



Report: Basket Funds in Fragile States

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List of abbreviations

AFD	Agence Française de Développement
APSEB	Appui au plan sectoriel de l'éducation au Burundi
BF	Basket Fund
CABRI	The Collaborative Africa Budget Reform Initiative
CPA	Country Programmable Aid
CRS	Creditor Reporting System
DAC	Development Assistance Committee
DfID	Department for International Development
DGD	Directie-Generaal Ontwikkelingssamenwerking en Humanitaire Hulp van de FOD Buitenlandse Zaken, Buitenlandse Handel en Ontwikkelingssamenwerking (België)
DRC	Democratic Republic of the Congo
FCE	Fonds Commun de l'Education
GBS	General Budget Support
INGO	International Non-governmental Organization
IRAI	IDA Resource Allocation Index
LDC	Least Developed Country
LENPA	Learning Network on Programme-Based Approaches
MDG	Millennium Development Goal
MoU	Memorandum of Understanding
NGO	Non-governmental Organization
PBA	Programme-Based Approach
PD	Paris Declaration on Aid Effectiveness
PDIA	Problem-driven Iterative Adaptation
PFM	Public Finance Management
PIU	Project/Programme Implementation Unit
PSDEF	Plan Sectoriel de Développement de l'Education et de la Formation
SBS	Sector Budget Support
SAP	Structural Adjustment Programme
SWAp	Sector-Wide Approach
TA	Technical Assistance

1 Introduction

1.1 Background

The poverty reduction challenge is extremely pressing in fragile states. Although absolute poverty has been reduced significantly over the past two decades, both the share and the absolute number of poor people living in fragile and conflict-affected states has increased over the past decades: from 14% in 1988-90 to 23% in 2007-08, or an absolute increase from 228 million people to nearly 300 million (Sumner, 2010). Various simulations support the idea that this trend towards a greater concentration of the poor in fragile states is likely to continue, although they differ in their estimation of the extent of this trend (Kharas and Rogerson, 2012; Chandy et al., 2013; Edward and Sumner, 2013; Ravallion, 2013). Beyond income poverty, it is further acknowledged that while recently some fragile states have managed to meet one or more of the MDG targets, the overall picture is that in fragile states the majority of MDG goals will not be realized (World Bank, 2013).

The prospects for fragile states to rapidly reduce poverty look rather grim. As the most recent report on fragile states published by the Development Assistance Committee (DAC) points out, fragile states still only collect on average 14% of their GDP in taxes, well below the 20% UN benchmark viewed as the minimum needed to meet the millennium development goals (MDGs). Given the scarcity of their own revenue and the limited availability of and control over international flows, and due to a low level of integration in the international economy, aid has and will continue to play an important role in these countries. Between 2000 and 2009 Country Programmable Aid (CPA¹) increased to these countries, more than doubling in real terms, with an increase of over 10% a year on average in per capita terms. Within the group of fragile states, this trend was more pronounced for fragile Least Developed Countries (LDCs) than for fragile non-LDCs. Since 2009, however, CPA to fragile states has slightly decreased and the DAC expects further decreases in the coming years (OECD, 2014).

The problems and challenges of fragile states are not just situated at the government performance level (their failure to deliver on poverty reduction and basic services), but also on the political settlement level. Fragile states balance on the edge of sliding back into conflict, instability, violence, and political rupture with economic, political, and social consequences that stretch beyond national boundaries. To avoid relapses of this kind, it will be necessary to look beyond government performance. Ghazala and Vijayendra (2013) describe the existence of “failure triangles” in which market failures, government failures and civil society failures amplify each other, a description which would particularly fit fragile contexts. Furthermore they argue that addressing failure in one dimension cannot correct the failures in the other dimensions. This tripartite failure can be used as the basis of an intervention logic by donors, in that if by virtue of their financial or personnel inputs, the interconnection between state, market and society can be improved, they help alleviate one of the primary sources of continued fragility.

¹ CPA tracks the proportion of ODA over which recipient countries have, or could have, a significant say. CPA reflects the amount of aid that involves a cross-border flow and is subject to multi-year planning at country/regional level. It measures gross bilateral ODA but excludes activities that: (1) are inherently unpredictable (humanitarian aid and debt relief); (2) entail no cross-border flows (administrative costs, imputed student costs, promotion of development awareness, and costs related to research and refugees in donor countries); (3) do not form part of co-operation agreements between governments (food aid, aid from local governments, core funding to NGOs, ODA equity investments, aid through secondary agencies, and aid which is not allocable by country or region).

In sum, given the importance of poverty reduction for most donors, given the importance of ODA in fragile states, and given the need to look at fragility from a more holistic perspective, donors face tremendous challenges. The difficult environments that characterise fragile states requires donors to change their ways in delivering aid. The DAC argues that international engagement in these countries should differ in two ways: donors should “do different things”, focusing mainly on the underlying aspects of fragility. Secondly, donors should “do things differently”, placing aid effectiveness even more centrally in their approaches given the limited capacity and volatile social, economic and political dynamics in these countries (OECD, 2013).

Box 1: The research-policy nexus regarding fragile states

Over the past few years, the concept of ‘fragile states’, as well as the broader term ‘fragile situations’, have entered into common usage. These concepts have become a powerful designation for states that are considered to be in need of international peacebuilding or state-building support. In the wake of the Paris Declaration (2005), questions have been raised about the applicability of its core principles in fragile states. A case was made for an adapted approach, leading to the adoption of a specific set of principles – the Principles for Good International Engagement in Fragile States. Several policy documents on donor intervention in fragile states were then also produced, many by the International Network on Conflict Affected and Fragile States.

These policy documents echo conceptual and explanatory elements from the recent scientific literature on peacebuilding as well as state-building. Though not entirely new fields of investigation, both gained considerable importance in the early 1990s. Initially, these two fields were studied by distinct research communities, but in recent years they have been increasingly merged, indicating a closer enquiry into the correlation between the characteristics of conflict and state dynamics. The international community has picked up this signal as well, and amplified it in a number of ways: through combined peacebuilding and state-building operations, through the production of guiding policy documents and, more recently, in 2011, by the endorsement of the New Deal for Engagement in Fragile States, an agreement which affirms both peacebuilding and state-building as its two central goals.

Despite considerable progress made over the last two decades in conceptualising fragile statehood and exploring causal relationships, two specific caveats remain.

Firstly, the scientific work from which current policy thinking on support to fragile states is being drawn, has not yet yielded a sound and irrefutable body of knowledge that can be reliably translated into relevant policy. On the one hand efforts to produce generalizable knowledge on fragile states suffer from shortcomings in the robustness of detected causalities, and on the other, the empirical findings of country-level studies on the subject cannot be easily extrapolated to other fragile contexts. Furthermore, there are concerns about how exactly scientific knowledge on the subject is translated into policy. In his study on the fragile states research-policy nexus, Paris (2011: 66) warned against the risk of time lags, allowing for “dubious policies [to] be continued in the interim but also [for the fact that] by the time “new” scientific ideas gain widespread acceptance in the policy world, they may have already been refined, corrected, or disproven in the scientific world”. He also contends that the percolation of scientific ideas into the field of policy has performed quite well in terms of conceptual understanding, but far less in terms of translating scientific recommendations into international relations and aid policy.

A second caveat relates to the fact that the current fragile states debate tends to lump together three distinct dimensions of the state – authority/security, capacity and legitimacy. This is problematic because the implementation of policy prescriptions based on a general rather than a refined understanding of fragility will most likely yield unsatisfactory results. Gravingholt et al. (2012: 6) state that “[t]he underlying assumption is that the impact and success of state-building activities depend not only on their ‘objective’ quality, but also on

their level of adaptation to different types of environment”. In a fragile state context, the ‘types of environment’ referred to denote different types of states that combine the three cited dimensions to varying degrees. For instance, while DR Congo may be characterised as a ‘failed state’, with low levels in all three dimensions, Algeria is rather a ‘challenged performer’, with a reasonable capacity but high levels of violence.

It follows from the above that not only is there a clear need for advancing and refining our understanding of fragile states – conceptually, theoretically and empirically, but also that the knowledge thus generated needs to find an appropriate manner to flow into the policy domain. As we will argue in this study, one relevant policy choice is that of appropriate aid modalities.

We will argue in this study that Basket Funds (BF) offer donors the possibility of complying with the guidelines of the Paris Declaration since the BF modality allows for a harmonised approach but with enough leeway to align to the recipient to a greater or lesser extent depending on local circumstances.

For Belgian Development Cooperation, working more effectively in fragile states is a crucial challenge given the importance of fragile states in its overall cooperation portfolio, and more specifically its focus on the African region of the Great Lakes. Of its 18 partner countries, 6 (Burundi, the Democratic Republic of the Congo (DRC), Mali, Niger, Palestinian Territory and Uganda) are considered fragile according to the latest DAC list of fragile states and all but one of these (Palestinian Territory) are LDCs (OECD, 2014). In addition, one major LDC recipient (Rwanda) was on the DAC list of fragile states until 2013 and another important recipient fragile state (Burkina Faso) was a partner country until 2004 and is still receiving significant amounts of aid. Overall, approximately one third of Belgian aid is allocated to fragile states and this proportion is even higher when we include Rwanda and Burkina Faso:

Table 1: Total net Belgian ODA, excluding debt relief (constant prices 2011 USD millions)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
All recipients, Total	1,596.5	1,623.5	1,881.3	1,926.5	1,929.9	2,320.4	2,604.3	2,625.9	2,671.4	2,165.4
Developing Countries, Total	1,037.6	899.0	1,055.1	1,169.3	1,150.5	1,295.1	1,539.4	1,605.7	1,603.2	1,230.3
Fragile states, Total	248.2	297.3	310.6	344.0	323.1	428.5	478.4	494.7	468.0	375.6
Of which										
Burundi	23.0	27.6	26.9	40.7	28.8	59.1	54.3	60.9	63.9	59.6
Burkina Faso	18.1	26.5	14.8	20.5	15.7	13.2	14.6	17.1	11.6	10.4
DRC	89.4	111.5	112.9	132.6	133.9	177.1	184.0	176.4	170.2	139.0
Mali	6.5	11.9	12.0	16.2	21.2	23.8	20.4	20.1	19.6	16.6
Niger	15.3	11.2	19.2	23.1	17.4	22.2	27.4	37.3	23.6	18.7
Palestinian Territory		17.1	21.3	19.2	21.6	30.8	23.6	26.1	30.0	35.5
Uganda	9.6	10.5	16.8	18.1	16.4	17.3	23.0	30.3	14.2	22.9
Rwanda	30.0	24.3	34.4	44.0	46.5	66.3	85.4	75.3	76.5	56.7
Share of FS (% of developing countries total)	23.92%	33.07%	29.44%	29.42%	28.09%	33.08%	31.08%	30.81%	29.19%	30.53%
Share of FS plus Rwanda	26.81%	35.78%	32.70%	33.19%	32.13%	38.20%	36.63%	35.50%	33.97%	35.14%

Source: DAC-CRS

1.2 Objectives and methodology of the study

After initial discussion between DGD² and the research team about the precise objectives of this study, the final terms of reference were agreed upon in September 2013. They focused on an assessment of Belgian practices in handling Basket Funds in fragile states and a comparison with other donors.

More specifically, this study aims at uncovering donors' policies and practices in fragile states with respect to:

- Aid modality selection: what are the decision making algorithms, to what extent do donors rely on them and what do they entail?
- Administration of Basket Funds: what are the main design parameters and how do they compare to those used for projects and budget support?

To achieve the objectives put forward for this study, the research team combined a desk review of relevant scientific and donor literature with a written questionnaire (responses obtained from AFD, DfID, Norway) and semi-structured interviews (conducted with DGD, AFD, DfID).

Specific attention in this study was given to the Belgian policies and practices related to the use of Basket Funds. In particular, a representative case of a Belgian supported Basket Fund in a fragile state – the *Fonds Commun de l'Education (FCE)* in Burundi – was selected for detailed examination. Although from a methodological point of view a single case doesn't allow for generalizable findings, it does have the merit of being an additional source of information for the purpose of triangulation, which strengthens the analysis made on the basis of the desk review, the questionnaire responses and the interviews.

The fact that both the scientific and donor literature on aid modalities in fragile states and on Basket Funds more generally is at this stage insufficiently developed, complicated the task of providing valid answers to the set research questions.

1.3 Setup of the paper

We begin by looking at the origin of Basket Funds as a modality. Next, we analyze their potential to help donors pursue the aid effectiveness principles in fragile contexts. The third section looks specifically at the evidence provided by the scientific literature on the potential of Basket Funds in fragile states. Section 4 examines the definitions donors use and how these align to the definitions provided by the scientific literature. We then move on to considering the importance and potential added value of Basket Funds in overall donor aid portfolios, specifically in fragile states. Finally, section 6 presents the evidence on how donors handle Basket Funds, with the case of the FCE in Burundi (in which Belgium participated alongside Luxemburg, France, Norway, the UK and the Global

² DGD (Directorate-General Development) is the government department, located within the Belgian Federal Public Service of Foreign Affairs, Foreign Trade and Development Cooperation, that is in charge of all Belgian official development aid related aspects. The task of implementation has been consigned to the Belgian Development Agency BTC (Belgian Technical Cooperation). BTC is a public law company with social purposes. The Belgian State is the only shareholder. For the account of the Belgian State, BTC supports and provides guidance to development programmes, by making available expertise, personnel and financial resources to Belgian partner countries. This study was commissioned by DGD within the framework of the Reseach Platform Aid Effectiveness, a project set up to provide policy advice to DGD.

Partnership for Education) being used to illustrate the way donor policies play out in practice in a fragile states context. We conclude with a series of recommendations.

2 The origin of Basket Funds

Although Basket Funds are often seen as one of the newer modalities that were born under the new aid architecture, their origin can be traced back further in the past. In reality BFs were conceived in the nineties with the emergence of sector-wide approaches (SWAPs) and were in that sense a forerunner, rather than a product, of the New Aid Approach.

SWAPs emerged as a reaction to the declared failure of the ‘traditional aid modalities’ such as project support and Structural Adjustment Programmes (SAPs). Projects, often fragmented and parallel to existing structures were said to undermine existing national institutions because of their high transaction costs, their tendency to poach staff, and their budget burdening effect. Given the often low ownership by recipient governments over these projects, they were generally also unsustainable. SAPs showed that the imposition of conditions without ownership over the proposed reforms resulted in low compliance. SWAPs were intended to overcome these pitfalls. They would start from a sector strategy developed by the recipient, which in turn would create a more supportive environment for achieving sustainable results (Katabaro et al., 2007).

Although SWAPs are generally contrasted to aid modalities like projects, programmes or Sector Budget Support (SBS), they are in fact not an aid modality, but rather an aid approach. Aid approaches generally provide a set of guiding principles, some or all of which will be implemented in practice using various aid modalities. Aid approaches also typically place a very high emphasis on the trajectory of change rather than insisting that every element be in place from the outset (Handley, 2009). As a result, a project might be a stand-alone aid modality (traditional project approach, stand-alone project, later on also referred to as lower modalities), or it might be a modality which is coherently integrated into a wider aid approach within a sector (“new-style project”) (Bossyns et al., 2006). While SWAPs were implemented at the sector level, the concept was later extended to Programme-Based Approaches (PBAs). The PBA definition provided by the Learning Network on Programme-Based Approaches (LENPA) in 2003 features in Box 2.

Box 2: LENPA definition of programme-based approaches

A program is an integrated set of activities designed to achieve a related set of outcomes in a relatively comprehensive way.

A PBA is a way of engaging in development cooperation based on the principle of coordinated support for a locally owned program of development. The approach includes four key elements:

- Leadership by the host country or organization.*
- A single program and budget framework.*
- Donor coordination and harmonisation of procedures.*
- Efforts to increase the use of local procedures over time with regard to program design and implementation, financial management, and monitoring and evaluation.*

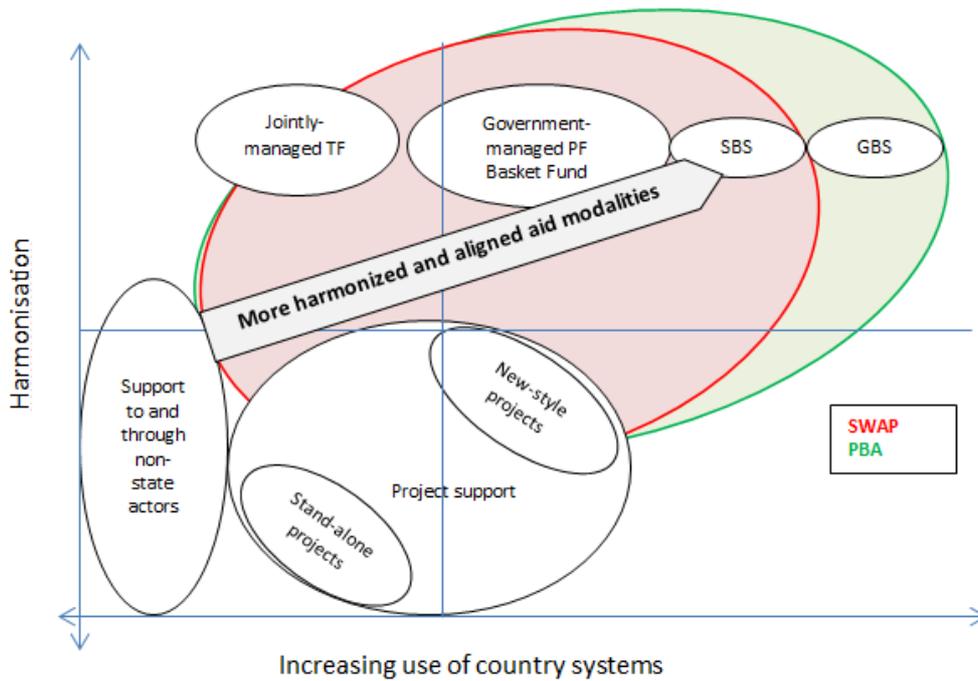
Source: Lavergne and Alba, 2003

The general principles underlying PBAs were later taken up by the Paris Declaration on Aid Effectiveness (PD) into the commitments on ownership, alignment and harmonisation. The Paris Declaration also referred to the implementation of PBAs as a way to ensure aid provision stayed in

line with the PD principles. One of the monitoring indicators also puts a target on the share of aid provided in the form of PBAs.

In sum, SWAPs and PBAs are aid approaches which can be financed through different aid modalities. However, both focus on the intention to move towards aid modalities which increasingly align to government procedures. This is illustrated in the sketch below.

Figure 1: Graphical representation of aid modalities and approaches³



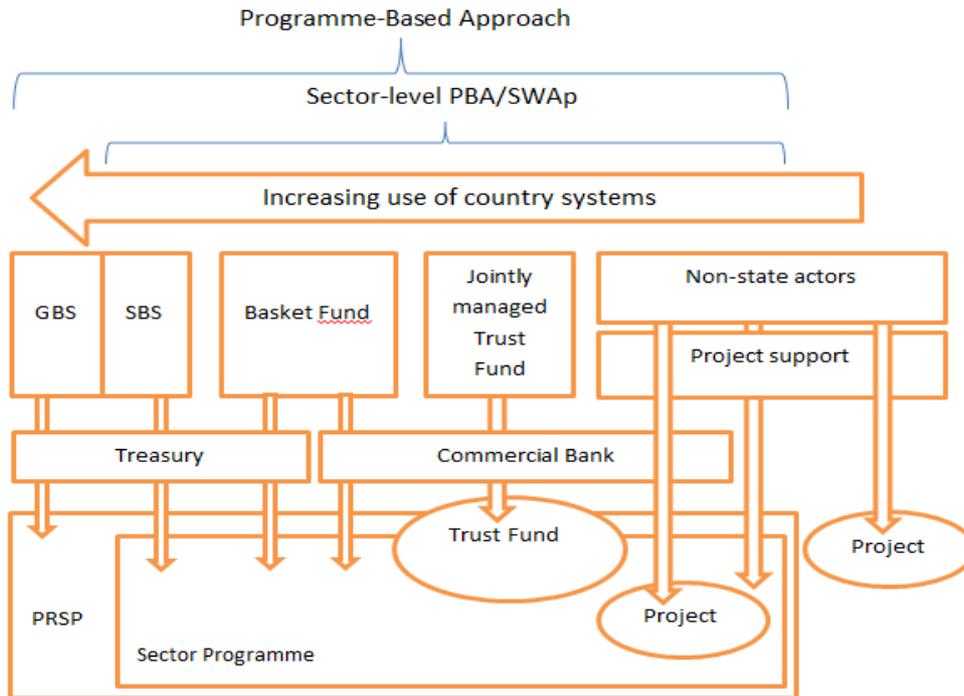
Source: Authors

Figure 1 shows how a spectrum of aid modalities, each of which may be harmonised and aligned to differing degrees, might be used within a SWAP. In line with this graphic representation of aid modalities, we will later in the paper refer to “higher” and “lower” aid modalities. Higher modalities like General Budget Support (GBS) and SBS implement the principles of harmonisation and alignment to a greater degree than lower modalities, like stand-alone projects. While stand-alone projects are not integrated into SWAPs, a SWAP offers the possibility to retain parallel project funding but to coordinate the funding for activities or projects within the SWAP. Depending on the recipient country and donor landscape context, donors can move further up in the modality continuum. A first step might focus on harmonisation, while at later stages and when recipient priorities and systems improve, donors can move towards more aligned modalities. Applying this sequence to fragile states, with weak recipient systems and policies, would lead donors towards the use of a harmonised and limitedly aligned aid modality, like Basket Funds.

Figure 2 below shows how the different aid modalities could be financed and coherently integrated in one SWAP or PBA:

³ The aid modalities listed in this figure are discussed further in section 4.2

Figure 2: Financing mechanisms of a SWAp or PBA⁴



Source: Author's compilation based on Manuel et al., 2012 and AFD, 2009

⁴ The aid modalities listed in this figure are discussed further in section 4.2

3 The evidence on Basket Funds in Fragile States

3.1 The evidence on new aid modalities in Fragile States

The intention in donor circles to move away from the traditional project approach and SAPs towards aid modalities that adhere to the principles formulated in the Paris Declaration was thus initially motivated by dissatisfaction with the effectiveness of earlier aid modalities. With the new aid modalities donors wanted to avoid weak country ownership, badly aligned aid interventions and a non-harmonised and uncoordinated donor community. The case in favour of choosing these aid modalities was, however, less well substantiated. While the scientific evidence with regards to aid effectiveness is growing and becoming more optimistic in terms of its impact (see for example Arndt et al., 2010; Clemens et al., 2012), the evidence with regards to the effectiveness of new aid modalities remains less substantiated with scientific evidence.

Besides the methodological difficulties involved in attempting to rigorously identifying the effects of new aid modalities, the lack of evidence can also be attributed to the fact that there is much less experience with and evidence on these new modalities to base general conclusions on. The limited literature claiming to have established the potential positive effects of new aid modalities has mainly originated from within donor circles and focuses on the higher aid modalities. A number of evaluations have concluded that GBS has some institutional effects on the Public Finance Management (PFM) system of the recipient country and also at input and output level, by increasing pro-poor expenditures and expanding service delivery. Further down the causality chain, at intermediate and final outcome level, no effect of GBS could be found on improved quality of service delivery, poverty reduction or economic growth (IDD and Associates, 2006; Lawson et al., 2005; IEG, 2010; Dijkstra, 2012). For SBS, one of the major evaluations conducted for the Strategic Partnership with Africa arrived at similar conclusions (Williamson and Dom, 2010). Under certain conditions, SBS had an institutional impact on budgetary planning, the budget cycle, financial management and accountability. At output level, SBS contributes to an expansion of service delivery. However, the aid modality failed to effectively address the lack of qualitative service delivery. One study devoted to Basket Funds (Williamson et al., 2008) was fairly dismissive, arguing that BFs tend to create parallel structures with burdensome coordination mechanisms which draw away attention from recipient policies and systems towards the parallel donor structure. In this way Basket Funds “appear to be stumbling rather than building blocks in strengthening service delivery” (Williamson et al., 2008: 38).

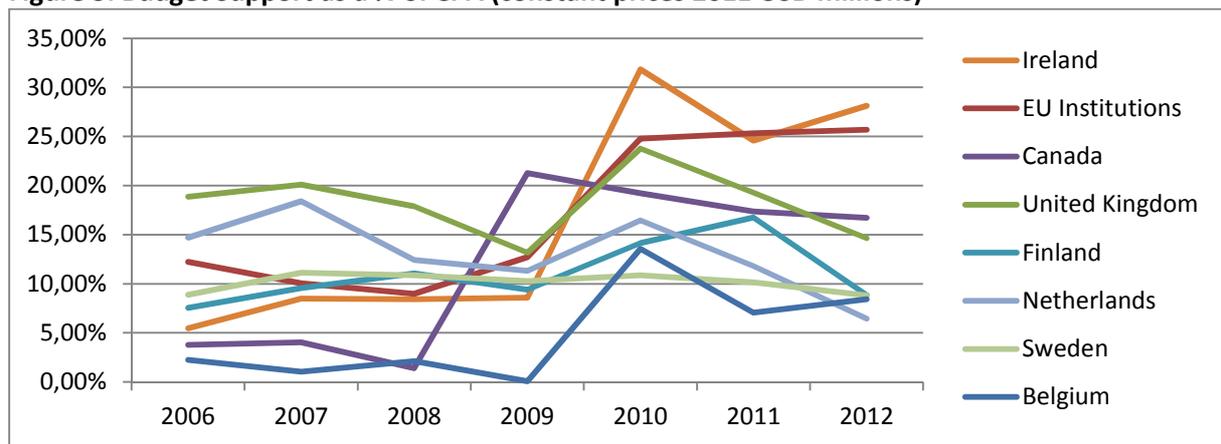
This lack of evidence on the effects of new aid modalities is particularly manifest in the context of fragile states. One of the reasons for this is that research on new aid modalities, performed in the last decade, did not allow much for distinct, context-specific conclusions. Rather, the focus was more general, looking at the effectiveness of new aid modalities in low income, aid dependent countries with sufficient ownership over poverty reduction strategies. Furthermore, even though in recent years the attention paid to support to fragile states has grown stronger, that attention hasn't immediately led to fine-grained research capable of establishing robust causal evidence on the effectiveness of new aid modalities in fragile states. Looking at Basket Funds in particular, evaluative conclusions on their effectiveness in fragile states have been non-conclusive at best (Coppin, 2012; OPM/IDL, 2008; Grävingholt et al., 2008; McLoughlin, 2012). Recurring critiques relate to raised transaction costs (donor side) and reduced ownership (recipient side). In a similar vein, Coppin (2012) identifies the tension between short- to medium-term financial effectiveness and longer-term state-

building as a key trade-off related to the use of Basket Funds in fragile states. Especially the longer-term goal of state-building is seen by several authors as crucial, echoing the normative statement that in fragile states the aid effectiveness agenda “needs to be supplemented by a more fundamental concern with the effectiveness, accountability, responsiveness and legitimacy of the institution of the state” (OPM/IDL, 2008: 4).

3.2 The potential of Basket Funds in fragile states

According to its proponents, donor reluctance to engage in Budget Support is unwarranted. To make aid more effective and break the vicious circle of ineffective aid, they argue, donors must shift their aid away from projects - but also away from common funds, which share too many worrisome features of traditional project aid - towards higher aid modalities (GBS and SBS) (Booth and Fritz, 2008; Williamson et al., 2008). The role of project aid and common funds, according to this reasoning, should be limited to the provision of Technical Assistance (TA), capacity development and support to large-scale infrastructure (Williamson et al., 2008). The rise of Budget Support as a preferred aid modality, which was going on since the turn of the millennium, has induced donors to move into the use of Budget Support, although in reality they never fully did. The figure below shows that even the biggest Budget Support proponents never channeled more than 35% of their CPA through Budget Support.

Figure 3: Budget Support as a % of CPA (constant prices 2011 USD millions)



Source: DAC-CRS

More recently there has been a shift away from the idea that moving towards greater use of higher modalities would entail the abandonment of lower modalities whereby lower aid modalities are taken over by unearmarked Budget Support. Currently more donors are recognizing the comparative advantages of different aid modalities and argue for a judicious mix of complementary aid modalities in a coherent setup (also referred to as the portfolio approach⁵). This was also recognized by the donors we interviewed. It is no longer seen as ineffective to implement different aid modalities simultaneously as one could compensate the weaknesses of another. For example, while GBS might be more appropriate for cross-sector reforms, such as PFM, civil service reform or decentralization, SBS might help to translate these national policies at sector level, focus on sector policies and broaden implementation. Finally, projects and Basket Funds could focus on the missing middle of implementation and provide solutions for better implementation and improved recipient

⁵ See section 6.2 of this report for more on this

institutions. At all levels, however, attention should be paid to the use of country systems as early and as completely as possible under the circumstances (see e.g. Williamson and Dom, 2010; IDD and Associates, 2006; Tilley and Tavakoli, 2012).

In fragile states a move towards Budget Support modalities would be considered highly problematic for many donors. However, this does not mean that no harmonisation or alignment is possible in these countries. From the start of the Paris Declaration it has been argued that in fragile states the aid effectiveness principles might be more relevant than in “better performing” countries (Faust et al., 2013; Warrener and Loehr, 2005; OECD, 2005). To break the vicious circle of parallel donor systems and high fragmentation which further weaken the capacities of the already weakened recipient governments, harmonised and aligned financial support is indeed particularly important for fragile states (see e.g. OECD, 2011). Basket Funds may play an important role in the putting these principles into practice. They may be more realistic and therefore more successful than Budget Support in their ability to facilitate harmonisation among donors, pool resources, get the money flowing and show results on the ground. In so doing, they allow donors to experiment with limited alignment to the recipient government strategy, yet still keep a certain degree of earmarking to specific priority areas. It has also been argued that, depending on the reliability of the recipient PFM system, donors have been able to successfully accommodate safeguard measures (Tilley and Tavakoli, 2012; OECD, 2011). Later on in this study we will use the Fonds Commun Education in Burundi to illustrate how Basket Funds need not be stumbling blocks but have a real potential for delivering more effective aid in fragile states and move gradually towards more alignment.

4 How are Basket Funds Defined?

In the following section we review the different definitions of Basket Funds provided by some of the donors we interviewed and the definitions available in the scientific literature. At the end of the section we propose a pragmatic definition of Basket Funds for DGD, in line with Belgian practice, list its main features and compare it to other aid modalities.

4.1 Donor Definitions

The SWAP and PBA approaches have led to an increased use of pooled funding modalities (see e.g. OECD, 2005), of which Basket Funds are an example. Notwithstanding the fact that the donors we interviewed, the co-funders of the FCE, generally seem to agree on what the Basket Fund modality entails, a closer look at the definitions they use reveals significant nuances:

Table 2: Donor definitions of Basket Funds

Criteria	United Kingdom DfID	Belgium DGD (Vademecum)	France AFD	DAC
(Terminology Used)	Common Basket/ Pooled fund	Basket Fund	<i>Fonds Commun</i>	Basket Fund/ Pooled Fund
More than one donor?	YES	YES	YES	YES
Joint account?	Common bank account or funds provided directly to government	Funds provided to the government	Commercial bank account	Autonomous account
Earmarking/ Supporting programme	Government's sector programme or set of activities	In support of a sector programme	Government sector programme	Specific purposes/ Common project documents
Implementation	Supporting government to implement the programme	Supporting government to implement	Supporting government implementation	
Procedures/alignment	Some procedures can be additional to government procedures	Aligned to the extent possible with the national procedures	Not aligned, specific procedures, potentially shadow aligned. Can be integrated in recipient budget	Account has specific purposes, modes of disbursements and accountability mechanisms. Common reporting/audit procedures
Evaluation	Independent evaluations	Ongoing M&E carried out by Belgium as part of risk analysis	Independent audits	Common reporting/audit procedures

Source: authors' compilation of donor procedures

Table 2 shows that the selected donors consider a Basket Fund to be a joint aid modality involving more than one donor. The harmonisation element thus seems to be core characteristic that donors associate with this modality. The level of alignment of a BF to a recipient country's policies or system however seems to diverge, depending on the donor. The French stipulate that Basket Funds should be channeled to a commercial bank account, while the Department for International Development (DfID) prescribes that funds should go to a common bank account or directly to the government.

Furthermore, the programme or project to which the Basket Fund should be aligned ranges from “common project documents” in the case of the DAC, up to the whole government sector programme for most of the individual donors. These differences show that while donors agree on the fact that Basket Funds are a joint aid modality, the level of alignment they associate with this it varies substantially.

Within this range of definitions, the one formulated by the DAC Working Party on Statistics carries particular weight. The Working Party defines Basket Funds as part of the new classification by *type of aid* it introduced in 2008. Not only is this definition the result of a multi-donor consultation process, it is also the definition that figures in the DAC Reporting Directives and should therefore guide donor reporting on Basket Funds. The definition focuses on harmonisation, but leaves much leeway in terms of the alignment of the instrument:

“The donor contributes funds to an autonomous account, managed jointly with other donors and/or the recipient. The account will have specific purposes, modes of disbursement and accountability mechanisms, and a limited time frame. Basket Funds are characterised by common project documents, common funding contracts and common reporting/audit procedures with all donors”. OECD (2009)

4.2 Definitions in the specialized literature

Manuel et al. (2012) provide a list with six categories of aid modalities. This list is based on the DAC’s International Network on Conflict and Fragility categories (OECD, 2011). It provides one of the most coherent overviews currently available of aid modalities used in fragile states based on donor practices on the ground. Table 3 below details important characteristics of these aid modalities and compares them with the domestic revenues collected by the partner government. Interestingly the alignment concept is broken down, which allows one to distinguish between two separate sets of questions: 1) ‘align to what?’ (alignment focus) and 2) ‘align to what extent’ (alignment scope). With regards to the first question, the table distinguishes between alignment to systems, alignment to policies and alignment to processes. Since system alignment (a category of question 1) is usually considered the most risky undertaking in fragile states, the table distinguishes 8 degrees of it (question 2) which are listed below:

- System alignment: the use of country systems, following the eight types of country systems within the government budget identified by the Collaborative Africa Budget Reform Initiative (CABRI) (CABRI and SPA, 2008; Manuel et al., 2012):
 1. On plan: Programme and project aid spending is integrated into spending agencies’ strategic planning and supporting documentation for policy intentions behind the budget submissions
 2. On budget: External financing, including programme and project financing, and its intended use are reported in the budget documentation
 3. On parliament: (or “through budget”): External financing is included in the revenue and appropriations approved by parliament
 4. On treasury: External financing is disbursed into the main revenue funds of government and managed through government’s systems
 5. On procurement: External financed procurement follows government procurement procedures

6. On accounting: External financing is recorded and accounted for in government's accounting system, in line with the government's classification system
 7. On audit: External financing is audited by government's auditing system
 8. On report: External financing is included in ex post reports by government
- Policy alignment: whether the aid instrument is aligned to the policies of the recipient
 - Process alignment: whether budgeting and financial management processes are similar to the systems and timing used in the government budget.

This list highlights the availability of a wide range of options with respect to the alignment focus and alignment scope allowing for more variety in the concept and practice of alignment. Alignment is thus not necessarily a black or white option (full alignment versus non-alignment), but actually allows for a lot of 'grey', and thus for graduated approaches. This is particularly important in fragile states.

Table 3: Aid instruments according to use of country systems, alignment, harmonisation and ownership

Expenditure through aid instrument shows...	Use of country systems	Policy alignment	Process (or shadow) alignment	Harmonisation	Ownership
Domestic Revenue	All 8	Automatic	Automatic	Automatic	Automatic
General Budget Support	All 8, can include additional safeguards	Automatic	Automatic	Automatic	Strong
Sector Budget Support	Usually all 8, can include additional safeguards	Policy alignment with an agreed sector plan	Automatic	Automatic	Strong, but depends on extent to which sector plan is owned, and extent of earmarking
Government-managed pooled fund (Basket Fund)	Ranges from none to all 8, can include additional safeguards	Policy aligned with an agreed sector plan	Could be done, especially if any project/programme implementation unit (PIU) is embedded in government	Automatic	Moderate, but depends on extent to which sector plan is owned, and extent of earmarking
Jointly Managed Trust Fund	Usually uses parallel systems	Can be policy aligned with an agreed sector plan	Could be done, especially if any PIU is embedded in government	Automatic	Depends on ministerial involvement in decision making
Project support	Usually uses parallel system	Only if aligned with the overall development	Not automatically but could be done	Not automatically, requires coordination	Depends on ministerial involvement in decision making

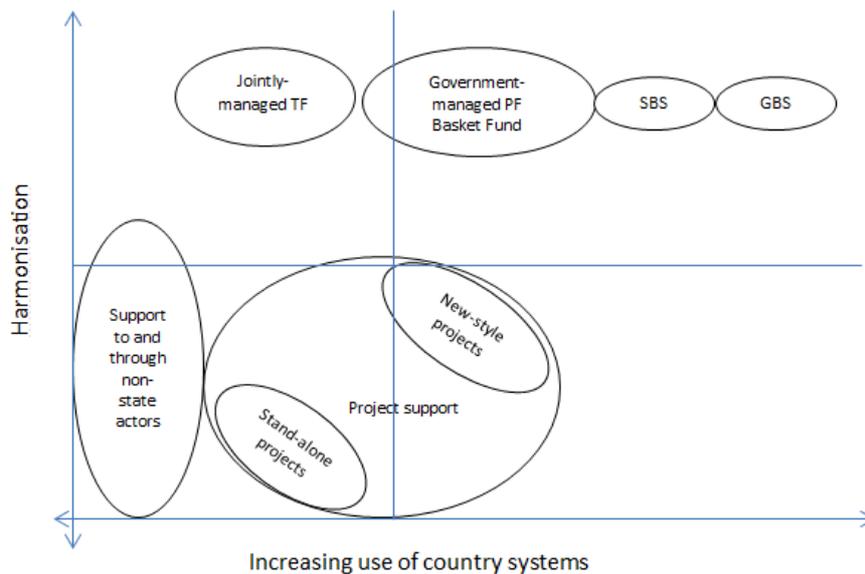
		plan or sector plan			
Support to and through non-state actors	Uses parallel systems	Only if aligned with the overall development plan or sector plan	Not automatically but could be done	Not automatically, requires coordination	Weak for government – maybe ownership at community level.

Source: Manuel et al., 2012

While the table does not specifically refer to Basket Funds, the government managed pooled funds category essentially displays the core characteristics of Basket Funds.

As the table shows, Basket Funds can be situated in between jointly managed trust funds on the one side and Sector Budget Support⁶ on the other. It mainly distinguishes itself from the afore-mentioned aid modalities in its use of country systems. While all three modalities are harmonised and potentially policy aligned, they are aligned with the partner country systems to varying degrees. While jointly managed trust funds are usually not aligned to the recipient country’s systems and instead use parallel systems, Sector Budget Support is aligned to all country systems. Compared to these two modalities, government-managed pooled funds provide the leeway to adjust the modality to the local reality and align to those recipient government systems which are deemed sufficiently strong by the donors, from none to all eight. Graphically, the different aid modalities can be illustrated along a harmonization and alignment axis:

Figure 4: Graphical representation of aid modalities



Source: Authors

⁶ While the definition of SBS used here still allows for some kind of earmarking or traceability of SBS funds, in line with the SBS study of ODI (Handley, 2009), we do however, in contrast to this ODI study but in line with the Belgian practice on SBS and Basket Funds, consider Basket Funds which disburse funds through the government treasury system as Basket Funds and not as SBS like in the ODI study. As such, the Targeted Budget Support for the National Education-For-All Plan (TBS-EFA) in Vietnam, which was classified as SBS by the ODI study, will be considered a Basket Fund, in line with the Belgian classification.

Within these aid modalities commonly used in fragile states, donors have to select the optimal mix under the given circumstances, allowing for varying degrees of risk avoidance or risk appetite. This mixture of modalities should on the one hand make it possible to get the money flowing and get things done on the ground, while on the other, pay attention to state-building and the transition from fragility to stability in the longer term (Manuel et al., 2012; OECD, 2013). The study by Manuel et al. (2012) shows how Basket Funds are able to play an important role in this. As alignment is important in the early post-conflict stages, pooled funds are a way to facilitate close alignment with national priorities, support the performance of key government functions and provide legitimacy to emerging governments. Where weak government systems limited donor alignment, additional safeguards have sometimes been integrated into Basket Funds to manage the risks involved. Simultaneously, focused capacity building initiatives were set up to tackle the underlying problems. Finally, Basket Funds have reduced the burden on the recipient government as they were often the result of a consolidation of smaller projects and they strengthened donor ties by providing a harmonised instrument (Manuel et al. 2012).

While the donors we consulted for this study thus agree that Basket Funds involve a harmonised approach to aid provision, they differ significantly in the way they see this aid modality being aligned to donor policies and systems. The modality classification put forward by Manuel et al. (2012) illustrates how this lack of clarity in alignment need not be a problem and even might constitute an important advantage for Basket Funding, giving it the potential to critically align to the recipient partner's systems and policies. This potential to use all the different shades of grey of the alignment concept is particularly important in fragile states.

5 What are the Factual Data we have on Basket Funds?

5.1 The use of Basket Funds by donors

In the next section we look at the available data on Basket Funds. While researching this section, it became evident, however, that very little data exist on BFs. This may not be surprising given that the concept does not figure prominently in donor definitions, making systematic data collection difficult.

The lack of data does not imply, however, that no attempts have been made to better capture the aid that flows through BFs. Since 2010, the DAC has provided a clear definition of BFs and integrated it into its statistical reporting. This attempt was part of an increased effort by the DAC to better capture ODA going through new aid modalities, including Budget Support and pooled funds. To this end, donors were requested to report on their aid on the basis of the following categories:

Table 4: List of types of aid

Type	Sub-type	Description
A		Budget support
	A01	General Budget Support
	A02	Sector Budget Support
B		Core contributions and pooled programmes and funds
	B01	Core support to NGOs, other private bodies, Public-Private Partnerships and research institutes
	B02	Core contributions to multilateral institutions
	B03	Contributions to specific-purpose programmes and funds managed by international organisations (multilateral, International Non-governmental Organization)
	B04	Basket Funds/pooled funding
C		Project-type interventions
	C01	Project-type interventions
D		Experts and other technical assistance
	D01	Donor country personnel
	D02	Other technical assistance
E		Scholarships and student costs in donor countries
	E01	Scholarships/training in donor country
	E02	Imputed student costs
F		Debt relief
	F01	Debt relief
G		Administrative costs not included elsewhere
	G01	Administrative costs not included elsewhere
H		Other in-donor expenditures
	H01	Development awareness
	H02	Refugees in donor countries

Source: DAC

The introduction of BFs into the Creditor Reporting System (CRS) system has, however, thus far not led to reliable reporting on BF flows. Despite the introduction of this reporting system, which was approved by the DAC in 2008 for 2011 statistical reporting on 2010 flows, the DAC CRS system still does not offer reliable data. Looking at the donors contributing to the Fonds Commun Education in Burundi for example, an aid instrument that should be unequivocally classified as a Basket Fund (as

will become clear below) we see that different donors report their contributions to the same fund under different aid modalities. While Belgium, for example, has been reporting its contribution consistently as Sector Budget Support (just like Norway), France and the UK consistently report their contributions to this fund as project-type interventions. Notably, none of these donors use the actual Basket Fund classification.

Table 5: Donor reporting to the CRS of their contributions to the FCE

Year	Donor	Channel of Delivery	Aid Type Name	Project_Title
2007	Luxembourg		Not applicable	Contribution au Fonds Commun de l'Education
2008	Belgium	public sector (donor, recipient, other)	Not applicable	Fonds d'Education
2008	France	public sector (donor, recipient, other)	Project-type interventions	Education et formation au Burundi APSEB ⁷
2009	France	public sector (donor, recipient, other)	Project-type interventions	Education et formation au Burundi APSEB
2009	United Kingdom	public sector (donor, recipient, other)	Project-type interventions	Non-Budget Support financial aid for improved delivery of education in Burundi
2010	Belgium	Recipient government	Sector Budget Support	Fonds d'Education
2010	France	public sector (donor, recipient, other)	Project-type interventions	Education et formation au Burundi APSEB
2011	Belgium	Recipient government	Sector Budget Support	Le FCE appuie le Gouvernement dans la réalisation du Plan Sectoriel de Développement de l'Education et de la Formation (PSDEF)
2011	France	public sector (donor, recipient, other)	Project-type interventions	Education et formation au Burundi APSEB
2011	United Kingdom	Other	Project-type interventions	Non-Budget Support financial aid for improved delivery of education in Burundi
2012	France	public sector (donor, recipient, other)	Project-type interventions	Education et formation au Burundi APSEB
2012	Norway	Recipient government	Sector Budget Support	Support to Common Education Fund Burundi

source: DAC, CRS

In other words even donors that are involved in the same BF report their contributions under different categories, ranging from project to SBS.

⁷ Abbreviation used by France : Appui au plan sectoriel de l'éducation au Burundi

Searching for Basket Funds in Burundi in the DAC CRS database, we find four Basket Funds which were all reported in 2011 – none for 2010 or 2012. All four cover contributions by the United States to national NGOs for different purposes.

Table 6: Basket Funds in Burundi reported to the CRS

Year	Donor	Channel of Delivery	Aid Type Name	Purpose Name	Sector Name
2011	United States	National NGOs	Basket Funds/pooled funding	Anti-corruption organisations and institutions	Government & Civil Society-general
2011	United States	National NGOs	Basket Funds/pooled funding	Civilian peace-building, conflict prevention and resolution	Conflict, Peace & Security
2011	United States	National NGOs	Basket Funds/pooled funding	Decentralisation and support to subnational govt	Government & Civil Society-general
2011	United States	National NGOs	Basket Funds/pooled funding	Media and free flow of information	Government & Civil Society-general

Source: DAC, CRS

While the DAC thus proposes a clear definition of Basket Funds for the purpose of CRS reporting, because donors do not apply this definition, inconsistent and unreliable statistics on BFs remain the norm.

5.2 How widespread and significant is the use of Basket Funds by Belgium?

Turning back to Belgium in search of data on Basket Funds, the following table provides an overview of the information we were able to collect.

Table 7: Basket Fund disbursements by Belgium since 2005

Country	Sector	2005	2006	2007	2008	2009	2010	2011	2012	annual average
Burundi	Education				1 000 000		2 000 000		2 000 000	
Mozambique	PFM			1 000 000	1 000 000	1 000 000				
Niger	Education	2 000 000			1 000 000					
Rwanda	Health				4 000 000	4 000 000	5 000 000		5 000 000	
Tanzania	Decentralisation			8 500 000	1 500 000					
Vietnam	Education			3 400 000		1 600 000		1 000 000		
TOTAL BF		2 000 000	0	12 900 000	8 500 000	6 600 000	7 000 000	1 000 000	7 000 000	5 625 000
Total Vademecum		10 000 000	3 040 000	30 486 749	24 500 000	18 100 000	25 500 000	11 000 000	19 000 000	17 703 344
BF as % of Vademecum		20%	0%	42%	35%	36%	27%	9%	37%	26%
BF as % Total bilateral spending by DGD		1.1%	0.0%	6.0%	3.2%	2.26%	2.02%	0.34%	2.64%	4.4%

Source: Authors' compilation from BTC bi-annual reports⁸

As the above table shows, Basket Funds are not currently one of the primary aid modalities through which Belgium provides aid to recipient countries – there have only been a handful executed in the last few years, with a peak in absolute disbursement terms in 2007. Furthermore, the relative weight of Basket Funds as a proportion of all aid that falls under the Vademecum (which covers Basket Funds and Budget Support) varies substantially from year to year, accounting for about a quarter of that type of spending on average. If one zooms out even further and calculates how much of total bilateral spending by DGD Basket Funds account for, the aid modality nearly becomes invisible.

What is also interesting to note is that Belgium has experience with Basket Funds in both fragile and non-fragile contexts and in fact, as can be seen in the above table, there is a fairly even split between these – both in terms of the number of Basket Funds and the volumes disbursed⁹. A review of the operational trajectory of the Basket Funds financed by Belgium alongside Belgium's Budget Support contributions makes clear that severe delays (originating from both donor-side and/or recipient-side shortcomings) are fairly common across the board i.e. similar issues arise in relation to the Sector Budget Support payments reported on as well as in relation to funds disbursed in non-fragile countries. There is thus no indication that Basket Funds used in fragile states are either immune from, or more prone to disbursement issues than other funds that fall under the Vademecum.

⁸ These reports do not systematically distinguish Basket Funds from Budget Support, and in fact at times these labels are used inconsistently between or even within documents. The classification is thus based on our own assessment of which streams qualified as Basket Funds according to the information we were able to find on their setup and functioning. Comment on the content of this table was invited at a debriefing held at DGD in December 2013, but no suggested changes were highlighted there or received subsequently.

Only estimates of 2013 figures are available, so these were not included. Furthermore, please bear in mind that funds in the same sector and country were amalgamated throughout – i.e. in reality certain funds in the same sector and country were reported on separately (either as two or more phases of the same fund, or as a new fund), but are only listed once here for the sake of simplicity.

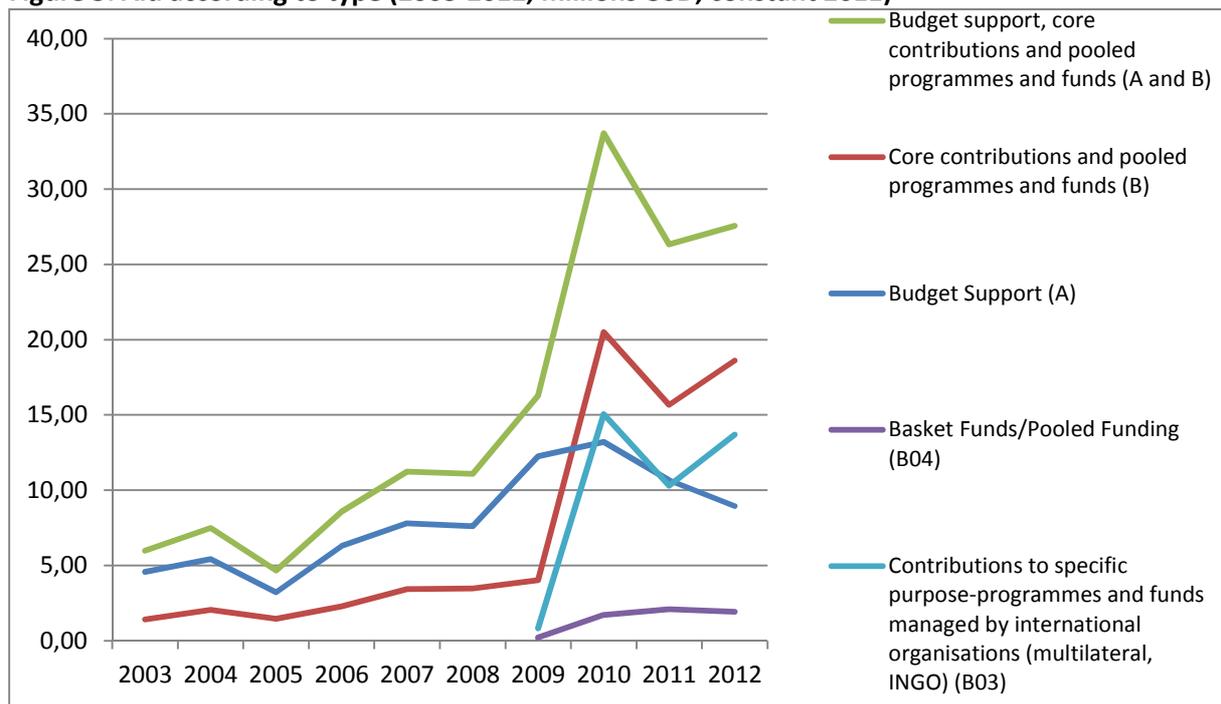
⁹ Though the validity of this assertion depends on which list of Fragile States you rely on, and which year you take as your point of departure (as stated previously, the DAC no longer considers Rwanda fragile, but they did when the Basket Funds listed in the table were operational).

In sum, Belgium currently makes limited use of Basket Funds in either fragile or non-fragile countries, and the same is true of Budget Support. But past trends do not necessarily dictate future use. The present study was commissioned at least in part to help DGD get a clearer overview of what optimal levels of Basket Funding might look in the future.

5.3 The use of new aid modalities by donors

Overall, looking at the four categories of aid types identified in Table 4 above, which might be the DAC aid types closest to new aid approaches, we see some interesting evolutions over the past decade:

Figure 5: Aid according to type (2003-2012, millions USD, constant 2011)



Source: DAC CRS

Figure 5 suggests that the amount of financial resources channelled through these four aid categories (some of them containing several modalities) has increased significantly over the past decade. However, in interpreting the graph, it must be taken into account that the upward trend up until 2010 may reflect improved CRS reporting rather than a genuine increase in funding. Since 2010, we see a decrease in the total amount of flows. Looking at the individual categories, we observe that this decrease mainly applies to Budget Support, while the category “core contributions and pooled programmes and funds”, and Basket/Pooled Funding in particular, have maintained their 2010 levels or even slightly increased. This trend might suggest that donors have shifted from Budget Support operations to more hands-on, but still harmonised, modalities.

6 How do Basket Funds figure in donor policies and practices?

Given the definitional inconsistencies demonstrated above as well as the relative financial insignificance of Basket Funds in most donors'¹⁰ overall portfolios, it will probably come as no surprise that the donors we contacted do not have specific policies or guidelines on Basket Funds. This may also be related to the fact that besides the necessary condition of harmonisation (≥ 2 donors), Basket Funds are subject to much operational variation i.e. they live in a grey zone with a wide array of alignment possibilities¹¹. In what follows we discuss what we have learnt about the selection, design and management of this aid modality from the donors we studied and then move on to showing how Basket Funds could fit into a portfolio approach.

In this chapter we also look at a practical case: the Education Common Fund in Burundi (*Fonds Commun de l'Education*, FCE). It will serve as an illustrative case intended to illuminate some of our intermediary findings and to highlight additional context-specific answers to the research questions this study has set out to answer.

Box 3: A practical case: The Education Common Fund in Burundi

The FCE, a Basket Fund set up to support the government's aim of attaining sustainable quality education for all by 2015, initially involved four bilateral donors: Agence Française de Développement (AFD), Belgium, DfID and Luxemburg. From the early stages, the instrument provided a sound harmonisation opportunity for different donors active in the education sector, at a time when external aid to the education sector was still considerably fragmented and uncoordinated. Moreover, from the very outset the FCE was conceived as an instrument aligned to sectoral policy orientations – although not formally endorsed at the time – and to country systems. However, the initial focus and scope of alignment of the FCE were fairly constrained, mainly because the FCE was created at a time when a number of these systems were still quite weak – both the PFM organic law and the public procurement code had only been voted in in 2008, and their implementation was still in its infancy. In its initial stage, the FCE suffered some constraints in terms of national ownership, to a great extent because the responsibility for its implementation had been located in a parallel implementing unit.

Between the signing of the initial Memorandum of Understanding (MoU) in 2008 and the way the FCE functions at the time of writing, a number of important changes have occurred. These changes turned out to have major implications for the redesign and subsequent functioning of the FCE, illustrating the benefits of the broad and potentially dynamic nature of Basket Funds.

A crucial development within the domain of education was the announcement by President Nkurunziza in 2010 that the existing six-year cycle of primary education would be replaced by a nine-year cycle. This announced policy shift was one of the main reasons that a new strategy for the education sector (*Plan Sectoriel de Développement de l'Education et de la Formation*, PSDEF), formulated in 2009, did not materialise until 2012. This posed a crucial problem, however, as a major goal of the FCE – in line with the presumption that Basket Funds require the existence of a sector strategy to which they can align¹² – was to implement this strategy. At the same time, shifts occurred that affected the FCE's donor landscape. On the one hand, two of its four partners, Luxemburg and DfID, opted for an exit strategy in Burundi. On the other hand, Norway and the Global Partnership for Education had expressed a clear interest in joining the FCE. Finally, on a broader national level, Burundi showed signs of improved public financial management, which paved the way for more aligned donor support.

¹⁰ In the case of DfID Basket Funds accounted for about 1% of their overall expenditure in 2012 (see https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/254075/Table8.csv/preview)

¹¹ See Table 3

¹² see the policy alignment column in Table 3

How the FCE donors dealt with this changing landscape in a flexible way will be explained in more detail in subsequent boxes.

6.1 How are Basket Funds selected and designed?

Since donors tend not to have guidelines which govern the selection and setup of Basket Funds specifically, BFs are usually subject to the rules and regulations which govern the aid modalities to which donors consider BFs to be most closely related. This differs from one donor to the next. For Belgium, Basket Funds reside under the Vademecum, which outlines the rules and regulations for Sector and General Budget Support. Interestingly enough no differentiation in selection criteria or setup guidelines is made between these three modalities: the same conditions have to be satisfied for Budget Support (whether general or sectoral) and Basket Funds. For DfID, Basket Funds are considered “non-Budget Support financial aid”, a category used to describe aid modalities which “may partially use partner government’s PFM systems [..and..] may use partner government Treasury systems but [will] not be audited by government audit systems” (DfID, 2011). Although this category of modalities is certainly not exempt from fiduciary risk considerations, there are no strict criteria which need to be fulfilled in order for DfID to consider contributing to a Basket Fund. Instead “country offices are allowed to assess and recommend to management which aid modality, delivery mechanisms and management arrangements they deem best for the programme they develop, based on local circumstances”¹³. For AFD, no specific entry requirements (such as an IRAI score > 2,5¹⁴) apply. Like DfID, AFD field offices can make proposals regarding the choice of aid modality, implementation route and financing mechanisms based on their experience on the ground and the dialogue within the donor group.

This variation in donor decision-making algorithms in relation to Basket Funds can, broadly speaking, be understood as donors having varying preferences along two dimensions:

1. Level of **selectivity**: this is about setting/raising the bar for entry. It implies the imposition (with varying levels of strictness) of particular benchmarks (such as certain scores for particular indicators), and entails the existence of guidelines on the checks and balances and control mechanisms that need to be in place in order for a recipient country to be eligible for particular aid modalities
2. Level of **adaptability**: this refers to (i) intra-modality flexibility in determining the setup of the instrument on the basis of a context-specific analysis – in the case of Basket Funds this relates specifically to decisions regarding the scope and focus of alignment; "(ii) inter-modality flexibility in being able to dynamically shift from one modality to another, rechanneling funds where necessary to where they are expected to have the most beneficial impact in a given time period, allowing the donor to circumvent constraints and exploit opportunities that have arisen subsequent to the original agreement between donor and recipient.

These two concepts, and the relationship between them, are explored further in the following section.

¹³ Cited in email from DfID staff member, dated 18 October 2013

¹⁴ The IRAI is the World Bank’s IDA Resource Allocation Index. It is based on the results of the yearly CPIA (Country Policy and Institutional Assessment) scores that are given to all IDA eligible countries. As also mentioned later, the stated threshold is one of the eligibility criteria for BFs currently used by Belgium.

6.1.1 Level of selectivity

Selectivity aims at excluding the use of certain modalities in countries with specific characteristics. If a certain recipient country's systems or policies do not achieve a given pre-determined benchmark or set of benchmarks, certain modalities are not an option. For example, in Belgium only those countries that have an IRAI Public Management and Institutions score higher than 2,5 are eligible for Basket Funds. In terms of the current list of Belgian partner countries, DRC is the only country excluded on the basis of this criterion (see World Bank, 2012). Interestingly donors differ in how selective they are: they use different criteria/standards, and the number and type of minimal conditions applied to a particular modality also differ from donor to donor. To make matters more complex some donors (like DfID, but also the European Union keep their options open by requiring not particular *levels* of achievement but positive *trends* in key areas.

As a general rule, increased selectivity is proportional to (donor) perceived risk. If we recall Figure 1 where aid modalities are plotted on a two-dimensional spectrum from least harmonised and aligned forms at the bottom left to most harmonised and aligned forms at the top right, it seems to make sense, at least intuitively, that the higher the modality, the higher the eligibility requirements.

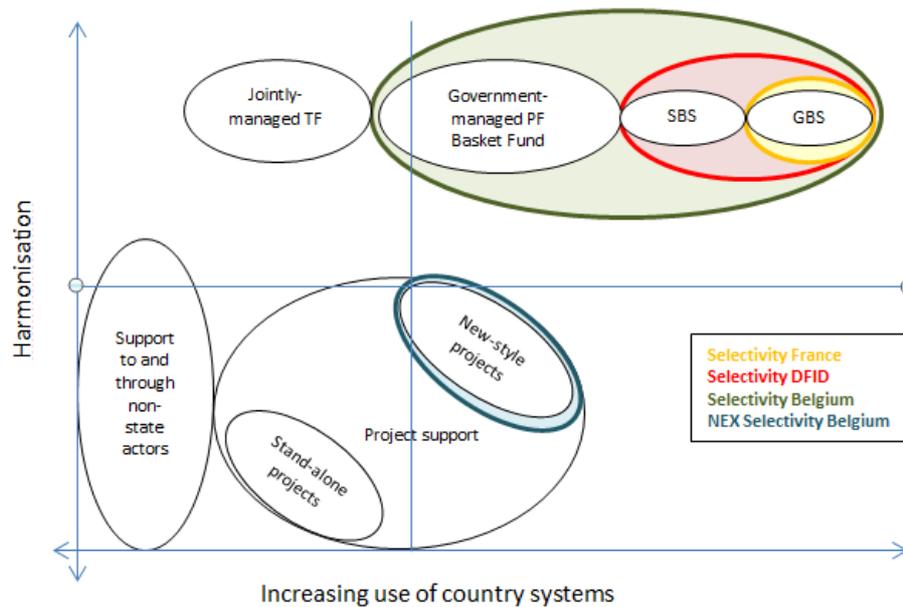
However, one could argue that while it is appropriate to be more selective for the more aligned modalities on the right of the figure, one need not necessarily be more selective the further up one moves along the harmonisation axis (i.e. the more harmonisation one incorporates into the modality). In other words having stricter eligibility criteria for SBS than for jointly managed trust funds is understandable since the former modality relies more on use of country systems than the latter, but there is less of a need to be stricter about allowing the use of jointly managed trust funds than traditional (stand-alone) projects. This is because harmonisation is itself a way of managing risk in that harmonisation spreads risk out¹⁵ among the various contributors to the modality in question.

As shown before, the dimensions and extent of alignment associated with Basket Funds differ from Basket Fund to Basket Fund. Nonetheless, regardless of their exact position on the spectrum (closer to Budget Support or closer to projects¹⁶) an important question is where donors position their dividing line between modalities to which strict(er) selectivity applies and modalities to which less strict (or even no) selectivity applies. This is illustrated below, in an adapted version of Figure 1. In it, we identify the three main donors we compare in this study according to the modalities to which they apply selectivity. The sketch also includes NEX selectivity for Belgium. NEX stands for "national execution" and is a type of project modality which some donors (including Belgium) uses. It involves the carrying out of projects by recipient governments (as opposed to by donors or through co-managed/collaborative execution). Interestingly, in many respects the more harmonised instances of this modality come very close to the setup of Basket Funds (and the selectivity that applies in the case of Belgium is also very strict), but unlike BFs, this modality does not fall under the *Vademecum*.

¹⁵ Admittedly not necessarily evenly though: the lead donor will inevitably carry a disproportionately large share

¹⁶ Though one needs to be specific here about what type of project one is referring to, since projects these days can take such diverse forms. In the sketch we for instance identify national execution (NEX) separately within the project bubble.

Figure 6: Graphic representation of aid modalities and donor selectivity



Source : Authors

In the case of Belgium for example an IRAI score of more than 2,5¹⁷ is required for Budget Support, but equally for Basket Funds (Basket Funds are thus grouped with Budget Support in terms of selectivity as is illustrated in the sketch above, and Belgium thus applies selectivity to a broader range of instruments than the other donors studied). For AFD, different and stricter procedures apply to GBS, but for all modalities from SBS "downwards" (and leftwards) there is more room for manoeuvre. For DfID the requirements for Budget Support are more extensive than those for modalities like Basket Funds which are classed as "non-Budget Support financial aid". However, as mentioned previously, DfID does not a priori exclude countries with certain characteristics from qualifying for certain modalities - if the recipient is making progress in the dimensions of interest and the field officers can provide a convincing case for using a particular modality, this is allowed.¹⁸

The distinct variety that we observe in the way donors deploy and operationalize selectivity may, however, not purely be a reflection of the degree of risk aversion the donor agency might be said to embody. Another (related) significant factor is the amount of freedom donors allow field staff in making decisions. In Belgium, decision-making is highly centralised (Renard and Verbeke, 2010) whereas DfID field staff are entrusted with a greater degree of autonomy. This is a key point, which we touch upon in the subsections which follow.

6.1.2 Level of adaptability

Adaptability is not about exclusion. It is about flexibility and keeping options open, also over time. The donors who incorporate a high degree of adaptability into the setup and management of their aid modalities (including Basket Funds) do, however, put great emphasis on a context-specific

¹⁷ A threshold which all Belgian partner countries, with the exception of DRC, manage to meet.

¹⁸ For further information on the factors influencing DfID's modality decision-making algorithm see "Table 1 – Choices and trade offs across Financial Aid Instruments" in *Implementing DfID's strengthened approach to Budget Support: Technical Note* (DfID, 2011). The figure "Decision tree for choice of financial aid instruments" which they provide in an earlier guidance note (*Guidance on Aid Instruments*, DfID, 2006) is also generally informative, but doesn't include specific information on Basket Funds.

analysis. Not surprisingly, these also tend to be the donors whose operations are more decentralized. Because it is field staff who are most in touch with the direction things are moving in and the contextual factors that need to be taken into account in assessing this – not only in terms of the recipient's situation, but also in terms of the experiences of other donors with whom they come into contact. They are therefore most capable of making context-specific suggestions for changes to the existing arrangements.

A context specific analysis, usually carried out by staff in the field who enjoy a considerable amount of discretion and independence in the decisions they make¹⁹, departs from the question of which interventions and modalities would work best in the given circumstances. The context-specific factors which influence the choice for, and management of, a Basket Fund might include for example:

- strength of various aspects of the government system
- fiduciary and other risks²⁰
- the (usually sector-specific) objectives to achieve²¹
- the pros and cons of using particular modalities
- other contributors – their requirements and preferences

While some donors (like DfID) strongly favour this approach, Belgian policy instead requires its field staff to set up and manage Basket Funds according to the procedures agreed beforehand. However, although the initial setup phase is fairly elaborate²² (it is described in detail in the Vademecum), extending and adapting already previously approved aid modalities is less burdensome as in this case an accelerated decision making process is applied. Similar to what has been said previously about selectivity, there is thus likewise distinct variety in the way donors employ and operationalize adaptability.

There is an interesting parallel to be drawn here to recent work by Andrews et al. (2012) who propose an intervention approach framed as 'problem-driven iterative adaptation' (PDIA). While this approach has been developed with the specific aim of improving the ways in which state capabilities are built up in developing countries in general, it seems particularly well suited to fragile states. Table

¹⁹ Though needless to say, accountability requirements remain rigorous.

²⁰ The conceptual framework currently put forward by the DAC distinguishes between three overlapping spheres of risk: contextual risk ("the risk of political destabilisation, a return to violent conflict, failure to develop, a humanitarian crisis and so on"), and institutional risk ("the potential for interventions not to achieve their objectives or to exacerbate contextual risk"), which (when combined) create programmatic risk ("the range of potential adverse consequences of intervention for the implementing organisation and its staff"). Aid risks can then be understood as "the combination of programmatic and institutional risks". For more on this, see OECD (2012). Note also that the DAC encourages its members to adopt this risk framework in order for them to streamline their risk analyses - a crucial step within the harmonisation process. This is something we touch upon again briefly slightly later in our discussion.

²¹ Bearing in mind, however that there isn't a one to one relationship between objectives and modalities. As Handley (2009: 14) points out "Many donors pursuing similar objectives in identical country and sectoral contexts nonetheless use dramatically different aid instruments. Many of the dimensions of aid instrument design are determined more by what is feasible under donor agency procedures, which relate to pressures from a number of different sources: country offices, agency headquarters, national audit agencies and parliamentary oversight mechanisms". See also the Bandstein (2007) report entitled "What Determines the Choice of Aid Modalities?" for a discussion of the wide range of factors influencing modality decisions.

²² Although more recently efforts have been made to simplify the chain of command and procedures to which a more established BF is subject.

8 below shows in what ways PDIA claims to differ from more conventional approaches to aid provision.

Table 8: Contrasting current approaches and PDIA

Elements of approach	Mainstream Development Projects/Policies/Programs	Problem Driven Iterative Adaptation
What drives action?	Externally nominated problems or ‘solutions’ in which deviation from ‘best practice’ forms is itself defined as the problem	Locally Problem Driven—looking to solve particular problems
Planning for action	Lots of advance planning, articulating a plan of action, with implementation regarded as following the planned script.	‘Muddling through’ with the authorization of positive deviance and a purposive crawl of the available design space
Feedback loops	Monitoring (short loops, focused on disbursement and process compliance) and Evaluation (long feedback loop on outputs, maybe outcomes)	Tight feedback loops based on the problem and on experimentation with information loops integrated with decisions.
Plans for scaling up and diffusion of learning	Top-down—the head learns and leads, the rest listen and follow.	Diffusion of feasible practice across organizations and communities of practitioners

Source: Andrews et al., 2012: 20

Specifically, the authors discern four elements that need to be in place in order for reform activities to be successful: they should “(i) aim to solve particular problems in particular local contexts via; (ii) the creation of an ‘authorizing environment’ for decision-making that encourages experimentation and ‘positive deviance’, which gives rise to; (iii) active, ongoing and experiential (and experimental) learning and the iterative feedback of lessons into new solutions, doing so by; (iv) engaging broad sets of agents to ensure that reforms are viable, legitimate and relevant—that is, are politically supportable and practically implementable” (Andrews et al., 2012: 8).

Box 4 below details how in the Burundi example some of these principles, which are closely related to the idea of adaptability, materialized in practice.²³

Box 4: Initiation and adaptive design of the FCE

What were the elements that drove the FCE donors to select and set up a jointly managed fund in the first place? Based on the interviews we conducted, the original main motivation appears to have been to offer a response to the problem of fragmented and uncoordinated donor intervention in the education sector.²⁴ Harmonisation was thus a stronger ground for joint action than the wish to align to country systems. As mentioned above, measures of alignment were included in the initial design but they were not a core element of it. Fiduciary risk analysis – as a response to what is seen as the major risk concern in fragile states – led to

²³ The FCE can be positively described as an instrument that has been shown to adapt well to situations of dynamic change. However, whether or not it would stand the test of criticism underlying the PDIA approach, is open to debate. Even so, it seems clear that from the outset the actors involved, both at policy and operational level, showed a permanent willingness to adapt and shift direction whenever this was deemed necessary. Such willingness is evoked as one of the core conditions underlying the PDIA approach.

²⁴ This doesn’t imply though that the FCE “absorbed” and incorporated all the bilateral projects in the education sector in Burundi.

the conclusion that alignment was possible, provided that a number of necessary safeguards were put into place.

The documents we consulted as well as the interviews we conducted for this study indicate that the policies and procedures to initiate the Basket Fund varied from one donor to another. Whereas AFD and DfID staff in the field had a relatively high degree of autonomy to motivate and obtain approval for the use of a Basket Fund (much adaptability), Belgium on the other hand was tied to a set of minimal criteria that apply equally to Sectoral and General Budget Support. Nonetheless, although differences between donors in terms of policy requirements and formal procedures for setting up a Basket Fund may have contributed to a lengthy start-up phase, once final approval on the part of the four partners had been obtained, gradually a space opened up for adaptive action by field staff.

After the 2010 elections and the subsequent ministerial reshuffle, negative findings regarding the instrument's commitment/disbursement rates led to fundamental concerns about the functioning of the FCE. It was jointly felt that the approach of limited alignment did not tackle what was deemed to be the crucial source of the problem: the weaknesses of the education management system, and by extension, the national PFM system. Based on an extensive intermediary evaluation and capacity development assessment, the FCE received a substantially new design as well as a new manual of procedures. This new design crucially altered the focus and scope of alignment of the instrument, bringing it much closer to Sector Budget Support (a rightwards shift following figure 4). Although a number of safeguards remained in place (e.g. the donors' requirement to make use of audits independent of government), new features relating to system alignment were added and ex-ante control mechanisms were to a considerable extent replaced by ex-post control mechanisms. From 2011 onwards, all annually programmed activities were not only 'on plan' but also – since they were now translated into an annex to the national budget (*Budget d'Affectation Spéciale*) – 'on' and 'through budget'. Moreover, arrangements were added to ensure better process alignment. Finally, as a response to the perceived lack of ownership, the responsibility for implementation was shifted towards the ministry in charge of education, resulting in a stronger sense of national ownership.

During this second phase of the FCE, clear progress was made: commitment and disbursement rates rose considerably and a clearer sense of ownership grew on the part of the Burundian government. As a result, the FCE in its new form was increasingly hailed as an innovative experience in the Burundian context, particularly in terms of its use and testing (within the confinements of a specific sector) of national PFM reforms. Not only was the FCE promoted by the government in its *Politique Nationale de l'Aide* (République du Burundi, 2011) as a clear standard for other aid interventions, but it also drew external attention: it was mentioned, for instance, as a positive example of aligned aid in the 2012 Burundi PEFA evaluation (IDC, 2012).

A further interesting aspect is that the redesign turned out to be possible without the need to adjust the formal documents underpinning the FCE: both the MoU – a non-binding, jointly signed agreement between donors and government – and the bilateral agreements between each donor and the government maintained their validity. Even when transitioning to a third – new and still ongoing – phase of the FCE (which for Belgium and AFD implied the formal renewal of a legal agreement), neither the new MoU nor the new bilateral agreements underwent substantial changes.

Essentially, this most recent phase ensued from the endorsement of the PSDEF in 2012. This endorsement offered a clear opportunity for genuine policy alignment, thus extending the scope of alignment beyond system and process alignment – dimensions to which the FCE donors had already partially committed in a prior phase.

It also set the stage for additional financing – first by Norway, and then by the Global Partnership for Education (GPE)²⁵.

The findings above serve as an indication that the way the FCE was conceived and designed contained sufficient space for adaptation and experimentation. Using table 8 above as a reference (and in particular the row labelled ‘planning for action’), one may conclude that planning in the context of the FCE has occurred while taking full advantage of the available design space. More specifically, our interviewees indicated that in practice the arrangements set out in the new manual of procedures allowed for a high degree of field staff autonomy in regard to planning issues.

The FCE thus demonstrates a high level of adaptability throughout its lifecycle. What the foregoing analysis suggests as well is that the way the MoU is formulated matters. Even though its underlying principles are strictly speaking non-binding, if drawn up well they may significantly contribute to the level of adaptability attained.

6.1.3 The relationship between selectivity and adaptability in donor practices

Which modalities should be used selectively and be limited to countries fulfilling certain minimal requirements and who gets to decide this? For which modalities can the donor allow for a certain degree of adaptability by its personnel? All these questions return us to the centrality of donor decentralization to the successful operationalization of adaptability. They furthermore require us to reflect more deeply on the relationship between selectivity and adaptability, since donors tend to combine these two mechanisms in different ways.

As has been highlighted previously, compared to Belgium, AFD and to an even greater extent DfID a) enjoy far greater levels of adaptability for BFs and b) are less strict in their BF selectivity given the devolution of decision-making power to the field. Furthermore it is noteworthy that DfID in the annual reviews of its programmes assesses changes to the local circumstances which can result in revising programmes and rechanneling resources to where they are most able to reach intended results²⁶. Inter-modality adaptability is thus perfectly possible for DfID, whereas AFD deems it unlikely that the situation would improve enough to allow such changes²⁷.

The different donors’ positions are summarized in the following table:

Table 9: Different donor positions on selectivity and adaptability

	Selectivity	Adaptability
GBS	AFD, DfID, DGD	
SBS	DfID, DGD	AFD
BF	DGD	AFD, DfID

Source: Authors

We thus see that while for Budget Support minimal criteria (either in the form of trends or levels of achievement in certain key area) generally apply for all donors, Belgium is the only donor that applies

²⁵ The GPE considered the Burundi case to be an interesting pilot for its new strategic orientation towards harmonised and aligned support to fragile states.

²⁶ though disbursement pressure probably plays a role here too. Also, this can also only work if programming cycles are aligned, which is frequently not the case

²⁷ AFD interview (28 November 2013)

selectivity as strictly to Basket Funds as to Budget Support i.e. for France and the UK the GBS/SBS minimal preconditions do not apply for Basket Funds. The latter strategy makes sense since, assuming donors always aim “as high as possible” in modality terms, Basket Funds are generally a good compromise modality for situations, such as in fragile contexts, when full(er) harmonisation is possible but full(er) alignment is less feasible and where the country in question is less likely to conform to the strict requirements that apply to Budget Support.

In general, it would appear that in the case of the Basket Fund modality strict reliance on selectivity and minimal adaptability tend to go together. This may reflect the control mechanisms associated with a higher degree of risk aversion, but there is another possibility: an unwillingness to leave more freedom to field staff to make decisions (since, as mentioned in section 6.1.2, decentralisation is an enabling condition for adaptability). This is a key difference between DfID and DGD – decision-making power is highly centralised in Belgium compared to other DAC donors (Renard and Verbeke, 2010). Nonetheless, as we explore in Boxes 3 and 4, although there is strong centralisation in Brussels for new decisions, there is also room for manoeuvre for field staff (enabling intra-modality adaptability) in relation to the continuation of existing interventions. In practice Belgium thus seems to allow more fluidity than what official policy documents suggest.

6.1.4 Implications for Belgium

In Belgium, the Vademecum functions to ensure strict selectivity and is applied to all the modalities that fall under it²⁸. Furthermore, in terms of adaptability, inter-modality flexibility is not something Belgium is able to apply in any context (let alone a fragile one) given the prominent role of the Finance Inspector²⁹ and the fact that different modalities fall under separate budget lines and are subject to different oversight procedures.³⁰ These factors make crossovers impossible between Basket Funds and projects (even those classified as “national execution” and thus very close to the way a Basket Funds can be set up). The organizational/accountability chain is further complicated by the fact that Belgium works via BTC, its implementing agency with whom there is a division of labour in terms of administering aid modalities in the overall Belgian portfolio. Furthermore, in Belgium, even achieving the minimal benchmarks set out in the selectivity criteria listed in the Vademecum does not guarantee there will be subsequent approval by the Finance minister³¹, which begs the question what the exact role of the minimal criteria is.

The fact that Basket Funds must comply with the same minimal preconditions which apply to Budget Support acts as a handicap. Basket Funds have the potential to be flexible, tailor-made instruments

²⁸ The Vademecum applies to any “Basket Fund[s] that qualifies as Budget Support” which seems to imply that some Basket Funds don’t qualify. However, we were unable to obtain clarity on this point.

²⁹ Several interviewees from DGD and beyond have pointed to the Finance Inspector (FI) as a serious ‘constraint’. Some interviewees even voiced the idea that the institution of the FI needs to be reformed so as to allow DGD to move toward more flexibility in aid. Since these issues however go far beyond the mandate of this research and since the research team did not discuss the alleged problems with the FI, no further recommendations can be taken up on this matter in this report. One way of getting a better view on these matters is to do research which might look into the different set-ups of FI – Aid agency relations in different donor countries and how this influences the policies and practices of donors.

³⁰ Some of the main points of criticism in the 2012 DAC Guidance on Transition Financing include the counterproductive compartmentalisation of aid, and the fact that financing instruments are frequently “fragmented and designed based on institutional mandates, rather than on the objectives to be achieved” (page 1).

³¹ One AFD interviewee for instance expressed his bewilderment over the amount of micro-managing by the Belgian Finance Inspector in the education sector in Niger (AFD Interview (28 November 2013)). Along similar lines, the 2010 DAC peer review of Belgium states that “DGDC staff and attachés believe that the Finance Inspector’s involvement goes beyond the financial dimension” (DAC 2010: 61-2).

which can build in additional safeguards (and non-alignment in some aspects) in response to the non-attainment of certain minimal preconditions and being overly strict reduces this potential. Particularly when taking a fragile states perspective, a policy of this kind is an impediment to the international call³² for flexible and diversified approaches and increased risk tolerance and management. While we acknowledge that attitudes to risk are generally deeply held, endogenous and institutionally entrenched (and thus cannot be changed at the drop of a hat)³³ we would suggest that Belgium consider taking a more flexible approach in their policy on Basket Funds. This could entail keeping Basket Funds within the Vademecum but setting up differentiated selectivity criteria in terms of the thresholds for using government systems. It would also make sense to explicitly allow for varying degrees and types of alignment (since unlike Budget Support, Basket Funds can be aligned to greater and lesser degrees). Field staff could give input into which government systems and policies would be appropriate and feasible to align to, and which not. However, for donors like Belgium who work via an implementing agency, it would be crucial to also consider fully the operational consequences of adjusting the current policy in the manner suggested.

The combination of strict selectivity and limited adaptability (at least at a policy level) on the part of Belgium makes it less able to respond to the rapidly changing contexts that characterise most fragile states. A change at the policy level granting field staff more room for manoeuvre in terms of alignment possibilities would go a long way towards improving matters.³⁴

6.2 How might Basket Funds fit into a portfolio approach?

6.2.1 Portfolio approach definition and typology

The term “portfolio approach”, while a relatively recent one, is used fairly widely by donors, including the ones whose policy documents we reviewed for this study. A portfolio approach can be understood as an attempt by a donor to actively pursue the use of an array of modalities (or to consciously manage and adjust the array of modalities it is already using) in such a way that the individual modalities used fundamentally complement each other. This maximizes the positive developmental impact of the group of interventions the donor is involved in, while simultaneously minimizing both a) negative spillovers between modalities and b) the costs to the recipient of receiving aid in these different forms.

The need for a portfolio approach arises from the following factors:

³² This was clear at Busan for instance in the concerns raised by the 2011 New Deal for Engagement in Fragile States, and is reiterated by the literature on aid in fragile states. A caveat remains in order, however, as the effectiveness of the elements called for have hardly been scientifically corroborated (see chapter 3).

³³ Although there seems to be a shared acceptance among donors that the risk of non-engagement – here, more specifically: the risk of non-harmonized and non-aligned engagement – outweighs the fiduciary risks associated with fragile contexts, this shared acceptance appears to be stronger among field staff than within donor headquarters. Donors active in fragile states in particular are confronted with the dilemma that tensions may arise between value-for-money pressure on the one hand – coinciding with the current climate of fiscal austerity – and the call for increased risk tolerance on the other. Scott et al. (2012) underline how this kind of dilemma is part and parcel of the day-to-day concerns of aid practitioners in the field.

³⁴ The latest DAC peer review of Belgium, while acknowledging the achievement of limited progress more recently, is also emphatic about lack of decentralisation (including not granting any significant financial autonomy to field staff) getting in the way of Belgium maximising its impact and living up to its commitments in terms of aid effectiveness (DAC, 2010).

1. The last few decades have witnessed a diversification in the way aid is provided, away from projects (though these still account for around half of all ODA provided by DAC donors) and towards a variety of other forms³⁵
2. Different aid modalities have different strengths and weaknesses in terms of their anticipated/potential effects
3. There is an interaction between the different forms of aid given to a particular country by one or more donors
4. One of the basic tenets of aid effectiveness thinking is that the way in which donors provide aid matters for development outcomes. Given the limited capacity and volatile social and political dynamics in fragile states, the stakes for both failure and success are a lot higher. As was mentioned in the introduction, this requires donors to think not only about how to “do different things” (such as attempting to really get to grips with the underlying dynamics which govern state-society relations in a particular country), but to also think about how to “do things differently” (ensuring that as a group – even more so than in more stable countries – donors put aid effectiveness considerations first)
5. Risk management concerns feature prominently in recent donor thinking. A portfolio approach acts to spread risk – both risk which originates from recipients (such as fiduciary risk or the implementation risk of fragile states) and risk which stems from donor vulnerabilities to their constituents’ opinions (reputational risk³⁶).

As the above contextualizing factors make clear, it is imperative that donors fully take into account how their interventions affect recipient country processes and anticipate how the various elements in their aid portfolio can be expected to respectively (i) (partially) complement their other (and other actors’) interventions and amplify each other’s effects (best case scenario) or (ii) (partially) undermine or needlessly duplicate other interventions (worst case scenario).

Donors that subscribe to a portfolio approach should thus strategically and dynamically adjust their combination of aid modalities (where the benefits of switching outweigh the costs of doing so, that is) so as to maximise benefits and minimise harms.³⁷ Beyond their own portfolio, they might also pay attention to coordination and harmonisation with other aid agencies (De Renzio et al., 2005 and Cassimon et al., 2009 cited in Renard and Waterloos, 2013) or to coordination with recipients. We explain these three different dimensions along which a portfolio approach can be operationalised below.

1. **intra-donor portfolio perspective:** when one donor employs a judicious combination of aid modalities whereby (to the maximum extent possible) weaknesses in one area are compensated by strengths in another [Dom and Gordon (2011) for instance describe a good “mix” as including

³⁵ In other words even donors who don’t subscribe to a “portfolio approach” rely on an array of approaches/modalities/instruments, they just don’t choose to concentrate on the effects of these on one another. If diversity is not managed in a strategic and coordinated fashion, fragmentation is the result.

³⁶ Dom and Gordon (2011) note the political pragmatism of employing a range of modalities, especially given the widespread connotation that Budget Support – and other modalities that rely heavily on government systems – function in a regime-endorsing manner (which makes them politically vulnerable). This point is especially salient in the context of fragile states where particular attention needs to be paid to the age-old criticism that aid has the potential to reduce accountability between the state and its citizens since the stakes are so much higher.

³⁷ Note that this is not the same as maximizing the diversity of instruments in order to “cover all one’s bases” – more is not necessarily better, strategic and complementary combinations are what is key.

GBS (for macro-fiscal and cross-cutting reforms, and strengthening PFM), SBS (for in-depth sector dialogue), and projects (for infrastructure, TA, pilots, civil society support)].

2. **inter-donor portfolio perspective:** when a number of donors coordinate their aid modalities or harmonise within a sector or inter-sector (e.g. PFM-education), ensuring a balance is achieved overall, rather than at the level of individual donors (this implies donor specialisation and division of labour, but also covers the use of multi-donor modalities such as Basket Funds)
3. **recipient-donor portfolio perspective:** a somewhat different approach is to look at the portfolio approach not from the donor perspective but from the recipient perspective. This entails using a careful combination of modalities that fit the recipient's overall plans and needs, taking into consideration which modalities are best suited to supporting them in achieving the developmental/institutional goals they are striving toward. The logic here revolves not around risk management, but around best addressing the recipient's needs (e.g. SBS for support at sector policy level, while projects support implementation).

It should be noted, however, that these dimensions are essentially complementary. A sensible donor will ensure that his portfolio is internally well balanced, but in doing this he will also take into account what other donors are doing, and how modalities function in a specific country setting. Nonetheless, there also remains a large grey zone in between the above-mentioned options, with donors taking recipients' plans and preferences and other donors' plans and initiatives into account to a greater or lesser extent when designing their portfolio of instruments.³⁸ Furthermore, the absence of precise operational guidance on portfolio design hints at the fact that exact interactions between modalities may prove difficult to predict in advance with much accuracy³⁹, strengthening the case for "active, ongoing and experiential (and experimental) learning and the iterative feedback of lessons into new solutions" referred to in section 6.1.2.

Portfolio approaches are frequently associated with the aim of achieving the "right mix of instruments" (see for instance section 6.2.3). However, what should be clear by now is that what is "right" or "judicious" is by no means self-explanatory. Rather, one has to begin by answering the fundamental questions: "right for what" and "right for whom"? The right mix from a risk management perspective might not be the same as the right mix from an institution building perspective and – particularly in fragile states – these trade-offs have to be considered in terms of the difficult strategic decisions that need to be made related to prioritisation and sequencing.

6.2.2 Basket Funds within the aid portfolio of a fragile country

A number of researchers recommend actively using portfolio approaches in fragile states (see for example de Catheu, 2013). In relation to the typology laid out at the end of the previous subsection⁴⁰, Basket Funds could be slotted into an intra-donor, inter-donor or recipient-donor portfolio approach, or a mix of one or more of these portfolio dimensions. The relative merits of

³⁸ The Burundi case for instance has experienced tensions while trying to strike a delicate balance between taking an intra-donor and an inter-donor portfolio approach.

³⁹ Especially given the paucity of evidence on the effectiveness of new aid modalities, outlined in chapter 3.

⁴⁰ Though we don't discuss this explicitly, a portfolio approach is sometimes also used to mean that donors have some freedom in rechanneling a given amount of aid from one modality to another during the course of a partnership agreement. This is what was referred to in the previous section as inter-modality flexibility.

BFs⁴¹ include the fact that they allow donors to maximise harmonisation (given their multi-donor setup) and optimise alignment⁴². The latter strategy can be understood to be necessitated by the fact that fragile states are frequently lacking in some key respects, and that these shortcomings usually extend to some or all of their systems, policies and procedures, frequently rendering full alignment unfeasible⁴³.

A key dilemma identified in the aid effectiveness literature, particularly in fragile states, is the potential trade-off between fast delivery via parallel systems (which undermines local capacity and ownership) and delivery via government systems (which may be slower or riskier, but strengthens local capacity and ownership).⁴⁴ However, this dilemma can potentially be overcome if we bear in mind that alignment need not be binary (all or nothing), but can instead be graduated i.e. aligning in certain respects, but not in others, according to what is feasible. If a Basket Fund (or other modality) is set up in such a way that it allows donors to work with the government systems, policies and procedures which donors deem adequate, and to dynamically adjust their setup according to changes in the context (“upgrading” to government systems in the case of improvements or “downgrading” to co-management/donor systems in the case of significant deterioration), then a pragmatic balance can be achieved between longer term aims and shorter term impact.

Furthermore, if the risk of using national systems is considered particularly high in a given fragile country, a (partially aligned) Basket Fund which is used strategically within a larger portfolio of instruments could go some way towards containing that risk. Other instruments, considered less risky, can then be utilised to achieve other outputs in such a way that a donor’s overall set of objectives is met to the degree possible in a fragile context⁴⁵. De Catheu (2013:10) emphasizes the fact that “in fragile states more than anywhere else a system-wide analysis and a system-wide approach are needed”, and that a dynamic, portfolio approach is therefore not just highly appropriate, but deeply necessary.

⁴¹ For a broader overview, consult “Table 3.1 Effectiveness criteria for choosing aid instruments during transition” in DAC (2012) and “Table A: Summary matrix of impacts of aid instruments on state- and peace-building processes” in Baudienville et al (2010).

⁴² For more on these concepts see “Harmonisation and alignment in difficult environments” (Katabaro et al., 2007). Optimising alignment is there defined as “not align[ing] to please the recipient or the donor’s conscience, but carefully consider[ing] to what extent alignment to the government’s priorities or systems is likely to enhance pro-poor effectiveness”. Faust et al. (2013) zoom in more specifically on the difficulties related to harmonization in fragile contexts.

⁴³ Bearing in mind that feasibility is related not only to recipient-side factors, but also to donor-side factors like their individual level of risk aversion. As Dom and Gordon (2011) remark “Overall, it seems more difficult to achieve alignment and harmonisation in contexts in which donors are highly sensitive about risks, as they have different approaches to address risks, that they also typically do not perceive in the same way”. Harmonised risk strategies thus offer distinct advantages.

⁴⁴ See also Chapter 3 of Coppin (2012) which identifies the tension between short- to medium-term financial effectiveness and longer-term state-building as a key trade-off relevant to the use of Basket Funds in fragile states.

⁴⁵ An alternative way to conceptualise this might be to think about donors as having a “portfolio of instruments” and a “portfolio of objectives”. A well-thought-out portfolio approach in a sense involves a matching of these two portfolios, ideally drawing on both a contextual and modality-specific theory of change and fully aware of any trade-offs that might exist. As Barder (2009) notes, donors would do well to “value the specific contributions that different programmes can make to these diverse objectives; this entails recognizing that it is the portfolio as a whole, not each programme, that has to balance these objectives”.

6.2.3 The Belgian Case for taking a portfolio approach

The Belgian Plan on Harmonisation and Alignment (2007) was one of the major documents stipulating how Belgium planned to implement some of the changes in donor policy-administrative culture required by the Paris Declaration. It states that:

The Paris Declaration does not imply “opting for budget aid and giving up projects. The choice of aid instruments is determined by the (sectoral) context in which to function. In many cases, a ‘right’ mix is the solution. A project can be a feasible instrument to the actual transfer of knowledge and experience where ‘new type’ projects are concerned: (i) aligned on the country’s sectoral policy, (ii) aligned on the country’s systems and (iii) harmonised with the cooperation policy of other donors.

At a policy level Belgium has thus committed itself to finding and implementing the “right” mix of modalities and instruments as well as to integrating a greater degree of alignment across the board, even in the “lower” project modalities (an idea operationalised further in the National Execution guidelines which became operational in 2010).

While BFs currently account for only a very small proportion of total Belgian aid spending (see Table 7), they are very much in line with the Belgian commitment to (i) use more aligned modalities in order to strengthen rather than bypass country systems, and (ii) to harmonise and actively collaborate with other donors in order to reduce transaction costs for the recipient, and (iii) to use a variety of modalities and instruments in partner countries in a context sensitive⁴⁶ manner. However, more generally speaking, if Belgium would aspire in its partnerships with fragile states to implement portfolios containing an increased number of optimally aligned, harmonized and context-sensitive interventions, then it will need to redouble its efforts to move towards greater decentralization, creating an ‘authorizing environment’ for decision-making that encourages experimentation⁴⁷. That is precisely what is required in a fragile states context, where blueprint approaches are unlikely to succeed.

6.3 Learning and feedback mechanisms as a crucial tailpiece

The previous sections strongly focused on the importance of using an adaptive approach in fragile states, and on the fact that Basket Funds are a modality well-suited to this type of approach in that they potentially have a dynamic and adjustable nature. Considering the volatile, unpredictable and often non-linear nature of local dynamics in fragile states, designing an aid modality such as Basket Funds from a static perspective, is very likely to constitute a recipe for failure. The same holds for aid modalities that have an overly complex design from the outset, especially in fragile states that score low on the capacity dimension. What is needed instead is a more simplified design space, allowing for experimental behaviour during implementation, as well as for prioritisation and sequencing, which are both held as crucial strategic principles in fragile states. In a similar vein, it is important to acknowledge that ‘taking things one step at a time’ allows for better risk management. As Scott et al. (2012: 516) note: “[i]n the context of statebuilding and working in fragile states, it may actually be considered a step forward to acknowledge that a degree of risk in programme design is acceptable

⁴⁶ This emphasis on contextual knowledge is also driven by the fairly unnuanced belief that “HQ guiding principles [are] almost inevitably driven by ‘self-interest’”, whereas field staff are better able to prioritise results/effectiveness considerations. (*Belgian Plan for the Harmonisation and Alignment of aid 2007*: 13)

⁴⁷ These ideas are discussed at greater length earlier, in section 6.1.2

where ‘small steps’ are being taken towards overall improved governance in very difficult environments”.

It goes without saying that an adaptive approach, applied to Basket Funds, needs to be fed by information distilled from learning and feedback mechanisms that are well adapted to fragile contexts. In situations of support to complex, dynamic institutional change, Ramalingam (2013) proposes the use of a contingency-based approach, which is fully congruent with the PDIA approach described earlier. He also advances a pragmatic argument, valid in a setting that allows for experimentation, namely “that it is not feasible, or even desirable, for all organizations, to develop metrics at all levels of the logic chain. The more important challenge is one of alignment: building systems and structures for measurement that support the achievement of organizational mission, especially the goals that an organization can reasonably control or influence. We contend that organizational efforts extending beyond this scope are a misallocation of scarce resources” (Ebrahim, cited in Ramalingam 2013: 355).

The latter is closely related to a recurring key message concerning support to fragile states: the need to prioritise and sequence activities in a sensible and productive way. Some authors argue that the exercise of prioritisation and sequencing becomes notably complicated when donors lack an explicit, convincing theory of change. In this respect Grävingholt et al. (2012) refer to evaluations that indicate that prioritising goals in fragile states is clearly a learning process over time. “[O]verambitious targets are frequently set as a consequence of a lack of context-specific knowledge [and] despite the unanimous acknowledgement of the need to prioritise and sequence specific areas of statebuilding support, donors do not seem to rank their different objectives in a strategic and successive manner” (Grävingholt et al., 2012: 18-19). This is put in perspective by de Weijer (2012: 22) who states that “the initial design of a policy or program for an adaptive problem is only a starting point. Learning, through further deliberation and action, is essential to guide further adaptation or fine-tuning”. She also adds that in fragile states progressive insights can and should, if appropriate, lead to modifications in the underlying theory of change.

How the Burundi FCE fared in this respect is documented in box 5.

Box 5: FCE learning and feedback mechanisms

Parallel to the redesign of the FCE, the mechanisms for learning and feedback (essentially based on monitoring & evaluation systems) likewise underwent some important changes. Whereas the initial MoU and the accompanying Manual of Procedures provided monitoring & evaluation arrangements that are typical for projects – activity monitoring, mid-term and ex-post evaluations – these arrangements were modified following the revision of both documents. In the revised Manual of Procedures a stronger, more operational focus was put on monitoring, while all references to evaluation were skipped. The evaluation function did, however, receive an adjusted and much clearer focus in the new MoU. Rather than referring to mid-term and ex-post evaluations, the attention in the new MoU has been fixed on joint sector reviews (see République du Burundi, 2012: §§ 17, 32). This adjustment was not only intended to establish a closer relationship between the performance of the FCE and broader sectoral objectives, it was also intended to extend the learning function beyond the strict framework of the FCE. It was hoped that the lessons learnt from its sector strategy supporting activities would foster discussion among all education partners and not just the partners involved in the FCE. Both aspects can be seen as corrective responses to flaws in the way the FCE functioned in its initial phase. In addition, despite a well performing statistical data collection system for the sector, that system has been criticized for being used mainly as an informative instrument rather than as a basis for improved programming.

The adjustments introduced in the new MoU seem to have brought the learning and feedback mechanisms closer to what is described above, in table 8 relating to PDIA, as “tight feedback loops”: a desirable middle ground in between the more typical short (monitoring) and long (evaluation) feedback loops. Especially the provision in the new MoU to organise and time the joint sector reviews in such a way that their results can be used not only to account for the most recent fiscal year’s performance but also to draw out more content related lessons based on a complete school year cycle, bear witness to a tighter learning and feedback approach.

The learning and feedback adjustments discussed are also symptomatic of the fact that among FCE donors, especially in the initial phase, there was no clear, shared understanding of the exact purposes and means of monitoring and evaluation. There are two main reasons for this. Firstly, donors only endorsed the sector strategy as late as 2012. The absence of a commonly agreed national set of sectoral objectives – and by extension, a well developed sectoral monitoring and evaluation framework – inevitably complicated the exercise of sound sectoral monitoring and evaluation. Secondly, even though the FCE was no doubt the support that came closest to a SWAP (of the various forms of support to the education sector), in its initial years it only represented a small proportion of overall funding dedicated to the sector strategy. This apparently made it harder for the FCE donors to choose what and how to monitor and evaluate exactly. As one interviewee put it: “a fundamental question was: what is it that the FCE will monitor in the first place? In the case of the FCE, this wasn’t spelled out clearly. [...] There was not a shared sense of understanding among donors as to what should primarily be monitored (and evaluated) to give donors confidence that their funding was achieving its objectives and providing value for money: should it be the rate of financial disbursements? Should it be the delivery of specific ‘inputs’ funded by the common fund? Should it be the broader objectives of the sector strategy? Should it be all of those things?”⁴⁸

This led to a situation in which every donor more or less had its own monitoring and evaluation focus and motivation. For DfID, for instance, the very low disbursement rates in the first years resulted in an increasing pressure from senior management to revise the monitoring and evaluation framework used for internal purposes. Following a business model logic, it was demanded of field staff to be much more specific in identifying results that the FCE could claim ‘attribution’ rather than ‘contribution’ for. In taking this stance in the area of accountability and performance measurement, DfID went in the exact opposite direction to what Ramalingam (2013) proposes in similar situations of support to complex, dynamic institutional change, namely a contingency-based approach.

What has furthermore been quite clear in the Burundi case is the fact that donors have no convincing theory of change. The various donors’ documents contain clues as to the projected FCE rationale. These basically (i) reiterate the Paris Declaration rationale, (ii) in view of strengthened sectoral and national systems as well as the effective implementation of the education sector strategy, (iii) with the idea of gradually allowing for further alignment. Nonetheless, an actual theory of change (including a prioritisation and sequencing logic) is never clearly spelled out⁴⁹.

The above points, combined with the remarks made earlier on the need for an adaptive, incremental and experimental approach in fragile states (see also Andrews et al., 2012; de Weijer, 2012; Ramalingam, 2013), highlight a dilemma at play in fragile states. How does one, as a donor or group of donors, allow for sufficient ‘simplicity’ in the (re)design of a new or on-going aid intervention, without slipping into ‘unfocused’ or ‘ill-considered’ design. A key notion and safeguard here is the access to and generation of in-depth knowledge of the local context obtained through tight feedback

⁴⁸ DfID Interview (21 November 2013)

⁴⁹ However, as is correctly pointed out in DfID’s response to the questionnaire, one needs to bear in mind “the caveat that the very term ‘theory of change’ is quite recent in donor ‘jargon’”.

loops. In the specific context of support to policy and institutional reform, as is the case here, such knowledge generation requires the use of adapted instruments, using a political economy lens and looking thoroughly into the incentive structures that exist within the institutions involved, which might either hinder or promote the intended reforms. In that respect, giving preference to a decentralised, agent-oriented approach in fragile states may be a crucial element of success. “When human agents are [...] seen as agents of change, rather than as passive recipients of new organizational and operating structures, their capabilities and creative resources can be harnessed. These actors must therefore operate in a space where their ideas and solutions or contributions are valued, and given the space to be judged for actual performance” (de Weijer, 2012: 22).

7 Conclusions and recommendations

7.1 Basket Funds

Although Basket Funds are often seen as one of the newer modalities that were born under the new aid architecture, their origin can be traced back further in the past with the emergence of sector-wide approaches (SWAPs) and they were in that sense a forerunner, rather than a product, of the New Aid Approach. Notwithstanding this longer lifespan, the definitions used by different donors consulted differ considerably. While the harmonization element is a core characteristic of the Basket Fund definition, donors differ significantly in the way they see this aid modality being aligned to recipient policies and systems. However, the modality classification put forward by Manuel et al. (2012) illustrates how this lack of clarity in alignment need not be a problem and might even constitute an important advantage. By offering a gradual approach to alignment, it is recognized that **alignment is not necessarily a black or white option (full alignment versus non-alignment) but actually allows (beyond policy alignment and process alignment) for 8 different levels of system alignment, giving donors the possibility to determine the level of alignment and to critically align to the recipient partner's systems and policies. These diverse shades of grey make the aid modality particularly important for fragile states where full alignment is usually not feasible and non-alignment is not desirable from an aid effectiveness point of view.**

7.2 Aid modalities (in fragile states)

In certain donor circles aid effectiveness was initially seen as involving a move away from lower aid modalities towards more harmonized and aligned ones. To make aid more effective and break the vicious circle of ineffective aid that weakens governments, they argue, donors must shift their aid away from projects towards higher aid modalities (GBS and SBS). More recently however, a growing number of donors recognize the potential problems with Budget Support and the comparative advantages of various other aid modalities. They argue for a judicious mix of complementary aid modalities in a coherent setup. **In this aid portfolio, Basket Funds can have a specific role** in trying to mediate the problems experienced with other aid modalities, or to focus on areas which cannot be covered by other aid modalities. For example focusing on the missing middle of implementation and providing solutions for better implementation and improved recipient institutions.

While the possibilities of alignment and harmonization in fragile states might seem less clear, it has always been argued that harmonized and aligned financial support is particularly important in fragile states given the vicious circle of parallel donor systems and high fragmentation which further weakens the capacities of the already weakened recipient governments. With a focus on harmonization and a gradual approach to alignment, Basket Funds have the potential to respond to these concerns. Mainly in Fragile States, therefore, **the potential of Basket Funds is increasingly recognized as** the potential for even higher aid modalities might be limited because of concerns related to alignment.

Recommendation: Basket Funds can be an appropriate aid modality for fragile states, given their focus on harmonization and gradual approach to alignment. Attention should be paid to the setup of Basket Funds in order to maximize their potential, favoring a flexible and tailor-made approach.

7.3 Selectivity and adaptability

Variation in donor decision-making algorithms in relation to basket funds can be explained in terms of two dimensions: level of selectivity, and level of adaptability. The way donors apply selectivity and adaptability has important implications for the way Basket Funds are able to function and the degree of freedom enjoyed by donor staff involved in facilitating their execution. Unlike some donors, who keep their options open by focusing on positive trends in key areas, **Belgium, with its combination of strict selectivity and limited adaptability (at least at a policy), may be less able to respond to the rapidly changing contexts present in most fragile states and in this sense risks compromising its leverage.**

Recommendations: Give preference to a decentralised approach in fragile states. This would allow for both more a more context-sensitive application of selectivity criteria and create the possibility for the incorporation of adaptability. A dynamic, flexible approach of the kind described in this report is what is needed in a fragile states context.

Recommendation: If keeping Basket Funds within the Vademecum, set up differentiated criteria for them with those for Basket Funds being less strict than those for Budget Support. Explicitly allow for varying degrees and types of alignment, with sufficient autonomy for field staff.

7.4 Portfolio approach

A portfolio approach involves the use of an array of modalities in a complementary fashion and acts to spread risk. Strategically and dynamically adjusting one's combination of aid modalities (i.e. applying inter-modality adaptability within one's portfolio) can contribute to maximising the benefits and minimising the harms involved in the provision of aid. However, since the exact interactions between modalities may prove difficult to predict in advance with much accuracy, learning and feedback remain key. Furthermore, **achieving the "right mix of instruments" in fragile states requires one to begin by deciding for what, and for whom the portfolio should be "right" – there are trade-offs involved and these have to be considered in relation to decisions about prioritisation and sequencing.**

Basket Funds could be slotted into an intra-donor, inter-donor or recipient-donor portfolio approach, or a mix of one or more of these portfolio dimensions. The relative merits of BFs include the fact that they allow donors to maximise harmonisation (given their multi-donor setup) and optimise alignment. The latter strategy can be understood to be necessitated by the fact that fragile states are frequently lacking in some key respects, and that these shortcomings usually extend to some or all of their systems, policies and procedures, frequently rendering full alignment unfeasible. If the risk of using national systems is considered particularly high in a given fragile country, a (partially aligned) Basket Fund which is used strategically within a larger portfolio of instruments could go some way towards containing that risk. Other instruments, considered less risky, can then be utilised to achieve other outputs. However, if Belgium hopes in its partnerships with fragile states to implement portfolios containing an increased number of optimally aligned, harmonized and context-sensitive interventions, then it will need to redouble its efforts to move towards greater decentralization. This is because **a decentralized structure creates an 'authorizing environment' for decision-making that encourages experimentation and this is precisely what is required in a fragile states context, where blueprint approaches are unlikely to succeed.**

Recommendation: Design the aid portfolio around the aims to be achieved and the relative merits of each modality. Consider including Basket Funds in environments where full alignment is unfeasible.

Recommendation: Allow a greater degree of decentralization in decisions surrounding modality choice and setup – a dynamic, rather than a static, approach is more likely to achieve results in a fragile states context.

7.5 Learning and feedback mechanisms

The adaptive approach that we hold as an essential part of successful state-building support to fragile states entails three important messages related to the (adaptive) design of Basket Funds. First, considering the volatile, unpredictable and often non-linear nature of local dynamics in fragile states, **designing an aid modality such as Basket Funds from a static perspective, is very likely to constitute a recipe for failure.** Second, an adaptive approach requires that the **right information can be distilled from learning and feedback mechanisms** that are well adapted to fragile contexts. Third, an adaptive approach implies that at the outset of designing a Basket Fund at least some clear ideas exist on what the theory of change is. Without an **explicit theory of change**, the task of prioritising and sequencing -two elements that are judged to be crucial to state-building support to fragile states- becomes a very burdensome one.

Recommendation: What is needed is a sufficiently simplified design space, allowing for experimental and adaptive behavior during implementation. The principles set out in the MoU, as the basic guiding document of a Basket Fund, can provide a good basis of such a simplified design space. Note, however, that ‘simplified’ does not equal ‘unfocused’ or ‘ill-considered’. On the contrary, thorough local-context knowledge is required to be able both to properly define the principles of the MoU and to interpret local dynamics during implementation. Such knowledge implies the use of political economy analysis (e.g. to determine the pockets of reform and the pockets of resistance within the institutions involved).

Recommendation: Feedback loops need to be organised tightly enough in order to allow for experimental and adaptive action whenever unpredicted evolutions call for it. This means that crucial feedback loops are positioned somewhere in between the ‘mainstream’ short (monitoring) and long (mid-term and ex-post evaluations) feedback loops. This intermediary length rhythm also seems feasibly suited to keeping both the geographical desk and the fragile states desk within DGD in the loop of events.

Recommendation: From the outset, be explicit about the theory of change. Having such a theory of change will facilitate prioritization and sequencing of activities. At the same time, it will serve as a clear point of reference to guide further adaptation and fine-tuning if so required. It also avoids misunderstandings between harmonizing donors about the main objectives of a common intervention.

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