

**Donor Approaches to Risk  
in Fragile and Conflict Affected States**

**Case Study  
Democratic Republic of Congo**

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## Introduction

This is a case study on the Democratic Republic of Congo that feeds into an OECD/INCAF report on Donor Approaches to Risk in Fragile and Conflict Affected States. The study aims to provide country level evidence on the approaches used by donors in risk assessment and management. The study is based on interviews carried out in Kinshasa during the week of 25 March 2013 and subsequent discussions by email and telephone. The interviews were mainly directed at multilateral and bilateral donor agencies, but also included discussions with NGOs. Contacts with government representatives are actively being pursued in order to complete this case study.

This case study is divided into two parts. The first part discusses broad donor responses to risk in DRC. This includes a profile of main types of risk confronting donors in DRC, analysis of how these risks are reflected in donor programming, and explanations of these responses to risk. The second and more substantial part discusses practical approaches to risk management observed in DRC. Three approaches are highlighted in this case study including: (1) approaches to managing conflict risk, (2) approaches to managing the risks of using country systems including the opportunities provided by the Busan New Deal, and (3) approaches to managing security risks.

## Part 1 – Donor Responses to risk

### 1.1 Risk profile

Using the categories of the Copenhagen Circles the following table identifies and comments on the key risks faced by donors operating in DRC.

<b>Contextual risks</b>	
Political risks	Severe political risks arise as a consequence of the fragility of the state, its lack of capacity, limited authority and presence, inability to contain conflict, widespread corruption and contested legitimacy. There is historical continuity in the behaviour of political and economic elites, who have profited from the looting of natural resources and have sought to maintain power through the distribution of patronage to narrow groups of supporters rather than supporting broad-based development and peacebuilding. Democratic elections restarted in 2006, but have not resulted in pressures for public accountability and the provision of public goods and services. Political power is personalised and concentrated in the Presidency, which is subject to few meaningful checks and balances from the legislature, judiciary or non-state actors. In spite of this concentration of power, the central state is relatively weak and has limited presence at local level. All of these factors create risks of political instability, undermine the capacity, responsiveness and accountability of the state and weaken political will to support critical reforms.
Conflict risks	DRC is recovering from two devastating wars (1996-97) and (1998-2003) that drew in neighbouring countries and killed an estimated 5 million people, mainly through disease and malnutrition. The east of the country continues to be affected by ongoing instability and multiple local conflicts driven by competition for land and natural resources, the limited presence of the state and the weakness of its security forces, foreign interference and fear of domination by one ethnic group over another. The ongoing M23 rebellion in North Kivu has disrupted aid delivery and highlighted the limitations of UN peacekeeping. Numerous other local conflicts and sources of tension exist in Eastern DRC (and recently in Katanga Province) and create a fluid and unpredictable security environment with a risk of escalation.
Risk of failed development	Growth has been relatively strong (between 5% and 7% since 2010), but is unevenly distributed and limited to areas with better infrastructure, security and natural resource endowments. <sup>1</sup> There has been some progress in economic management reforms measured in terms of macroeconomic stabilisation and gradual improvements in budget management, public procurement, tax and customs administration. However, weak employment generation, absence of public sector reform, and a disabling investment climate are major threats to development.
Risk of humanitarian crisis	There is an ongoing humanitarian crisis in eastern DRC as a result of conflict and population displacement. In 2011 there were 1,709,278 Internally Displaced Persons in DRC under UNHCR protection. <sup>2</sup> The escalation of local conflicts would deepen this crisis.

<sup>1</sup> Herderschee, J., Kaiser, K-A., Mukoko Samba, D. (2011) *Resilience of an African giant: boosting growth and development in the Democratic Republic of Congo. Directions in development; countries and regions*. Washington D.C. - The Worldbank. <http://documents.worldbank.org/curated/en/2011/01/15258130/resilience-african-giant-boosting-growth-development-democratic-republic-congo>

<sup>2</sup> UNHCR Statistical Online Population Database [www.unhcr.org/statistics/populationdatabase](http://www.unhcr.org/statistics/populationdatabase)

<b>Programmatic risks</b>	
Risk of programmes not achieving objectives	There are substantial programmatic risks associated with working with government agencies and national NGOs. Programmes may not achieve objectives due to lack of capacity on the part of national partners, weak management, lack of political commitment to programme priorities and policy reforms and misappropriation of funds. Weak sectoral coordination between development partners is another key risk.
Risk of doing harm	There are significant risks that development projects can heighten local tensions, particularly where they fail to take account of competing claims over land and natural resources, or may be seen as favouring one group over another. At a broader level donors' tendency to channel aid through non-state actors and outside of government systems risks drawing human resources out of government organisations and undermining statebuilding goals.
<b>Institutional risks</b>	
Security risks	Security risks are variable across the country, but are judged to be high in Eastern DRC. The Aid Worker Security Database records 8 fatalities amongst national staff for the period 2010-2012, but no fatalities amongst international staff. <sup>3</sup> Insecurity has a disruptive effect on aid delivery. The Insecurity Insight SiND database records 29 security incidents in 2010 and 16 in 2011 which affected the delivery of aid. <sup>4</sup>
Fiduciary risks	Fiduciary risks are judged to be high when working with national partners, both state and non-state actors. Working through government systems carries a particular risk of loss of funds through misappropriation, procurement fraud and other consequences of weak public financial management. All programmes operating in DRC experience a high level of harassment and extraction of unofficial payments.
Reputational risks	Donors face potential reputational damage working with a regime commonly perceived to be corrupt and abusive of human rights. Particular risks arise from working with security services accused of human rights abuses, or supporting elections that are judged to be tainted by fraud and malpractice.

## **1.2 Observations of donor responses to risk**

At an aggregate level donors have been increasingly willing to invest in DRC, and to accept the broad range of risks that this carries. Aid flows to DRC have more than doubled from \$1.04 billion in 2004 to \$2.29 billion in 2011.<sup>5</sup> In per capita terms net ODA for the period 2008-2012 was \$54 close to the annual average for Sub-Saharan Africa of around \$50, suggesting that the high risks of operating in DRC have not dissuaded donors from supporting the country.<sup>6</sup> Donor aid has also been concentrated in the east of the country where conflict has been more severe and risks remain very high. In spite of these trends, it is evident that few donors are planning to increase spending

<sup>3</sup> Humanitarian Outcomes, *Aid Worker Security Database*, <https://aidworkersecurity.org/>

<sup>4</sup> [www.insecurityinsight.org](http://www.insecurityinsight.org)

<sup>5</sup> OECD DAC aid statistics table 2A. <http://stats.oecd.org/Index.aspx?datasetcode=TABLE2A>. Net debt relief was \$3.24 billion in 2011. Figures exclude debt relief.

<sup>6</sup> World Bank Databank <http://data.worldbank.org/indicator/DT.ODA.ODAT.PC.ZS>

above present levels, except for DFID whose latest Country Operational Plan envisages a 75% increase in annual spending between 2011/12 and 2014/2015.<sup>7</sup>

Although donors have been willing to increase their overall support to DRC, analysis of spending priorities and the ways that funds are channelled reveals a high degree of aversion to programmatic risk. Aid is focussed on humanitarian assistance and service delivery in the social sectors, which generally offer short-term and predictable benefits with a low level of risk. There has been less attention given to higher risk activities aimed at strengthening public administration, promoting security sector reform or financing national programmes for infrastructure development. For 2012 the most important sectors for development aid (excluding debt relief) were humanitarian aid (31%), health (16%), education (9%) and other social sectors (25%).<sup>8</sup> Within these sectors the focus of aid delivery has been on direct service provision carried out by UN agencies and international NGOs.<sup>9</sup>

Donors have generally been unwilling to channel aid through government systems because of the high fiduciary and reputational risks involved. Paris Declaration indicators show that only 13% of aid to DRC passes through government systems for budget execution, financial reporting and auditing (indicator 5a), and only 9% uses government procurement systems (indicator 5b).<sup>10</sup> These indicators are in the lowest quartile for fragile and conflict affected states. This tendency is explained both by donors' lack of confidence in national public financial management systems, and the relative weakness of donor coordination. Multi-donor trust funds are less well developed and well funded in DRC than in comparator countries (e.g. see South Sudan case study). A government representative interviewed for this study expressed regret at donors' limited use of country systems, and the gap between aid effectiveness rhetoric and the reality in DRC.

There is some evidence that over the past five years donors have become more averse to working directly with government. In 2006 successful elections generated considerable optimism about prospects for democratic development and institution building. This was reflected in donor planning, for example DFID's Country Plan 2008-2010, which programmed close to 40% of its resources under its first strategic objective of building a capable and accountable state.<sup>11</sup> The widely criticised 2011 elections marked a shift away from donor support to government and towards more direct modes of service delivery. This is visible, for example in DFID's latest Country Operational Plan, which is mainly concerned with results driven service delivery, social protection and humanitarian agenda (but with remaining important investments in aspects of governance, such as police reform and PFM).<sup>12</sup>

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<sup>7</sup> Development assistance from non traditional donors has also been increasing. Another very important trend has been the growth in foreign investment from China, which in 2011 signed a \$9 billion investment deal with DRC funding large infrastructure linked to trade in minerals.

<sup>8</sup> OECD DAC aid statistics summary for DRC <http://www.oecd.org/dac/stats/COD.gif>

<sup>9</sup> For example in the case of DFID programmes, 50% of programme spending is currently through multilateral organisations (UN system and World Bank), 38% through International NGOs and 12% through commercial service providers. DFID (2013) DFID's Anti-Corruption Strategy for Democratic Republic of Congo, January 2013

<sup>10</sup> OECD (2011), Aid Effectiveness 2005–10: Progress in implementing the Paris Declaration. <http://www.oecd.org/dac/effectiveness/48742718.pdf>

<sup>11</sup> DFID DRC Country Plan 2008-2010. Programmes under the strategic objective of building a capable and accountable state included democratic development and accountability initiatives, security sector reform and minerals governance.

<sup>12</sup> DFID DRC Operational Plan 2011-2015 DFID DRC May 2011

Donors' focus on direct service provision through international NGOs and UN agencies has ensured short term results and relevance to the Millennium Development Goals and poverty reduction. However, there are doubts concerning the sustainability of this approach given the weakness of public and private institutions in DRC. Although donors have supported institution building and systems strengthening in DRC, this has not been on a large scale and falls well short of DRC's statebuilding needs. In many cases donors have been effectively substituting for the lack of government capacity rather than making a concerted attempt to build capacity. This is largely explained by donors' attitude to risk. Aversion to the high fiduciary and programmatic risks of working with government has caused donors to adopt safer programming choices. While these deliver short term results, they are not well suited to meeting the challenge of statebuilding that must be addressed in order to reduce overall contextual risk.

These criticisms of donor behaviour are widely voiced in DRC (including by civil society and government representatives interviewed for this study, as well as some donor staff). However, it is important to avoid making overly general assertions about donor approaches to risk in DRC. There are major differences between donors in their approaches to aid management and tolerance of different types of risk. Broadly, the bilateral donors have been more cautious about working through country systems and have tended to favour direct service delivery programmes implemented through international NGOs and specialised UN agencies. Multilateral agencies, by virtue of their mandates, membership and operating modalities, have generally been more willing to work with government. However, even in these cases there is strong evidence of risk avoidance, particularly in relation to fiduciary risk. The EU's EDF funds governed by the Cotonou Agreement must be provided in support of nationally identified priorities and under arrangements requiring joint EU and national signatures. However, EDF funds are still managed mainly by programme implementation units that are often physically located within ministries, but are subject to separate staffing, budgeting and procurement arrangements. UNDP still works mainly through *Direct Implementation* rather than *National Implementation* modalities, but has introduced novel hybrid arrangements (see box 3). The World Bank maintains a high degree of supervision of its loan funds, and requires procurement to be carried out by a specialised office (BCECO) rather than using national procurement systems.

During this research several examples were encountered of donors accepting higher levels of programmatic risk and funding ambitious interventions designed to address contextual risks. Belgian cooperation is notable for its close relationship to government, its focus on institutional strengthening and promotion of sector level reforms (through sectoral mutual accountability frameworks referred to as *feuilles de route*). This reflects Belgium's long term engagement in DRC, its familiarity with government and evaluation findings on the strengths and weaknesses of its approach (see box 2). DFID has also taken steps to diversify its country portfolio. Although the majority of spending has been set aside for lower risk service delivery programmes, space has also been retained for higher risk programmes aimed at institutional strengthening and policy reform. For example, DFID DRC is funding large scale bednet distribution, while at the same time making more strategic investments in strengthening national malaria prevention systems. Similarly, the DFID funded WASH programme follows a low-risk, tried-and-tested approach for the delivery of water and sanitation, but the programme is being extended into higher risk and experimental activities in urban areas. The balance of funding is still weighted firmly towards direct service provision, but DFID staff interviewed for this study indicated that demonstrating results in service delivery has provided them with some leeway to take on riskier programmes. Another notable development with DFID's country programme is its decision to step up engagement at provincial

level. This represents a high risk given DFID's lack of experience in the selected provinces, but also offers important opportunities to strengthen local governance and service delivery.

### 1.3 Explanations of donor responses to risk

The general pattern of donor engagement reflects the reality that all categories of risk (contextual, programmatic and institutional) are unusually high in DRC. Donors are justifiably cautious of engaging with government in a context of low administrative capacity, high levels of corruption, unclear commitment to reform and weak performance of past programmes implemented through government. The high level of risk, and particular concerns about fiduciary losses, broadly explains donor behaviour. However, there are other specific factors that have acted either to enable or constrain donors' ability to take on different categories of risk.

**Enabling factors.** A major driver of donor engagement has been the humanitarian emergency and post-conflict stabilisation imperative in the east of the country. The aftermath of Africa's most devastating recent war provided a strong justification for large scale support for humanitarian programmes and a transition to a more developmental agenda. Early engagement in humanitarian operations prompted donors to think about the longer term requirements for stabilisation, statebuilding and development, and led to a recognition that this would require engagement in higher risk actions, for example security sector reform and public financial management.

Donors have been motivated by the need to support statebuilding, peacebuilding and development in a manner that reduces contextual risk in the long term. A key factor that has enabled donors to engage in these areas is the recognition of the risks of failing to address these systemic problems that threaten to undermine progress in stabilisation and generate renewed crisis. However, the priority attached to these activities remains relatively low in spite of their strategic importance.

The presence of a major UN peacekeeping force in DRC since 1999 has also increased international interest in the region. In spite of criticisms of the UN missions performance, its presence has provided a degree of security cover for aid operations and enabled the international community to supervise closely the 2006 elections.<sup>13</sup>

**Disabling factors.** Donors appear to be especially concerned about fiduciary and reputational risks arising from the weakness of public financial management. Consequently, donors have been cautious in channelling funds through government and using national systems. Their caution has been raised further by increased public scrutiny of aid budgets in home countries and reduced public tolerance of the corrupt use of donor funds. One donor described the possibility of the misuse of its funds as an 'existential risk' that would severely jeopardise their ability to continue operating in DRC.

Another factor constraining risk taking has been increased political pressure on certain donors (e.g. DFID) to demonstrate measurable results and value for money. Several interviewees raised the concern that this has reinforced the tendency to avoid working through national systems where risks are high and results may only emerge over the long run. Pressure to demonstrate visible results tends to encourage safer options for generating quick results through direct service

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<sup>13</sup> The United Nations Organization Stabilization Mission in the Democratic Republic of the Congo (MONUSCO previously MONUC) currently has an annual budget of \$1.4 bn. MONUSCO operates with a mandate to protect civilians and promote stabilisation backed by around 22,000 uniformed personnel. <http://www.un.org/en/peacekeeping/missions/monusco/facts.shtml>



delivery. The problem partly relates to the difficulty of measuring the results of long-term institutional strengthening and reform programmes. Without strong evidence on results it is difficult to justify the risks of these programmes. In comparison the results of direct service delivery programmes are much easier to measure, although donors often fail to provide robust evidence on the sustainability and long-term benefits of service delivery programmes.

## Part 2 – Practical approaches to risk management

### Contextual risks

#### 2.1 Managing and reducing conflict risks

The M23 rebellion in 2012 and 2013 has highlighted the risks of renewed conflict and disruption to aid programmes in eastern DRC, and demonstrated the shortcomings of the UN peacekeeping operation. This has led to fresh thinking amongst the international community on how to assess, manage and reduce conflict (i.e. contextual) risks. There is no single approach, but the following elements can be highlighted. Taken together they constitute a more robust response to managing conflict risks.

- *More substantial conflict analysis.* Conflict analysis has been strengthened at various levels, including broad assessments of the causes of instability in eastern DRC, and more detailed assessments of individual conflicts. A good example of a broad assessment is the UK Joint Analysis of Conflict and Stability in eastern DRC undertaken in late 2012 with joint inputs from DFID, the Foreign Office and Ministry of Defence.<sup>14</sup> The practice of linking development, diplomatic and defence expertise in conflict assessment appears to have contributed to the quality of this assessment and may facilitate a more joined up intervention strategy. There also are many examples of good information and analysis of individual conflicts. For instance, all German funded programmes in eastern DRC are prepared on the basis of a detailed conflict assessment. The German Funds for Peace (*Fonds pour la consolidation de la paix*) include ongoing conflict analysis undertaken by eight dedicated staff in the field, who are tasked with assessing conflict risks, recommending prevention initiatives and programme modifications to the management team and engaging in mediation work. The staff submits their findings to a coordinator who deliberates together with the technical-organisational and managerial staff about the appropriate reaction on identified conflicts.
- *Flexible donor responses to changing conflict conditions.* Conflict dynamics in eastern DRC remain fluid and unpredictable. Consequently, donors have recognised that flexible approaches to aid delivery are essential for maintaining access and meeting the needs of vulnerable populations. One positive example of such flexibility is the DFID funded Tuungane Programme implemented by the International Rescue Committee, which has been able to respond to the M23 rebellion in North Kivu by shifting from developmental to humanitarian programming. It has succeeded in maintaining access to zones at the centre of the conflict, including Rutshuru and Masisi, whereas other agencies have pulled out. The ability to shift between development and humanitarian activities was built into the programme design from the outset, and the funding organisation was able to respond rapidly and positively to requests by the programme to change its activities. Another example of flexible programming is the German Funds for Peace, which provide substantial resources for infrastructure rehabilitation, agricultural modernisation and economic growth.

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<sup>14</sup> The Joint Analysis of Conflict and Stability was made available to research, but remains a confidential document.

The fund finances numerous individual projects that can be identified and designed within the space of a few months.<sup>15</sup>

- *Fast disbursing instruments.* The length of the programming cycle and project preparation time constrains donors' ability to respond rapidly to changing conflict conditions. Recognising this limitation, several donors are experimenting with fast disbursing instruments. The European Union has activated its Instrument for Stability in DRC, which has provided €12.4 million in assistance over the past year (see box 1). In addition, the European Union has declared DRC to be a country in crisis, a status that enables the use of more flexible EDF procedures including abbreviated tendering.

### **Box 1 - The EU Instrument for Stability**

The EU Instrument for Stability (IFS) provides funds for short duration (maximum 18 months; €20 million financial limit) projects that are prepared on an annual programming cycle. The intention is to finance urgent needs in crisis situations where other EU financing instruments are unable to provide a rapid response. In DRC recent IFS projects have focussed on security sector reform, including the introduction of biometric ID cards for the police and support to military justice, as well as housing for military families and an International Alert community reconciliation project.

IFS funds have proven to be relatively fast disbursing and flexible. Projects are prepared and funded within a few months in response to needs identified by the EU Delegation. The IFS clearly fills a gap that cannot be addressed using normal EDF programming. The instrument appears to have created space for more responsive and high risk initiatives that would otherwise not have been funded by the EU.

However, the experience of IFS programming has also revealed challenges. The annual programming cycle creates pressure to disburse funds, and may lead to hurried project preparation and inappropriate choices. While the IFS projects in DRC appear broadly relevant to stabilisation needs, there appears to have been only limited analysis of what are the most urgent needs and immediate opportunities to promote stabilisation. Making appropriate choices under time pressure depends on the availability of expertise on conflict resolution and prevention, which may not always be available at short notice. The short duration of IFS projects also places limitations on the type of initiative that can be funded. There is a tendency to finance stop-gap initiatives that may serve a useful purpose during times of crisis, but are unlikely to be able to address the root causes of conflict. Longer term programming is essential for a coherent and consistent approach to stabilisation.

In spite of these challenges, the IFS has increased the EU's ability to respond flexibly and to take on risk. The instrument will be most effective where it is provided in combination and in coordination with longer term development programmes.

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<sup>15</sup> The Fund is working with a wide range of ethnic groups and aims to support self reliance and resilience. Local stakeholders are involved in programme identification, design and piloting. In Masisi district in eastern DRC, for example, programmes have focussed on the development of village infrastructure, support for animal husbandry and cropping, storage techniques and marketing.

- *Renewed donor engagement in the stabilisation agenda.* Donors have been heavily engaged in promoting stabilisation in eastern DRC through the International Security and Stabilisation Support Strategy (I4S) and other initiatives. However, there is currently a sense of frustration in the donor community about the lack of results of a decade of investment, in particular in relation to the security sector reform and the I4S strategy. The latter has been undermined by the government's failure to provide counterpart funds for its Stabilisation and Reconstruction Plan for Eastern DRC (STAREC) programme. The result has been that donors have funded infrastructure and facilities that are often underused or unstaffed. Lack of coordination between the UN peacekeeping mission (MONUSCO) and development agencies has also undermined progress. Recognition of the limited results of past stabilisation programmes has encouraged a renewed donor engagement leading to the revision of the I4S, and the formation of a Stabilisation Task Force under the Donor Coordination Group. There appears to be serious determination behind this initiative and recognition of the need for a more joined up approach to preparing a new stabilisation strategy including development partners and MONUSCO.
- *More joined up development, diplomatic and peacekeeping initiatives.* The ongoing security crisis in North Kivu has also spurred more concerted action to address conflict risks through a combination of development, diplomatic and military means. This includes diplomatic pressure on Rwanda and Uganda over their alleged support to M23, which may have calmed the conflict and contributed to the surrender of Bosco Ntaganda to the International Criminal Court in March 2013.<sup>16</sup> Some countries have also applied direct sanctions against M23 members.<sup>17</sup> Negotiations led by the African Union resulted in the signing on 24 March 2013 of a new Peace, Security and Cooperation Framework for the DRC and the Region, which sets out mutual commitments of DRC, its neighbours and the international community. The UN Security Council Resolution of 28 March 2013 has provided MONUSCO with a renewed and more robust mandate. Unprecedented in UN peacekeeping, this includes the creation of a 2,500 strong Intervention Brigade has an offensive mandate enabling it to engage armed groups continuing violence and abuse of human rights "in a robust, highly mobile and versatile manner".<sup>18</sup> This may fundamentally shift conflict dynamics and risks in eastern DRC, but much will depend on its rules of engagement, capability and level of support by local communities. If successful, the Intervention Brigade could perform a powerful peace enforcement and deterrent role. However, its offensive capabilities are as yet unproven, and there are also substantial risks that unsuccessful missions, human rights abuses or collateral damage could alienate local communities and discredit international engagement in DRC more widely. The Security Council resolution also includes a commitment to renewed engagement in security sector reform and support to a revised and revamped I4S.

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<sup>16</sup> In May 2013 at the time of revising this text the M23 conflict has flared up again around Goma.

<sup>17</sup> US sanctions against the leadership of M23 has complicated the process of aid delivery. US funded projects have received legal advice that they would be viewed as having violated the sanctions regime if there were any evidence that their funds had been passed to M23 members, even in cases of extortion, which are commonly experienced for example at roadblocks. Implementing partners are still addressing the implications of this development, and some have raised questions as to whether US funded programmes can continue in North Kivu under such a rigid interpretation of the sanctions regime. A recent letter by M23 exonerating NGOs from local taxes may help in this regard.

<sup>18</sup> UN Security Council/ SC 10964, 28 March 2013, Resolution 2098 (2013) Enables 'Offensive' Combat Force To 'Neutralize and Disarm' Congolese Rebels, Foreign Armed Groups

Taken together these developments constitute a renewed and more robust approach to manage and reduce conflict risks. However, major challenges remain. In spite of improved conflict analysis, the international community often appears to be caught off guard by the flare up of conflicts, for example the M23 attacks on Goma in November 2012 and May 2013, and violence in Katanga in March 2013. This points to the need for improved early warning, and in particular the capacity to respond to warnings. Recent events have generally been predictable, but a proactive and timely response has often been lacking.

## **Programmatic and institutional risks**

### **2.2 Managing risks associated with working through country systems**

As highlighted in section 1.2, donors make limited use of country systems in DRC, and prefer to implement projects through their own systems or through trusted NGO or UN partners with a track record in managing donor funds. This tendency is common in fragile and conflict affected states, but appears to be more extreme in DRC than most comparable cases (see Paris Declaration indicators in section 1.2). Donors are justifiably wary of the fiduciary and reputational risks of working with country systems in DRC that are not well established, function poorly and are often corrupted.

The present position of donors is understandable, but raises serious questions about the sustainability of the results of aid programmes and donors' commitment to supporting statebuilding and aid effectiveness principles. Present modes of aid delivery may actively be doing harm by drawing resources and skills out of government systems, heightening problems of institutional fragmentation, and making it harder for government to implement coherent policies and a unified budget.<sup>19</sup> A criticism levelled by civil society observers is that donors are not acting to ensure that government takes its responsibility, but are instead attempting to fill the gap created by government's failings.

There is broad consensus amongst the donor community that a transition towards greater use of country systems is a desirable long term goal, but there is a lack of a common and coherent view on how to manage such a transition and the risks it entails. Lack of donor experience with using country systems in DRC is also an obstacle to change. In this context, progress is most likely to occur through small and achievable steps that ensure greater use of country systems while putting in place mitigating measures to address fiduciary and reputational risk. Innovation is already occurring at this level, but often in the form of separate donor initiatives rather than a coordinated approach. Some areas of interesting practice include:

- *Joint Management and Embedded Technical Assistance.* Belgian Technical Cooperation (BTC) supports selected ministries through the creation of *Unités conjoints d'appui à la gestion* (see box 2). These units are intended to build capacity and strengthen management systems within ministries by adopting the following principles: (1) embedding the unit and international TA within the ministry, (2) defining mutual commitments of BTC and the ministry, (3) ensuring national direction of the unit's work, and (4) putting in place joint management practices requiring agreement of the Ministry and BTC. France employs a similar model. Four international technical assistant staff are currently embedded in the

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<sup>19</sup> Williams, G. and Ghonda, E. (2012) L'économie politique de la gestion des finances publiques en République Démocratique du Congo

cabinets of the Ministries of Budget, Finance, Justice and Civil Service. A statement of mission, signed by the Congolese minister and the Head of the French Cooperation, defines and limits the areas of technical and financial support. The European Union also employs a system of joint responsibility through the model of the National Authorising Officer and COFED (*Cellule d'appui à la coopération avec le FED*).

### **Box 2 – Belgian Technical Cooperation and the model of *Unités conjoints d'appui à la gestion* (UCAG)**

Following critical evaluations of its approach to providing technical assistance, Belgian Technical Cooperation (BTC) in DRC has developed a new model for institutional strengthening based on embedded TA and joint management. In 2011 BTC established joint management support units (*Unités conjoints d'appui à la gestion UCAG*) in three ministries: MINIDER (Rural Development), MAPE (Agriculture, Fisheries and Livestock) and MEPSP (Primary, Secondary and Professional Education).

The new approach attempts to address identified weaknesses in previous technical cooperation programmes, including: lack of local ownership of the programmes, centralised donor-centric management, lack of accountability on the part of donors for delivering results, duplication of effort and slow procurement. At a meeting in October 2009 the DRC government demanded a change in approach criticising the creation of parallel structures and donor imposition of heavy management procedures.

The new UCAG model has been designed around aid effectiveness and fragile states principles. Most importantly it aims to increase country ownership and put in place a system of joint management where BTC and the recipient ministry are equally responsible and accountable for results. The UCAGs aim to support improvements to internal management processes within ministries (at central, decentralised and deconcentrated levels), and to strengthen staff and institutional capacity around planning, coordination, sectoral programming, policy development and project management. They are closely linked to road maps for institutional reform and strengthening (*feuilles de route*) that define mutual commitments of the DRC government and BTC.

The UCAGs are implanted within the regular structure of the ministry at the apex level just under the Secrétariat Général. They are jointly managed by a national and international coordinator. Limited international TA is used for certain functions, namely institutional support, financial control and procurement. Most of the management procedures within the UCAG follow BTC systems. However, the general principle is that there is joint control by international and national coordinators, who manage the unit's work under a system of co-responsibility. Some functions remain under full BTC control, including accounting, payments, audit and procurement over a €25,000 threshold. These safeguards limit the fiduciary risks to BTC while enabling government to take on an increasing level of responsibility for programme delivery.

Source: Interview with Dirk Deprez, Belgian Technical Cooperation

- *Harmonised Approach to Cash Transfers (HACT)*. DRC is one of seven countries where UNDP is testing a new implementation modality referred to as the Harmonised Approach to Cash Transfers (HACT). This enables donor funds to be advanced to national entities subject to previous accreditation, spot checks during project implementation and ex-post auditing. The approach aims to build confidence in the use of accredited partners. Ultimately it could become a mechanism available to all donors and a means to collectively ensure due diligence and limit fiduciary risk.

### **Box 3 – UNDP’s Harmonised Approach to Cash Transfers (HACT)**

The Harmonised Approach to Cash Transfers (HACT) is a common operational framework for disbursing funds to implementing partners (NGOs and government partners). The approach underpins the alignment of development aid with national priorities through the strengthening of capacities for management and accountability, but is not a tool for conditionality. The HACT strives to seek both a reduction in transaction costs with partners and to adopt a risk management approach over one of risk avoidance.

In the DRC, a high-risk fragile state, four UN agencies started implementing the HACT in the DRC in 2011. UNDP, UNICEF, UNFPA, and WFP thus opted to implement this approach for the management of their governmental and NGO implementing partners.

The HACT relies on two fundamental assessments (“Macro Assessment” and “Micro Assessment”) conducted with implementing partners during programme preparation to determine levels of risk and capacity gaps of implementing partners. The HACT then employs assurance activities, such as audits and spot checks during implementation, introducing a new harmonised format for implementing partners to request and report on how funds have been utilised.

The Macro Assessment covers both development and financial objectives. With regards to the former, it helps UN agencies and government identify strengths and weaknesses in the public financial management system that is flagged for follow-up assistance. On the latter, it helps the UN understand more fully the financial environment within which they are operating. The simple seven-page Macro Assessment is completed through a review of existing key documentation, such as the World Bank’s PEFA and other public expenditure and audit reviews.

The Micro Assessment supports two similar objectives. With regards to capacity development, it reviews the strengths and weaknesses of an implementing partner’s financial management system, and includes recommendations to strengthen less robust areas. This information should then be included in the overall capacity development plan of implementing partners. On financial management, it helps the UN agencies identify the most appropriate assurance methods and most suitable procedures for the purposes of transferring funds. In the DRC from 2008-2012 over 250 Micro Assessments were conducted.

Latest figures indicate that the use of HACT is gaining traction in DRC. In 2011 total UNDP expenditures were US\$199m, of which \$66m was expended via HACT. In 2012 UNICEF expended US\$183m, of which \$136m passed through HACT, and much of this was spent through the health and education ministries.

The adoption of HACT has helped shift the partnership with the UN from a system of verification and control of expenditures to one of facilitating results-orientation and reduced paperwork with the partner. Striving for both results effectiveness and cost efficiencies, the HACT approach for the period 2010-2012 was estimated by UNDP to have led to a reduction of transaction and operating costs in the order of 50%-60%, allowing for a greater portion funds to be shifted in favour of clients and beneficiaries.

*Text provided by UNDP DRC*

- *Steps towards budget support.* In 2010-11 the European Union reimbursed the DRC government against audited salary payments for teachers. This was provided as a means to ease budget and balance of payments constraints at a time when public finances and external accounts were strained by the global food and financial crisis. This creates an interesting precedent in providing programme aid to government that in some ways resembles budget support. The European Union was able to limit its exposure to fiduciary and reputational risk by closely auditing teacher's salaries and being able to demonstrate that its transfers to government accounts were a direct reimbursement of these expenses that had already been incurred. The EU is experimenting with the development of a similar mechanism for the health sector, which GAVI and the Global Fund for AIDS, TB and Malaria are reportedly interested in using.
- *Programmes to support public financial management.* Weak public financial management is a critical obstacle to the use of country systems. Consequently donor programmes aiming to strengthen PFM systems will be essential to putting in place sufficient controls to enable donors to use country systems. Several donors are active in strengthening PFM (particularly the EU, World Bank, the United Kingdom and France) and the PFM reform process has been bearing fruit in areas such as improved budget preparation, revenue management and procurement. However, critical weaknesses remain, including use of emergency spending procedures, weak accounting and audit controls and inadequate parliamentary oversight. A new World Bank led Multi Donor Trust Fund to support further reform is in preparation, which will focus on strengthening budget execution, accounting functions and audit processes, as well as provincial level PFM.
- *Specially designated government accounts.* DRC's new public finance law provides for the use of *comptes d'affectation spéciale*, which are specially designated government accounts that are managed on-budget, but are reserved for donor funded activities and can be subject to donor procedures.<sup>20</sup> This could offer a useful mechanism for donors to place their funds on budget while maintaining fiduciary safeguards, such as their own procurement procedures. However, donors appear to be unfamiliar with this provision of the public finance law and unready to make use of this modality.

All of these models represent intermediate steps towards the greater use of country systems that build confidence while maintaining safeguards and limiting donors' exposure to fiduciary risk. They indicate that the use of country systems can be introduced progressively and on a pilot basis through the use of intermediate arrangements rather than by immediately introducing budget

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<sup>20</sup> Loi relative aux finances publiques of 13 July 2011. See explanation in Williams and Ghonda *op cit*.



support, which would carry unacceptably high risks. The diversity of arrangements used in DRC indicates that there are multiple and alternative paths to the greater use of country systems. Donors deserve credit for experimenting in this way, but in general terms progress towards using country systems has been slow, and has been held back by aversion to fiduciary risk and the absence of a common approach and vision amongst donors.

**New Deal.** The Busan New Deal offers an opportunity for donors to renew their engagement in statebuilding and peacebuilding in DRC. It would reduce the risks to donors of working with government and using country systems by strengthening principles of country ownership, mutual accountability and progress monitoring. The idea of a Transition Compact envisaged under the New Deal could be a powerful instrument to build confidence and trust and between donors and government and inject new energy into this relationship. However, the implementation of the New Deal in DRC is progressing slowly, an experience that is not unique to DRC and reflects differences in donor-government relationships between countries, and differences in government commitment to New Deal processes.

The Former DRC Minister of Planning was a leading figure internationally in the discussions around the Busan New Deal. This led to high expectations surrounding the decision that DRC should be a pilot country for the New Deal process. However, there has been limited progress since the New Deal launch in DRC in August 2012. A draft country-led Fragility Assessment has been prepared, but not yet finalised or shared with donors. Substantial discussions on the content of a Transition Compact have not yet begun. Interviews with government representatives suggest that there is enthusiasm for the New Deal within the Ministry of Planning, but it appears that there is limited awareness and ownership of the New Deal more broadly across government. Donors have expressed support for the principles of the New Deal, but initial enthusiasm has been curbed by lack of progress. However, the principle of mutual accountability has certainly gained currency and traction in donor discussions. For example, the revised I4S strategy, is likely to include a strong mutual accountability framework. Similarly the Peace, Security and Cooperation Framework for the DRC and the Region signed in Addis Ababa on 24 March 2013 provides a statement of mutual commitments by the DRC government, neighbouring countries and the international community. There is potential to build on these statements to develop a Transition Compact.

In looking for ways forward to develop the New Deal in DRC, it is important to learn lessons from past experiences with compacts in DRC, for example the Governance Compact launched in 2006 and the multi donor Country Assistance Framework that was developed around 2008 and was linked to the government's Poverty Reduction Strategy Paper. Both of these processes are now regarded as having raised high expectations, but delivered little. The lesson for the Busan New Deal is that expectations will need to be managed, and that a mutual accountability framework based on small achievable steps will be more helpful than a statement of overly ambitious goals. In the first instance this might involve commitments by government to strengthen particular aspects of country systems that donors could then commit to working with.

## **Institutional risk**

### **2.3 Managing security risks**

The management of security risks is essential for staff safety and minimising disruption to aid delivery. The management of security risks is a particularly relevant issue for implementing agencies, but also affects donors' ability to access the field and monitor programme performance

and risks. Some weaknesses are notable in the management of security risks, but there are also important strengths that are indicative of generally good practice. The following features of security management can be identified in DRC:

*Information systems and communication on security risks are relatively well developed in DRC.* NGOs collect and share their own information on security events and threats, and also have access to weekly MONUSCO and OCHA weekly security briefings. However, rapidly changing security conditions at local level means that information is sometimes lacking or out of date, particularly in crisis situations. One NGO interviewed for this study commented on the lack of information on the advance of M23 into Goma in November 2012, and explained that its staff had been caught behind rebel lines. In another case an international NGO hastily withdrew from project areas in North Kivu in 2009 suspending life saving health services for 100,000 people on the basis of incomplete security information.<sup>21</sup> These cases indicate the challenges of providing accurate and timely information in a fast moving and complex security environment, but also suggest that there is scope for improvement, particularly in terms of early warning, crisis response and intelligence on the motivations of conflict protagonists.

*International NGOs generally have well developed security procedures in place.* Implementing agencies interviewed for this study all appeared to have well developed security systems in place. These commonly included the continuous monitoring of local threats, active communication with armed groups, maintaining mobility (including the use of reliable vehicles and alternative working bases), using reliable communication equipment, and building relationships and acceptance with local communities. Staff security risks have also been managed through decisions to hibernate or temporarily suspend programmes, withdraw certain categories of staff or close operations in certain areas. These strategies have been effective in reducing the number of security incidents, but do result in frequent disruptions to aid delivery.

*Selective use of UN protection and armed escorts.* The availability of armed escort by UN peacekeepers helps to maintain access to insecure areas, but some NGOs prefer not to travel with peacekeepers fearing adverse impact on their reputation as it affects perceptions of neutrality particularly for community level development and conflict resolution work.

*Donors generally display flexibility in cases of interruptions to aid delivery.* In most cases implementing organisations reported that funding bodies displayed understanding and flexibility when NGOs expressed the need to modify or shift operations in response to security threats.

*Strict security protocols limit the access of donor agencies to insecure areas.* Security protocols vary between agencies, but some have experienced severe limitations on their ability to travel to the field and to interact with local counterparts. For example, USAID staff have not been able to travel to North Kivu for the past 12 months. Such restrictions are understandable, but regrettable because they limit donors' exposure to local realities and the conditions under which their implementing partners operate. Travel restrictions also reduce the flow of information between donor offices in Kinshasa and projects in the field (which in the case of the Kivus are more than 1,500 km away from the capital). This limits donors' ability to monitor projects directly, and so may

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<sup>21</sup> The decision to withdraw temporarily from North Kivu in 2009 followed reports that Rwandan soldiers had entered DRC territory. Unknown to the NGO at the time the soldiers had been invited by President Kabila to take part in joint Congolese-Rwandan operations against the FDLR. The NGO reports that they would not have taken the decision to withdraw if this information had been made available.

increase fiduciary and reputational risks. This raises the question as to how donors can increase their field exposure. Options include reviewing security protocols, establishing presence in safer urban locations in eastern DRC (e.g. DFID plans to establish an office in Bukavu), making greater use of the escort services of UN peacekeepers, or contracting third party providers of monitoring and evaluation services to ensure adequate programme oversight in insecure zones.

## **Conclusions**

This case study has highlighted some good practices in risk management in DRC, particularly in relation to the management of conflict and security risks, including good analysis and information flows, joined up approaches linking development, humanitarian aid and peacekeeping, and flexible aid management practices in insecure zones. However, there are also major weaknesses indicated by donors' reluctance to use country systems and their tendency to avoid working with government. Donors have become so concerned with reducing institutional and programmatic risks that they have restricted themselves to safer programming options. As a result they may be missing opportunities to support institution building as part of an agenda for statebuilding and peacebuilding that would help to address contextual risks.

This case study has argued that donors need to manage risks more successfully in order to have a greater and more lasting impact in DRC. The principal challenge is to find ways to take on greater programmatic risk and increase the use of country systems, while avoiding excessive fiduciary risk. Change is most likely to occur on an incremental basis through the progressive use of intermediate arrangements that increase the use of country systems and engagement with government while maintaining fiduciary safeguards. Several promising models have been discussed in section 2.2. In spite of its limited take up, the Busan New Deal could also be an important instrument for more effective risk management based on principles of mutual accountability. The New Deal process could provide a much needed opportunity for joint donor reflection on risk management problems in DRC and the emergence of a more coordinated approach and common vision.

## List of people met or contacted

### Donors

United Kingdom, Department for International Development, Graham Thompson, Phil Stevens, Nicola Dahrendorf, Mailan Chiche and Alistair Burnett.

Embassy of the Federal Republic of Germany, Simon Stumpf, Head of Cooperation

Embassy of Belgium, Harold Vandermeulen

Embassy of Canada, Marie Brault, First Secretary (Development)

Belgian Technical Cooperation, Dirk Deprez

European Union, Vincent Dowd, Head of Cooperation

USAID, Susanne Trichard

UNDP, Nick Rene Hartmann, Deputy Country Director

Donor Coordination Group, Helena Sterwe, Aid Coordination Specialist

### Government

Theo Kanene Mukwanga - Ministry of Planning (Directeur des Ressources Extérieures)

### Implementing partners

International Rescue Committee, Linda Ehrichs and Christof Kurz

German Funds for Peace, Hans-Georg Hagen, Technical Coordinator

IMA World Health, Luke King

Christian Aid, Bila Isia Inogwabini, Country Manager

### MONUSCO

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### Others

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