CHAPTER 9
CONCLUSIONS – PRIORITIES AND PRESCRIPTIONS

The European Union has a wide range of policy instruments to tackle the challenges posed by fragile states, and it has been reviewing and refining them regularly over the last decade. Nevertheless, EU engagement with fragile states still suffers from an "implementation gap", which drives a wedge between official commitments and the operationalisation of its policies.[1]

1. EU POLICIES CAN HAVE AN IMPACT

The EU has the potential to influence Sub-Saharan African fragile states' development prospects and in particular to help them enhance their resilience to shocks. To do that, however, it needs to develop conditions of trust and to learn from and build on its experiences. It is not alone in this difficult task, which requires cooperative action by all actors engaged with fragile countries.

The EU could improve the effectiveness of its engagement by acting decisively and defining policies with one voice. Discussions among EU members and within the EC have to be open and wide-ranging, all the more so because the engagement towards fragility is a politically sensitive issue. But once a policy has been jointly defined and agreed, the EU should commit to long-term policies and not shift its objectives or core areas of intervention. The problems of fragile states are mainly structural and persistent, and dealing with them requires a long-term, stable commitment by external actors. Concentrating efforts on a few well-defined priorities would make it easier to simplify procedures and reduce red tape. And the EU should make its commitment to fragile states credible, its policies easily understood and its impact substantial; it should also tailor general policies to address specific issues and adapt them to individual contexts.

When countries are regarded as not eligible for budget support,[2] or when knowledge of the local context is particularly important, donors and recipients may not be in a position to efficiently implement or monitor aid policies. These could then be delegated to other official partners, civil society organisations or independent service agency (see box 9.5 later in this chapter). Delegation may help addressing complex local problems and ensuring adequate commitment. In situations where aid is not efficiently used, or donors channel much of their aid to informal institutions or nongovernmental organisations, it may be worthwhile to separate the different functions of governments: policy formulation from the allocation and monitoring of funds. Separating the task of setting long-term development policy goals from implementing policy measures will make it independent from immediate political pressures, avoid commitment problems and develop appropriate technical capabilities. The basis for such a division already exists, though changes in governance would be needed to implement long-term policies efficiently.[3]

1.1 EU COMPARATIVE ADVANTAGES

The EU has a comparative advantage in formulating strategies to help fragile countries enhance their resilience; to exploit that advantage, it should concentrate its actions on developing human and social capital and supporting institutional development at the local and regional levels. This comparative advantage is rooted in its own history of enlargement as well as in the large array of policies the EU can count on to shape its action. As explained in chapter 8, unlike most aid agencies,[4] the EU can use any combination of trade, agriculture, fisheries, migration, climate change, environment, social dimension of globalisation, research and development, information society, energy, security and governance. The impact of these policies, positive or negative, on state fragility extends well beyond the provision of financial assistance.

The EU's history is one of institutional development in diverse and complex societies, each with its own domestic institutions. And the EU has considerable experience in addressing the problems of states with dysfunctional institutions or in transition. Some current EU members (Greece, Portugal and Spain) were able to move peacefully from militarised dictatorships to democracies during the 1970s. Over the 1990s the EU also helped Eastern European countries through their economic transition, which required important institutional reforms, transformations of governance systems and state delivery mechanisms. These experiences are themselves a comparative advantage, since the EU can use its own experience as a "toolkit" in situations of fragility.

1 Chapter 8 discusses at length where there is more need to intervene in order to make EU commitment more successful.
2 See OEDC (2009) for a discussion of the conditions under which budget support represents a suitable aid modality in fragile states.
3 Collier 2009b.
4 See the background paper by Collier (2009a) in volume 1B on this point.

Aid agencies and international institutions often focus on short-term remedial measures or, because of their institutional duties, on one specific issue.[5] The United States has a range of policies similar to those of the EU but a different history and, despite renewed interest in Sub-Saharan Africa, is geographically distant.[6] China (and Arab States) tends to concentrate on building infrastructure and on foreign direct investment in land, which can be a blessing or a curse for recipient countries. While the EU can also be involved in building infrastructure, it should concentrate on developing institutions and human and social capital, areas of EU comparative advantage.

1.2 THE NEED FOR EU INTERVENTION IN AN UNFAVOURABLE GLOBAL CONTEXT

Mobilising domestic resources and strengthening state institutions and social cohesion are the keys to enhance resilience. Both actions, almost by definition, are difficult for fragile states on their own. Thus, while there is a need for EU intervention, tackling fragility in Sub-Saharan Africa is a major and risky challenge.

But inaction would also have high costs for both donors and recipients. For fragile countries, the costs are reflected in poor human development and lack of security related to the persistence of development gaps. For Europe – geographically close to Africa and its problems of explosive demographics, refugees, illegal trafficking, smuggling, gender-based violence and pirates – negative spillovers may be very high.

The challenge is all the greater because the EU needs to engage with fragile states while respecting their national sovereignty. Fragile states are rarely accountable to their citizens, but they should be given the space to assume ownership of their policies. While low enforcement capacity undermines taxation, the inability to manage domestic resources effectively hinders governance.

The 2008-09 economic and financial crisis has made engagement in fragile states even more daunting. Fragile states have been hit hard by a crisis that they did not cause and that is likely to push even more countries into fragile situations, making the Millennium Development Goals more difficult to achieve by their 2015 deadline. This crisis has been a strong negative shock to per capita income and has followed on two other devastating crises for fragile countries: food and fuel. The near simultaneity of the three crises has had a multiplier effect, making emergencies the rule rather than the exception. Fragile countries, attempting to respond to what they believed were short-term shocks, have lost the long-term perspective needed to overcome fragility.

The economic environment is also affected by the historical debt overhang and serious domestic social problems affecting EU countries. The crisis makes the commitment to long-term policies even more important, along with more efficient use of development aid. Short-term ad hoc policies, weak implementation and monitoring, and the fragmentation and duplication of aid have been sources of inefficiency. They need to be replaced by the simple rules mentioned above: speak with one voice, focus on long-term policies and delegate to partners, as appropriate.

1.3 A ROLE FOR NONSTATE ACTORS IN FRAGILE COUNTRIES

The state has long been the main entry point for donors, who view intervention through state institutions as a way to increase accountability, address gender inequalities, create trust, establish a shared legal framework and guarantee the rule of law.

But current state institutions are influenced by the historical roots of state formation and their interactions with geographic characteristics and ethnic or religious groups. Furthermore, governments in Sub-Saharan Africa tend to claim that they are not responsible for fragility, blaming "external" causes.

Thus state-building and achieving social cohesion require mobilising nonstate actors – sometimes outside the structure of fragile states – with knowledge of the local context.

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5 For instance, FAO deals primarily with food security and agriculture development.

6 Gartner 2009.

2. PRIORITIES AND PRESCRIPTIONS

The EU should consider both the common and the country-specific characteristics of fragile states in Sub-Saharan Africa (see chapter 2) and its own comparative advantage in relation to other donors and international institutions (see the discussion above and chapter 8) when defining its own priorities,

Though fragile countries in Sub-Saharan Africa differ from one another in many ways, they share some common weaknesses that hinder the creation of a strong state capable of performing its core functions. These hindering factors are:

- The inability to mobilise domestic resources and the ensuing heavy dependence on external sources of funds.
- The reliance of the economic system on a few primary products (in most countries, just one) which lead to an unstable pattern of growth and a heavy concentration of export revenues.
- The poor status of their soft and hard infrastructure, which cuts countries off from the benefits of globalisation, hindering their access to main markets.
- Low human development, which undermines the ability to grasp opportunities.
- A high exposure to the risk of break-out of armed conflict.

These characteristics hamper the achievement of what constitutes the fundamental objective of external engagement in fragile countries, namely contributing to the endogenous process of state-building.[7] The EU has endorsed this core priority in its European Consensus on Development,[8] so that its engagement towards Sub-Saharan African fragile countries needs to be focused on this long-term goal. These five common characteristics suggest five key priorities for EU engagement in fragile countries:

Priority 1: Identify and support the driving forces and actors of state-building and social cohesion. European assistance to state-building is complex because it cannot be inspired by an external view. The state-building process for African fragile countries will not resemble the 19th century process of state-building in Europe.[9] Similarly, social cohesion will not be the same among ethnicities and religions whose differences go back hundreds of years. Knowledge of the local context therefore is crucial in the external engagement in fragile countries. This is necessary to identify which actors can be the drivers of change, leading these countries out of fragility, possibly through different paths. While "change actors" have to be strengthened, in particular encouraging women's participation in state-building, it is also important to weaken the possible "veto players"[10] and to support leaders in their efforts to rebuild a new social trust between the state and citizens and between different factions and ethnicities that risk splintering into conflict. If certain groups are discriminated against and excluded from political representation, the likelihood of conflict is higher and the move out of fragility more difficult.

While some organisational capacity exists in fragile states,[11] it needs to be redirected to other shared goals, such as mobilisation of domestic resources and better governance of natural resource revenues. Elite groups can play an important role, but in some fragile states, ethnic or religious factions may have little incentive to build effective state capacity or may even have interests in undermining it. Hence, they are not motivated to reach consensus. And the lack of social cohesion weakens demand for good governance at the community level

Priority 2: Bridge the gap between short-term needs and long-term policies and resilience. To shift attention in fragile states from meeting urgent short-term needs to planning for the future, the EU could establish insurance mechanisms for reducing the risks of volatility in export revenues. With a more stable revenue base (box 9.1), fragile states could design long-term domestic policies. Indeed, given the low resilience of fragile countries to external shocks, particularly to fluctuations in commodity prices and the terms of trade, the developmental potential of donor assistance to strengthen risk-coping and insurance mechanisms, as well as the possibility to use aid flows to 'smooth international shocks should be carefully considered, as recently observed by Bourguignon et al. (2008).

7 OECD/DAC 2007.
8 European Parliament Council Commission 2006.
9 Elections are often considered essential for state-building. But elections can be manipulated unless people share the belief that they express the collective will of the country.
10 Magen and Morlino 2008, p. 256-57
11 For instance, some countries are able to organise troops, and others are able to make the education system work well; and others have efficient money transfer systems.

Box 9.1: A proposal for revenue stabilisation

To help fragile states lengthen the time horizon of their policies, often constrained by emergency conditions, the EU could commit in advance to redirect aid flows to countries whose export prices fall below a trigger level. Fragile states could then pursue longer term priorities, knowing that their revenues would not go below a certain floor.

Implementation can be daunting. Credible commitment is the first step. The basket of products and the intervention price need to be decided in advance, to avoid interfering with domestic production and export choices. And the stabilisation mechanism should be clearly temporary. Countries could be rewarded for committing funds to long-term policies, such as in education and health.

The EC could have a comparative advantage over other donors in supporting such a mechanism. Individual countries are unlikely to commit a sizeable portion of their aid disbursements to such an automatic mechanism, while the EC – which mediates the interests of member countries – could more credibly commit to such a device. Monitoring of the funds could be assigned to local civil society organisations (again in advance to avoid credibility problems).

Priority 3: Enhance human and social capital. Investing in education in fragile states, trying to narrow the gender gap and building social capital are crucial to sustaining growth and development. Fragile countries suffer disruptions in public education that lower enrolment rates and increase adult illiteracy rates. Adequate funding is needed not only for basic education but also for higher education. In 1970, some 30% of adults in Sub-Saharan Africa could read and write. By 1990, 51% could, and by 2006, 63% (but only 59% in fragile states). The literacy gap must be closed as quickly as possible. With higher literacy rates, fragile countries could substantially improve their human development record and foster economic growth. Women's education is particularly important, because it affects fertility rates and the health and well-being of household members, especially children[12]. Targeting interventions to boys and young men could also be crucial, especially in postconflict fragile states, for reducing the attraction of illegal activities such as trafficking and smuggling. Against this background, education might not be the only solution for young male, hence, measures to reduce heavy regulation and to ensure an appropriate business environment with few economic or bureaucratic barriers could also be implemented (at zero cost). This would be crucial to create jobs and therefore bring hope and a future to the younger generations, convincing them that being a rebel is not the only way to move ahead.

EU member countries could open their borders to students from fragile states, knowing that foreign education contributes to institutional development in countries of origin (box 9.2)[13]. The EU could also help by developing local universities and research centres and establishing incentives to stimulate innovation in areas such as efficient use of water under unfavourable climate conditions and dealing with health problems such as AIDS and malaria.

Box 9.2: EU policies and African human capital development

By Yaw Nyarko, New York University

Human capital is an important ingredient of economic development. In Sub-Saharan Africa, levels of human capital remain low, despite massive government investment in education. Increasing human capital development in Sub-Saharan Africa – one of the best ways of improving living standards and economic development – is an area where the EU can play an effective and distinctive role.

Many studies have shown the links between human capital and economic development (see Spiegel and Benhabib 2005 and references cited there). Skilled workers are needed to facilitate adoption of new technologies, introduce entrepreneurial activities, run and manage the healthcare system, and plan national economies. Despite the large percentages of government budgets spent on education, educational attainment remains low in many African countries. In 2000, the last year with fairly complete international data[14], the number Ghanaians with a tertiary education – in a country with more

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12 According to anecdotal evidence (see Gartner 2009), children of mothers who receive five years of primary education are 40% more likely to live beyond the age of five. Hence, given the high under-five mortality rates in fragile countries, emphasised in chapters 1 and 2, the impact of such an investment could be substantial.

13 See, for instance, Spilimbergo (2009).

14 Docquier and Marfouk 2005.

than 20 million people – was around 81,000. To put this number in context, New York University (where I teach and which is one of many in New York State) has an enrolment of about half that number. Many other African countries have similarly low numbers – Kenya has 124,000, Uganda has 63,000. And in many African countries, the percentage of the relevant age cohort with a tertiary education is between 3% and 5% – well below international standards. It is around 70% in the Republic of Korea, Singapore and other countries.

The picture for physicians is just as sobering. In 2004 in Ghana, the data record 1,860 doctors – about the same number as the current enrolment of the New York University medical school. This number implies a patient-doctor ratio of 11,200 to 1. Malawi recorded 124 doctors in 2004, for an alarming patient-doctor ratio of 88,000 to 1. Patient-doctor ratios in the West are around 227 to 1 for Italy and 476 to 1 for the United Kingdom.

Sub-Saharan African countries have made tremendous strides in human capital since independence in the early 1960s, but much more needs to be done. But as soon as the topic of skills accumulation in Africa is mentioned, the discussion almost invariably turns to the brain drain, which is used as an argument for restricting external assistance to higher education in Africa and the outflow of skilled personnel to the West. This is a mistake. There are subtleties in measuring both the brain drain and its returns. This is an area in which the European Union could take a leading role in ways that could benefit Sub-Saharan Africa enormously – and EU countries as well.

The percentages of tertiary educated Africans living abroad are high: 52% for Sierra Leone, 46% for Ghana, 44% for Kenya and 35% for Uganda. The measured brain drain has a number of subtleties that should be recognised, however. First, the brain drain is a snapshot of the skills in different geographic areas at a given point in time. Many of those currently managing hospitals, ministries and other institutions in Africa are people who went abroad for education and later returned with improved skills. Those individuals were at one time counted in the brain drain statistics. The skills of people who return after training are vitally important to the national development of the home country. The data show fairly high return rates after completion of education, so there is quite a bit of brain circulation and not merely drain.

Recent research also points to the importance of remittances of workers abroad to home country economies. Easterly and Nyarko (2009) attempted to quantify the plusses and minuses of the brain drain, taking remittances and returned skills as pluses. That research indicates the importance of brain circulation to the sending countries.

Others have shown a large incentive effect for the brain drain. The possibility of leaving local economies to pursue further studies abroad or earn higher wages increases the desire to acquire a higher education, which may lead to increased levels of education in the local economy even after some have gone abroad. And even if all the Ghanaian and Malawian doctors living abroad were to return home, patient-doctor ratios would still be well below international standards. What is needed is a massive increase in skill levels – a 10-fold or more rise in the enrolment levels.

Several recommendations flow from the analysis here:

- Establish an EU blue card, along the lines of the U.S. green card. Various EU blue card proposals would ease immigration to Europe for skills acquisition, increasing the welfare of those who emigrate and remittances to family members. Many will eventually return to their home countries with improved skills. The return of skilled workers and professionals to their home countries should be encouraged (with flexible "sabbatical" periods for holders of the card). In the global competition for skills, instituting an EU blue card system would enable Europe to compete much more effectively with the United States and its green card for the highly skilled. If designed appropriately, both Sub-Saharan African and EU countries would gain.
- Bilateral migration contracts that allow for the emigration of fixed numbers of workers from Africa to Europe should be expanded. Such contracts should be designed to allow and encourage the return of skilled workers to their home countries.
- Student loan schemes and investments in professional education should be scaled up to meet the need for massive increases in skilled and professional workers in Africa. This process could become self-financing, with higher repayment scales for students who emigrate and discounts for students who stay in the home country, and with all students repaying loans when they begin employment. Financing from the EU could help to set up these schemes.

Migration and the circulation of people, skilled and unskilled, have always been a part of human history. The source of all migration is probably the great human migration from the East African rift valley, which eventually led to the first human settlement in today's Europe. There have also been massive movements of Europeans to settle the new world from the 1500s on. In the 1700s, Africans were being trained in European universities. Fourah Bay College in Sierra Leone, one of the first European-style universities in Sub-Saharan Africa, was initially a centre for returned slaves and later became an incubator of African independence movements.

It would be a terrible mistake if the current financial crisis and an incorrect understanding of the brain drain were allowed to derail the important skills development process and brain circulation. Rather, the incentive to migrate and the benefits of migration could be used creatively to increase human capital levels in Sub-Saharan Africa while also benefiting Europe.

Priority 4: Support better governance at the regional level, including regional integration processes. Policy responses at the regional level could take advantage of regional integration mechanisms that help to internalise spillover effects across neighbouring countries or substitute for some local institutional weaknesses (box 9.3).

Box 9.3: A right level of regional integration

Within the Joint EU-Africa Strategy, the EU could promote more subregional political dialogue and contribute to effective implementation of the subsidiarity principle based on trust. Local leadership is important if regional arrangements are to contribute to state-building. Adequate incentives are needed for regional leaders like Nigeria and South Africa to enter fully into regional economic partnership agreements and to provide leadership.[15].

Because of the great economic heterogeneity within African regional groupings, integration with the EC (and the global market) will likely have significantly different impacts across countries. Configurations of subregional "hub-and-spokes" can emerge or be reinforced, creating tensions and increased inequalities within the subgroup. Transfer mechanisms may be needed to mitigate such situations and reduce regional inequalities. Subregional investment projects should be designed and subsidised to favour local convergence. Within the strategy, political dialogues with subregional leaders may be targeted to stimulate their contribution to such subregional compensating mechanisms. In this respect, the EU could use its own experience in promoting subregional structural funds.

[15] These countries have not signed any interim agreements and are trading with the EU under other trade regimes.

Regional trade agreements can enable African countries to achieve economies of scale, enhance domestic competitiveness, and raise returns on investments and attract foreign direct investment, leading to technology transfer and economic growth. Regional agreements could also enable economies to pool resources for the joint provision of infrastructure projects, thus internalising the cross-country regional effects of such investments.[16] And they could give small African countries a stronger voice in negotiating agreements with other trading blocs or private partners.

Looking at scale economies in the provision of security and other public goods, and at the production of private nontradable goods, one could argue that the typical African state is too small.[17] And standard theory on internalisation suggests that both the supply of regional public goods (such as cross-country transportation and network infrastructure) and the regulation of regional public "bads" (such as neighbourhood arms races, disease diffusion and insecure borderlands) are best realised through intra-African arrangements.

Regional integration agreements can also be tools of institution-building. They can help lock in policy reforms and build commitment devices – especially relevant for states with a weak domestic commitment capacity. Entering a trade bloc with strong "club rules" can help anchor democratic reforms and centre credibility on member countries.

The regional integration approach has had limited success in Sub-Saharan Africa so far. Enforcement of rules can be an issue along with the ambiguity associated with regional leadership. Because of poor governance, weak national institutional structures and lack of political will, regional policies have often been poorly implemented. The economic effects of trade agreements have been somewhat disappointing, and regional integration of political power has been especially limited, with little devolution of power to regional organisations.[18] Insecurity and fragility present challenges to successful regional integration.[19] And the initial logic of political regionalism in Africa rested on a strong attachment to state sovereignty and the principle of noninterference.[20]

The New Partnership for Africa's Development reflects more recent attempts to "pool sovereignty" to improve governance through the African Peer Review Mechanism. These recent developments are consistent with a view that recognises both the importance of regional interdependence, which lead to fragility clusters,[21] and the failure of a pure (European-style) "state-centred" approach to capacity building.[22] Such regionally led processes of governance-building should be promoted more extensively to support state-building in weak countries (box 9.4).

Box 9.4: The dilemma of leadership and hegemony in regionally led governance-building

Conceptual considerations suggest that regionally led governance-building is likely to be more effective when the arrangement includes large partners that are more credible in enforcing bloc rules and therefore will provide better anchors for political-institution-building. At the same time, enforcement has to be rule based. The large partners should not use their superior (and credible) enforcement position for opportunistic and hegemonic motives. This introduces an important policy dilemma in that the characteristics that make a large partner a credible enforcer of bloc rules can also induce it to become hegemonic. This ambiguity may generate mistrust within the bloc and limit the effectiveness of the rule-based system.

In Africa, this situation is illustrated by the two regional agreements with dominant partners: the Economic Community of West African States with Nigeria and the Southern African Development Community with South Africa. The existence of a major player in the region has stimulated some leadership that allowed the conduct of African security missions on the continent (in Lesotho and Liberia). But in both cases, there were presumptions that the use of the regional mechanisms was ex-post rationalising of opportunistic motives. South Africa's position as a credible enforcer of "good governance rules" in Southern African Development Community has also been undermined by its apartheid legacy and the inherited mistrust that still exists with its regional partners. As noted by one observer, "South Africa's claim to the status of "security manager" in Southern Africa, although not officially pronounced, is not uncontested, especially by countries such as Zimbabwe, who have previously enjoyed a status of a regional hegemony before South Africa was reintegrated into Southern African Development Community".[23] The enormous economic disparities between South Africa and its regional partners have

16 See Collier 2006. UNCTAD (2009, p. 41), for instance, maintains that regional cooperation should be centred on infrastructure development and emphasises the benefits of joint infrastructures; in East Africa "the railway was a regionally managed and relatively cheap mode of transport linking Uganda to the ocean via Kenya. This changed in 1977 when East African Railways was split into national segments managed at the national level. The split reduced the efficiency of the railway as it introduced additional costs pertaining to management, maintenance, border controls and other coordination costs".

17 Collier 2006.

18 Yang and Gupta 2005.

19 UNECA 2006; Fanta 2008.

20 Gandois 2005.

21 UNECA 2004.

22 Kaplan 2006.

23 Qobo 2007, p. 17.

also continued to feed feelings of envy and fears of regional hegemony that have reduced its legitimacy as a regional leader. They have also stimulated other Southern African Development Community countries to enter alternative regional arrangements to counter South Africa's dominance.[24]

Priority 5: Strengthen security in the area. A long-term effort is needed to keep and expand European citizens' willingness to remain engaged and involved in global governance. In designing security policy, EU policy-makers should account for the fact that actions in a number of fields, from agriculture and fisheries to trade, can have security implications and that security initiatives can have implications for development and trade. The EU should shift its linear, social engineering approach focused on its available instruments to a more flexible, strategic approach that recognizes the contested and political character of many donor objectives and policies. The growing resort to instruments of civilian and military crisis management is an opportunity not only to encourage joint planning (military, civilian, and development) but also to think more strategically. It is also an opportunity to reward adaptation and risk-taking by local staff, often essential in fragility situation. Ignoring the security needs of the population is counterproductive: instead of implementing a pre-existing blueprint, much can be achieved if the security needs of the population are taken seriously, a first step towards a genuine local ownership.

2.1 THE NEED FOR A FLEXIBLE LONG-TERM APPROACH

To respond to the heterogeneity in performance and characteristics of the fragile states in Sub-Saharan Africa, the EU needs a flexible approach and new forms of aid governance and development assistance to improve its efficiency (box 9.5).

Box 9.5: Reassessing aid governance

By Ramon Marimon, European University Institute and Pompeu Fabra University

The effectiveness of any funding policy depends on its implementation. This is especially important in the case of aid to fragile states. The problem has long been recognized; it was the focus of the 2005 Paris Declaration on Aid Effectiveness and of the follow-up 2008 Accra Agenda for Action.

Designing effective governance of aid policies first requires identifying the actors (donors, donor governments, recipients, recipient country governments) and their relationships, specifying who is responsible for defining general and specific objectives and corresponding programmes and who will implement them. Especially important is establishing the role of aid agencies and their autonomy with respect to other actors.

The simplest design for aid governance is budget support in a situation where there are no issues of eligibility or special needs for monitoring.[25] In such an ideal situation, there is little need for aid agencies because recipient governments (here identical with recipients) directly implement the right policies. Donors may set general objectives, but recipient governments set specific – but also often general – objectives. However, such an idealised form of budget support presupposes that recipient countries have government institutions that are representative of recipients' interests, highly developed and committed to good policies. This is not the case in fragile states. In fact, the commitment problem arises even in developing countries with reasonably good governance: annual budget revisions often mean that development policies suffer discretionary cuts when other acute needs take precedence. The recent financial crisis has provided many examples of such a commitment problem – a problem that can be avoided by delegating aid policies and committing multiannual budgets to aid agencies.

Commitment problems are not limited to problems of discretionary finances, they also emerge when trust is eroded by discretionary policy shift or when aid policies are vulnerable to manipulation by powerful groups. Thus mitigating commitment problems is a primary rationale for having autonomous aid agencies able to pursue long-term objectives without discretionary shifts and local distortions. A second rationale is that, when budget support – to governments or nongovernmental organisations – requires close monitoring, or is not efficient, aid policy becomes very complex, requiring adequate capacity, specialisation, local knowledge and professionalisation.

[24] For instance, Southern African Development Community members Malawi, Mauritius, Zimbabwe and Zambia among fragile countries are simultaneously participating in the Common Market of Eastern and Southern Africa.

[25] Regarding conditions of eligibility and related monitoring issues, see EuropeAid Office of Cooperation (2009).

Neither donor agencies nor recipient government agencies are immune to commitment problems, nor do they have adequate capacity. Dependent on their governments, they are unable to isolate themselves from policy and budget shifts. Donor agencies, distant from recipient countries, lack the proper incentives, local knowledge and trust to effectively and consistently monitor or implement aid policies. Recipient government agencies, too close to recipients, may be influenced by powerful local groups to divert aid from its most efficient use, or may lack the proper incentives to monitor the allocation of aid, either in the form of budget support or of aid programmes; they may have local knowledge, but they lack the capacity to learn from others or to build reputation and trust to attract external funds.

Within the Paris-Accra principles of ownership and alignment,[26] a reassessment of aid governance is also needed. Donors (and developing country governments) should define the general objectives and commit to long-term development policies. Such commitment can be better maintained by delegating programme implementation to service aid agencies and transferring funds to them. An immediate concern is whether such an open and more competitive approach will exacerbate the fragmentation problem.[27] Having multiple donors and recipients can be a virtue. The fragmentation problem arises from having too many agencies, each with different locked-in relationships, and very limited capacity to monitor or manage complex aid programmes. As in other competitive service industries, there are economies of scale in providing aid services, and agencies that provide professional aid services should find their appropriate size and specialization, avoiding inefficient fragmentation.[28]

To summarise, there are several principles of governance and trust in aid policy that should be followed:

- Donors and developing country governments should define general long-term objectives ("engaging in open and inclusive dialogue on development policies").
- Aid programmes, or budget support programmes needing monitoring, should be delegated to service aid agencies, which should apply local knowledge in defining specific objectives and programmes, and their local and specialized knowledge in evaluating and monitoring aid or budget support programmes.
- Service agencies should be independent of donors, developing country governments and final recipients.
- Aid agencies should be professional, stable, adequately funded and accountable.
- Donors should be able to assign funds to a range of agencies, and agencies should be able to direct aid in response to results, not just established relationships.

The Accra Agenda for Action states that "achieving development results – and openly accounting for them – must be at the heart of all we do." The five principles expressed here are a restatement – and a more specific definition – of this goal, when results cannot be achieved by simply transferring funds, as an ideal budget support mechanism. Applying these principles to EU development aid policy towards fragile states in Africa requires a full reassessment and restructuring of aid governance. EU aid governance is dominated by member state agencies and, as the Paris Declaration recognizes, suffers from fragmentation and lack of coordination, high transaction costs to governments with limited administrative capacity, and inadequate monitoring, evaluation and learning. Nevertheless, building on the expertise of the existing agencies and following the five principles, better structures of aid governance are possible.

[26] The Paris Declaration and the Accra Agenda emphasize the importance of ownership (developing countries must set their own strategies for poverty reduction, improve their institutions and tackle corruption), and alignment (donor countries should align behind these objectives and use local systems).

[27] According to Easterly and Pfutze's (2008) study of 31 bilateral agencies and 17 multilateral agencies "the probability that two randomly selected dollars in the international aid effort will be from the same donor to the same country for the same sector is 1 in 2,658 .

[28] Collier has also emphasized the need for a more competitive structure of service agencies (he calls them independent service authorities; see Bold, Collier and Zeitlin (2009). He bases his argument on the complexity of allocating and monitoring aid funds: "My argument is also based on the need to mitigate commitment problems. He sees them as national or local service authorities, I see them primarily but not exclusively as multilateral service aid agencies operating in many countries".

Some Sub-Saharan African fragile countries need mainly to catch-up on human development indicators, while others need to build credible state institutions. Similarly, most of them need to rely more extensively on civil society. Some are in conflict or postconflict and need military assistance. And some need first to fight HIV/AIDS or malaria. All need to enhance their human capital and empowerment, with a particular focus on educating women, to increase family welfare, and young men, to reduce the risk of social unrest and illegal activities.

Once the priorities are set, the EU should make credible long-term policy and budgetary commitments, without interfering with state sovereignty. Such commitments would allow fragile states to lengthen their time horizons for policy formulation and implementation. Monitoring and peer review mechanisms are also crucial for reaching the developmental goals and enhancing resilience.

Moving from priorities to specific prescriptions and guidelines for intervention requires deeply rooted knowledge of local conditions. Detailed policy prescriptions, to have an impact, must be matched by knowledge of the local context. Furthermore, the EU has to speak with one voice and accept that state-building and social cohesion in Africa are long-term processes, that can take different forms at any point in time and require constant attention and the right support on the ground.