international assistance with regard to service delivery and technical expertise so far have largely substituted for rather than built civil service capacity in the country (World Bank, 2012a). Donors have implemented their programmes relying on foreign expertise and on Afghan externally funded staff (EFS) who are funded mainly through resources provided outside of the state budget. As a consequence, important skills have not been transferred to the regular civil service. For instance, a survey conducted by the World Bank in 2011 in eight ministries and one agency concluded that more than 5,000 externally funded staff were working is these entities, and among them only 200 were Afghans (World Bank, 2012b).

With the transition, the amount of donor funding available for EFS is expected to be reduced significantly, which will pose specific risks to the Afghan public administration. Firstly, the government will face challenges to estimate the real costs of running the government and delivering services, as core functions of the government have been provided for years by highly paid staff funded by external resources outside of the budget (World Bank, 2012b). Secondly, considering that a large number of the experts working in the public administration are foreigners, the government is likely
to suffer from a lack of institutional memory when transition takes place and Afghan civil servants assume the majority of responsibilities.

The issues mentioned above reflect past unintended failures of development programmes, which now may have an impact on the transition process and pose new risks for donors supporting the country.

(iii) Institutional risks

Institutional risks relate to the risks to the aid provider. Those may include operational security risks (e.g. threats to the safety of staff); financial or fiduciary risks resulting from corruption and mismanagement; reputational risk; and political and reputational risk for engaging in countries where aid support does not seem appropriate (OECD, 2011a).

Fiduciary risks are the risk that funds will not be used for the intended purposes, will not achieve value for money, or will not be properly accounted for. Lack of capacity, active corruption and bureaucratic inefficiency may aggravate such risks.

In this case, donors when developing their country programme should seek to understand fiduciary risks at two levels; public financial management systems, channelling aid through country systems as well as other risks, such as lack of accountability which may be associated with other aid modalities as well.

Public financial management systems in fragile states tend to be weak due to opaque budget processes, lack of qualified personnel and inadequate procurement processes, which pose several corruption risks and have a negative impact on allocation of resources and efficient and effective public services delivery.

When fragile states transition to have more autonomy and control over service delivery and governance in general, donors will have to consider the country’s system and assess what are the best approaches/aid modalities available to support the country’s development ensuring that corruption is controlled and value for money is achieved.

In the case of Afghanistan, in spite of recent improvements, the country still lacks a sound public financial management system. The government still has serious absorptive capacity constraints as well as a lack of qualified personnel. According to recent assessments, unrealistically ambitious budget formulation, large budget carryovers from previous years, rigidities resulting from earmarked donor funding, as well as deteriorating security in parts of the country and limited capacity to implement projects on time, make donor support through the country system risky and challenging (World Bank, 2012a).

Moreover, corruption is widespread in Afghanistan offering both fiduciary and reputational risks for donors. Afghanistan is perceived as the most corrupt of the 174 countries assessed by Transparency International’s 2012 Corruption Perceptions Index, sharing the last position with North Korea and Somalia. Corruption takes a variety of forms and affects society at all levels. With regard to aid, corruption is often identified as one of the key risks for donors providing funding to fragile states (OECD, 2011a). Aid money has been not only directly lost to corruption, but also has helped to support a corrupt system, or to generate even more corruption in the country (e.g. more resources generating opportunity for rent-seeking behaviour).

According to experts consulted within the framework of this query, the transition period may even reduce the opportunities for corruption as the resources available for misuse are significantly reduced, and donors have less pressure to spend money quickly. Nevertheless, considering the governance capacities of Afghanistan and the lack of accountability, corruption risks are likely to remain a serious challenge for effective aid delivery in the country.

Some studies have also underscored that transition and its economic impact could trigger a major wave of new narcotics growing, pushing power-brokers and officials into even higher levels of corruption, and strengthening the ties between organised criminal groups, law enforcement officials, as well as other public officials (Cordesman, 2012).

Against this backdrop, the process of transitioning out of conflict in Afghanistan or any fragile state may change/exacerbate situations that have an impact on contextual, programmatic or institutional risks. Therefore, donors will have to change the current mentality of risk-avoidance to start balancing the different risks, and selecting the right approach to mitigate each of them when developing their country strategies.
2 Lessons learned in addressing risks for development cooperation in post-conflict transition states

Donors have used different approaches to managing risk in fragile states, such as establishing specialised units, financing through technical assistance, and pooled funds (OECD, 2011a). As transition periods involve a wide range of activities to achieve sustainable development, greater national ownership and increased state capacity, the OECD DAC Task Force argues that donors need to adapt/tailor their approach to risk management, allowing for more flexibility and country ownership (OECD, 2012).

A recent study has found that donors tend to be highly risk-averse in their interventions. This means that they often engage in less risky activities that are not necessarily the ones which would help to deliver better results (OECD, 2012).

In this context, in order to better address risks and ensure an effective engagement in states in transition the following insights can been drawn from the OECD publications:

1. **Balance risks and opportunities**

   Donors need to change their behaviour with regard to risk, allowing implementing partners a greater flexibility. It is also instrumental that donors develop specific risk management frameworks for transitional contexts, with clear monitoring and accountability structures that fit the country’s reality and its transition priorities (OECD, 2011b). Current risk management practices mainly focus on institutional risk reduction (e.g. fiduciary risks), but are guided by reporting and accountability requirements that are too burdensome and poorly adapted in transitional environments (OECD, 2012).

   Joint assessments of contextual risks as well as the use of collective or shared risk management arrangements could reduce the burden or reputational risk on one single donor and support harmonised approaches (OECD, 2012).

2. **Adapt their corruption control measures**

   Many donors have adopted a zero-tolerance to corruption policy, but working in transitional environments will certainly entail serious risks of exposure to corruption and misuse of aid. Donors should accept exposure to risk while minimising it through appropriate risk management measures, including monitoring programmes and the investigation/punishment of wrongdoings (OECD, 2011b).

   Donors should also agree on common positions to fiduciary risks, taking into consideration that a certain degree of flexibility will be required to promote development in the beneficiary country. For instance, by using local procurement donors run higher fiduciary risks but help the development of the economy and thus help to mitigate contextual risks.

3. **Agree on realistic priorities**

   Prioritisation is instrumental for efficient donor intervention. In transitional environments, prioritisation should be based on internationally agreed objectives and a country-led vision (OECD, 2012).

4. **Seek for adequate transitional financing**

   There are several aid modalities which could be used by donors during transition that could help managing the risks discussed above. According to the OECD DAC working group, countries operating in post-conflict transition states should, based on the country context and objectives, mix different types of aid modalities to deliver on defined transitional priorities (OECD, 2012).

   The possibility for risk management in each of these aid modalities has certainly to be taken into consideration, but donors should also analyse a set of other criteria when deciding which instrument to use for delivering on the agreed priorities, such as the possibility for coordination and harmonisation, institutional transformation, as well as speed and flexibility (OECD, 2012).

   In post-conflict transition countries, the use of country systems should be considered as means to strengthen legitimacy, governance capacity and ownership, provided that enough oversight is provided.

   Direct budget support or sector budget support, for example, provide clear incentives to strengthen country systems and allows donor coordination and harmonisation. Nevertheless, it may require negotiation (reducing the speed and flexibility) as well as prior investments to strengthen the country’s capacity (e.g. public financial management reforms). It also offers mixed scope for risk management, as it requires higher
standards of local accountability and financial management.

Another option of aid modality is the jointly managed pooled funds. This aid instrument offers greater opportunities to reduce the exposure of individual donors and at the same time provides for a framework for risk sharing and oversight. If resources are aligned with the government strategy, it offers high opportunities for institutional transformation and creates greater strategic coherence and shared ownership (OECD, 2012).

So far, donors engaging in fragile and transitional contexts have preferred other aid instruments as they consider budget support to offer high risks due to high levels of corruption and lack of absorptive capacities. However, there is no evidence that in practice direct budget support entails more or less risks of corruption (Dom and Gordon, 2011). In fact, aid modalities that appear as safer options present other risks that could hamper development, such as low capacity for institutional transformation, for example.

Against this backdrop, it is important to underscore that one single aid modality will not be able to deliver on all transition strategies – donors will have to decide on specific instruments based on the agreed priorities, and make sure that the right tools to manage corruption and other risks are in place (OECD, 2011a).

Overall the OECD insights underline that donors have to establish a differentiated approach to risk management balancing disbursement risks with opportunity costs and taking into consideration contextual, programmatic, and institutional factors.

3 Recent literature on fiduciary mismanagement and on managing corruption risks in Afghanistan

Fiduciary mismanagement¹

In the development aid context fiduciary mismanagement is the result of aid funds not being used for the intended purposes, or not achieving value for money, and/or are not being properly accounted for.

The reports and articles below attempt to assess how aid money is being spent in Afghanistan and whether or not donor activities in the country are meeting their objectives.

Scandals such as the one involving the Kabul Bank (The Washington Post, 2011) have helped to shed light on donors’ lack of appropriate oversight mechanisms for their aid delivery in the country. For instance, the US Foreign Department raised concerns over the opportunities for waste and mismanagement in the relationship with contractors and subcontractors (US Senate Committee on Foreign Relations, 2011). Similarly, an assessment on DFID aid delivery to Afghanistan highlighted that the agency still lacks a comprehensive and rigorous approach to prevent fraud and corruption (International Commission for Aid Impact, 2012).

SIGAR Quarterly Report to the United States Congress.


The SIGAR quarterly report focuses on three critical areas: the logistics capability of the Afghan National Army (ANA); the construction quality and sustainability of Afghan security force facilities; and the use of suspensions and debarments to prevent poorly performing and corrupt contractors, including those tied to insurgent and terrorist networks, from winning U.S.-funded reconstruction contracts.

The report highlights a series of corruption cases and misuse of donors’ resources. For instance, one of the cases recently investigated by SIGAR involves US army staff who was arrested in the United States smuggling approximately USD $1 million in cash from Afghanistan to the United States. Investigations have shown that the US Army staff was paying two Afghan trucking companies for deliveries that never took place. In return, the two companies allegedly provided kickbacks to her and other officials.

¹ The publications presented in this section are not listed again in the reference list.
USAID OIG Afghanistan and Pakistan Oversight Report.


The U.S. Agency for International Development (USAID) Office of Inspector General (OIG) is responsible for providing oversight of USAID programs and activities. This report describes OIG's oversight program in Afghanistan and Pakistan and highlights the activities conducted from July to September 2012, including audit reports and investigations. Since 2003, the OIG has initiated 198 investigations related mainly to program fraud or bribery and kickbacks that have resulted in the arrest of 13 people, 105 administrative actions (e.g. debarment, termination of contract), as well as in USD$ 163 million in savings and recoveries.

The efficiency and effectiveness of EU contributions channelled through United Nations organisations in conflict-affected countries.


The European Commission has intensified its cooperation with the United Nations as part of its commitment to the better coordination of aid. This report thus assesses whether EU contributions channelled through United Nations organisations are an effective, efficient and sustainable way of delivering aid in conflict-affected countries. The audit examined a sample of projects in Afghanistan, Iraq, and Sudan covering the period between 2006 and 2008. The report concludes that there are a few risks of fiduciary mismanagement. For instance, UN reports do not provide the Commission with sufficient timely information, and a large proportion of reports were still delayed by the time of the assessment. Reports were not detailed enough and generally focused on activities rather than results. In addition, frequent weaknesses in project design were noted which had negative consequences for the implementation and assessment of projects.

Programme controls and assurance in Afghanistan.


The Independent Commission for Aid Impact (ICAI) is the independent body responsible for scrutinising UK aid. The report finds that overall DFID’s financial management processes are insufficiently robust and that DFID does not give sufficient importance to identifying and managing risks in the design and delivery of its programmes. The report assesses the Department for International Development's approach to tackling fraud and corruption as rather fragmented.

Managing corruption risks

Afghanistan largely relies on foreign aid for its reconstruction and peace-building efforts. However, such large flows have involuntarily helped to fuel corruption in the country (Cordesman; Burke, 2010). The pressure to achieve rapid results has put donors under strain to spend money quickly without establishing adequate anti-corruption, transparency and accountability controls, as many of the reports above have underscored. The problem is exacerbated by the government’s limited capacity to work effectively and efficiently and to guarantee that money is well spent.

Recent literature on managing corruption risks in Afghanistan is relatively scarce, but the articles presented below offer some guidance on how to prevent and fight corruption in post-conflict fragile states such as Afghanistan.

Governance, Counter Corruption and Development.


This report provides practical, immediately relevant proposals to assist both the government of Afghanistan and the international community in improving the rule of law whilst taking forward the complex process of transition. Three interlinked recommendations are:

1. The government and the international community need to focus in mobilizing the
Afghan society in the fight against corruption, encouraging them to participate in efforts to promote change.

2. The international community must radically and urgently change the way it handles its financial flows, especially the money associated with massive security operations and the way it offers contracts for goods and services. In particular, it must direct more effort into contracting with Afghan companies, and it must do so in ways that improve national economic capacity and better limit corruption. Some progress is being made on this front but it is long overdue and needs a major uplift.

3. Measures on curtailing corruption, building integrity and reforming Afghanistan’s institutions need to be scaled up immediately and dramatically to halt the current decline. This requires a range of actions by both the Afghan government and the international community.

White Paper: Being smart about development in Afghanistan.
Aga Khan Foundation, Catholic Relief Services, Rescue, MercyCorps and Save the Children, 2011.

This paper provides a concrete description of what smart, principled development programming looks like in Afghanistan and how it is already delivering meaningful change for Afghan communities. The paper identifies four principles of Smart development: Afghan Driven; Accountable (e.g. making sure that funds are not wasted through corruption and indifference); Impartial; and Sustainable.

Integrity in state building: Anti-corruption with a state-building lens.

This study identifies the opportunities, challenges and constraints for addressing corruption in fragile states. It also explores the complementarities between the international community’s current approaches towards both state-building and fighting corruption in fragile states. This study draws on the experience of donors’ attempts to tackle corruption in fragile situations, and relevant lessons learnt in related areas.

Accelerating the transition out of fragility: The role of finance and public financial management reform.
Manuel, M, Gupta, S. and Ackroyd, P., 2010. ODI.

While not specifically focusing on managing corruption risks in Afghanistan, this paper highlights the practical and policy aspects of how to use finance to support fragile states in their transition out of fragility and the associated implications for public financial management. It covers four main themes: (i) delivering effective financial support – joining the dots from Afghanistan to Zimbabwe; (ii) Developing local financial management capacity – moving from quick fixes to
sustained reforms; (3) The role of transparency and accountability; (4) Public financial management reform in fragile states – what is working and why.

**Addressing corruption in fragile states: What role for donors.**

While not that recent, this report offers practical insights on tailored strategic reform initiatives, taking on board international experience and research on fragile states. Guidance is provided on a series of categories running from the design and preparation phase, implementation and evaluation phase. In addition, a series of crosscutting themes such as aid conditionality and the need for rethinking aid modalities are discussed.

**Lessons learned in fighting corruption in post-conflict states**
Chene, M. U4 Helpdesk Expert Answer.

Anti-corruption interventions face a specific set of challenges in post-conflict settings. Countries emerging from conflict are often characterised by endemic corruption, low state legitimacy, low state capacity, weak rule of law, wavering levels of political will and high levels of insecurity. Corruption opportunities abound in such context, through the combination of weak institutions and governance structures, low absorption capacity, donors’ pressure to disburse and massive inflows of foreign aid.

In the absence of practical guidance and documented evidence of best practices, donors need to develop an understanding of the local context as well as how to fight corruption in a given context and at different stages of the state-building process to design anti-corruption interventions that will not jeopardise the fragile peace-building process.

**Direct democracy and state allocation**

This paper uses a randomized field experiment in 250 villages across Afghanistan to compare outcomes of secret-ballot referenda with those of consultation meetings, which adhere to customary decision-making practices. It finds that elites very often exert influence over meeting outcomes, but not over referenda outcomes, which are driven primarily by citizen preferences. Referenda are also found to improve public satisfaction, whereas elite domination of allocation processes has a negative effect. The paper thus argues that direct democracy is designed to better align public resource allocation decisions with citizen preferences, avoiding potential undue influence of elites in the process.

4 References


Risks for development cooperation in fragile and transitional states


