

## Donor Aid Strategies in Post-Peace Settlement Environments

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## Introduction

Over the past 50 years, Nepal has received over USD11 billion in foreign aid.<sup>1</sup> Today, almost 50 bilateral and multilateral donor agencies and more than 100 INGOs regularly provide aid to Nepal. International aid accounts for the majority of the national development budget whereby Nepal is dependent on aid (loans and grants) for basic service delivery, social and economic infrastructure development.<sup>2</sup> Nepal remains, however, one of the poorest countries in South Asia, with over one quarter of the population under the poverty line and huge swathes of the country food-poor.<sup>3</sup>

With the potential historic signing of the peace deal between the Seven Party Alliance (SPA) and the Maoists (CPN-M) any day soon, aid is likely to flow fast in high quantities to Nepal.<sup>4</sup> The interim government, which from 1 December 2006 is due to include the Maoists, is developing a three-year interim development plan that will invite donors to increase their contributions, as reward for and in support of the consolidation of peace in the country. This is due to be finalised in December and to be shared with donors in January to garner their commitments during the National Development Forum (NDF), expected in March 2007. The NDF could be a key juncture in the development of future aid strategies of Nepal—with crucial implications for Nepal's future stability and development.

This paper aims to provide a think-piece for how donor strategies might respond in support of Nepal's future prospects for sustainable peace. It does this recognising that Nepal is still suffering from the causes and consequences of 10 years of debilitating violent conflict and a history of multiple, parallel governance systems (i.e., State, Maoists and (I)NGOs). The paper is based upon four key arguments:

1. Donors must take the context as the starting point for all interventions, the first of the *OECD DAC Principles for Good International Engagement in Fragile States* (see section 1.1);
2. Caution should be taken in planning and implementing aid strategies based on traditional aid paradigms that are straight-jacketed by internationally-set targets (see Section 1.2);
3. Traditional post-reconstruction templates should not be applied to Nepal without inclusive assessments of the needs of Nepal (see Section 2); and
4. Donors can positively support peacebuilding in Nepal through articulating these three arguments and promoting alternative conflict-sensitive mechanisms and processes to their headquarters (see Section 3).

<sup>1</sup> This figure excludes military assistance.

<sup>2</sup> Aid accounts for 60 percent of the 2006 national development budget and approximately 90 percent of overall development expenditure (state and non-state).

<sup>3</sup> The poverty line in Nepal is between 24.1 percent and 30.9 percent (\$1 a day) and 68.5 percent (\$2 a day). National Planning Commission & Central Bureau of Statistics (2005). *Summary results on poverty analysis from Nepal Living Standard Survey (2003/04)*, Kathmandu M and World Bank, 2006, *World Development Report 2007: Development and the Next Generation*, Washington DC

<sup>4</sup> The Nepal Government has requested five billion rupees from its donors for reconstruction and rehabilitation (Rising Nepal, Kathmandu, November 16 2006).

## 1. Re-evaluating Donor Aid Frameworks

### 1.1 Aid paradigm vs. local context

Delivery of aid in a ‘post-conflict’ or fragile state raises major questions in terms of aid quantities and type, aid conditionalities, absorption capacity, timing, sequencing and coordination (see Sections 2 and 3). However, none of these issues will be addressed or mechanisms able to function in a meaningful manner unless the aid management framework that informs aid delivery in Nepal is reviewed.

Over the past 60 years, aid paradigms have weakened the ability of donors to appropriately respond to the specific needs of Nepalis because they have been straight-jacketed by internationally agreed targets. Nepal has experienced major phases of social, political and economic turmoil and transition since the start of development assistance to the country in the 1950s. This includes the failed democratic movement in the early 1990s, the onslaught of civil war in the mid 1990s and intensified violence in the early 2000s when Nepal’s war was reported to be the most violent civil war in the world.<sup>5</sup> It was not until 2001, however, that any donor in Nepal acknowledged the existence of the violent conflict in their aid strategy agreements, five years after the violence started.<sup>6</sup> Despite this, donor strategies in Nepal have broadly followed global aid paradigms. This includes paradigm shifts from reducing inequality and fulfillment of basic needs in the 1970s, macro-economic reform and fiscal stabilisation in the 1980s, to poverty reduction and good governance initiatives in the 2000s.

Strategic decisions have, therefore been made in Washington, New York, Brussels, London, Tokyo, and so on, reflecting a weak localisation of strategies that respond to context needs and dynamics. Today, the MDGs pose a similar risk. While no one can disagree with their common goals, under current aid management frameworks, targets will never be met by 2015, particularly in fragile, conflict-affected contexts such as Nepal’s.

### 1.2 Aid effectiveness vs. conflict-sensitivity

Over the past five years, many donors have made strides in trying to respond to this gap in sensitivity to the conflict through Do No Harm and community-centred approaches and enforcing the Basic Operating Guidelines. Since 2001, donors have also fairly consistently identified the root causes of conflict in their Nepal strategy papers as poverty, inequality, social exclusion and lack of good governance. Recognising that poverty has an impact on conflict is a major step forward. However, these efforts largely only tinker at the margins rather than fundamentally change ways of working.

A common donor response in Nepal has been to view the ‘problem’ of conflict from an aid effectiveness perspective. This has meant that the approach of many has been to try to mitigate the negative impacts of conflict on their programmes in order to create space for their continuing work. The fact that poverty is identified as a cause of conflict in donor strategy papers does not make poverty reduction a conflict-solving

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<sup>5</sup> In 2002, there were 4,000 battle-related deaths in Nepal, the highest reported in the world that year: SIPRI Yearbook (2003). *Armaments, disarmaments and international security*. New York: Oxford University Press.

<sup>6</sup> This shift post-2001 could be due to several reasons. This includes the entry of the army into the conflict, whereby the consequences on development and society could no longer be ignored. The impact of 9/11 and the ‘War on Terror’ on international foreign and aid policies, or the impact of human security or fragile states paradigms could also have resulted in the shift. More simply, it could also be due to the nature of the development programming cycle whereby changes in the context were only reflected in the Government’s Ninth Development Plan, 2002–07.

approach. This is for three reasons: first, there are other causes of the conflict in Nepal that need to also be factored in (though not all to be addressed by the same people); second, there are also consequences of the conflict that in themselves fuel poverty and future conflict; and third, because a standard anti-poverty programme is not conflict-sensitive and therefore inappropriate.

Anti-poverty programmes can cause huge problems within fractured communities and a fragile governance structure. Weak absorptive capacity, corruption and elite capture, exclusion and conflict over resources could, for example, only serve to undermine a fragile peace process and do more harm than good. Are aid practitioners, therefore putting conflict at the centre of their aid strategies to fundamentally change aid interventions, or just ‘adding conflict’ to fit in with existing paradigms to maintain the status quo, and with what impact on Nepal’s stability and development?

Trends since April 2006 have not been positive. The majority of donors have resumed programmes (halted after the royal coup) and/or made increased commitments, without proper assessment of the changing context needs. This trend is reflected in the UNDP and National Planning Commission’s MDG Needs Assessment for Nepal. Published in October, it makes virtually no mention of the conflict, its consequences or causes.

Instead, the report states that there is a financing gap of US\$7.9 billion for reaching the MDGs by 2015 and recommends almost doubling the present level of financial support by Nepal’s external development partners. This recommendation is based on the assumption of ‘a relatively quick resolution to the current conflict in the country’. This, in itself reflects a lack of understanding both of the nature of peacebuilding and of development—and of development’s peacebuilding potential, and of Nepali politics and society.

The first of the *OECD DAC Principles for Good International Engagement in Fragile States* is to, ‘Take context as the starting point’. To meaningfully implement this principle, caution must be taken in understanding how the root causes of conflict in Nepal are identified and addressed within the development and ‘post-settlement’ framework. Inclusive and effective aid delivery that addresses the needs of the poor and the root causes of conflict is an admirable aim of donors; however, unless this delivery is conflict-sensitive, it could be counter-productive. Instead, conflict-sensitive development is implicitly effective and inclusive (where appropriate) *because* it is based on the context.

### 1.3 Conclusion

What positive progress has been made by individual donors in responding to Nepal’s conflict context over the past five years is being undermined by the overall aid framework. This is precisely because current international aid frameworks are counter-productive to enabling sensitivity to the fragile context of Nepal.

There is also a significant risk that what ground has been made will be lost in the rush to support Nepal’s burgeoning peace process. If aid is poured into Nepal assuming the quick resumption of the ‘traditional development state’ (which never existed in the first place), then this will only be detrimental to the peace and development process in Nepal.<sup>7</sup>

<sup>7</sup> See Collier et al. (2002). *Breaking the conflict trap: Civil war and development policy*, World Bank Conflict Prevention and Reconstruction Unit.

Aid paradigms cannot just be tinkered with, but need a fundamental review. Change in international aid paradigms and policy approaches cannot happen overnight, however. If donors in Nepal can make the case to resist the imposition of traditional aid frameworks on Nepal from their headquarters, they will be doing their part. One practical way of doing this is to establish common context-specific approaches, processes and mechanisms for delivery of aid in Nepal.

Section 2 aims to outline lessons from international experience of the impact of aid paradigms in other 'post-conflict' or transitional states, while Section 3 outlines opportunities for Nepal's donor community to implement common approaches, processes and mechanisms in practice, based on this experience.

## 2. International Experience of Aid in Transitional States: Lessons Learned

The prospects for peace in Nepal are better now than they have been since the start of violence 10 years ago. The signing of a preliminary peace deal between the main conflict parties is a major breakthrough. However, international experiences show that tempered haste and context-based understanding is essential when designing meaningful strategies in support of sustainable peace.

Approximately half of all peace agreements fail within five years of signing. Other agreements are still plagued by ongoing and seemingly intractable violence even as those committed to peace begin the painful process of rebuilding. As former US President Harry S. Truman pointed out, ‘the absence of war is not peace’. The signing of a peace agreement does not eliminate all causes of conflict nor reconcile all grievances. Indeed, the compromises needed to secure a peace agreement may, in a few years, be the cause of new grievances (‘fighting over the future peace’).<sup>8</sup>

However, donor responsiveness to these dynamics is fundamentally restricted by the aid paradigms and frameworks identified above. Within fragile and transitional states, this has very real implications that donors should be aware of. Challenges embodied in the ‘post-conflict paradigm’ are addressed below, followed by some questions and practical recommendations for ways in which donors in Nepal might respond.

### 2.1 The post-conflict reconstruction paradigm

The much-used term post-conflict reconstruction (PCR) is misleading and has served to obscure the real challenges of transforming societies devastated by years of violence. It simultaneously suggests that the conflict itself has ended (as opposed to its most violent manifestations) and that the objective is to restore the society to its previous condition. This is not a question of semantics. The practical implications of this misconception are enormous.

PCR is seen as something that begins when the violence has ended and a treaty signed and ends when the international community feels it has discharged its responsibilities and moves on to other priorities. This is too late, too short and conceptually flawed on many counts.

#### 2.1.1 Front-load vs. sustained aid delivery

Research shows that the peak absorption period for a country in post-conflict recovery is four or five years after the signing of a peace agreement.<sup>9</sup> Yet, the bulk of the resources are invested in the first few years when absorption capacity is at its weakest. This timing issue is complicated of course by the practical fact that government policies in peacebuilding are subject to the dictates of political fashion and the patience of the donor’s domestic public.

Current donor commitments to resume and/or substantially increase aid to Nepal over the past six months show that a similar trend for front-loading aid is likely. However, from international experience this means that a large proportion is often wasted and is even counter-productive in how it is used. The focus on spending the money rather

<sup>8</sup> This is borne out not only in the high proportion of societies that quickly revert to conflict (e.g., Israel/Palestine, Georgia/Abkhazia, DRC), but also in the experiences of many, nominally more successful examples (e.g., Guatemala, South Africa, Zimbabwe) where the annual number of violent deaths now exceeds levels seen during the conflict itself.

<sup>9</sup> Collier et al., *Breaking the conflict trap: Civil war and development policy* (pp. 157–9); also *Aid, Policy and Growth in Post-Conflict Countries*, Dissemination Notes Number 2, World Bank Conflict Prevention and Reconstruction Unit, 2002.

than on its impacts can, for example, fuel corruption and inequality through elite capture, which can ultimately contribute to increasing the duration of the conflict.<sup>10</sup> Should some countries wish to front-load their aid, this could be meaningful if other donors move more slowly. This is therefore a question of coordination.<sup>11</sup>

### 2.1.2 Quick and high visibility outputs vs. inclusive process

If those immersed in the conflict begin to see the potential benefits of peace rather than the promise of them, then peace is more likely to be sustainable. However, to what extent and in what timescale can the ‘peace dividend’ become a tangible reality?

The speed with which the international community moves into action when a settlement has been signed too often suggests lack of preparedness, rather than measured haste. Speed without proper preparation and planning can be counter-productive.

Externally-driven political expediency often trumps domestic requirements in fundamental decisions around the timeframes used by post-conflict resolution practitioners. International donor approaches to ‘post-conflict reconstruction’ (PCR) frequently result in a focus on ‘elections by spring’, ‘doubling of aid flows in three months’ and ‘full disarmament within 18 months’.

In Nepal, for example, it was agreed that 35,000 Maoist cadres (and similar numbers of the government’s security forces) would be disarmed and demobilised in one week, and that the election to the constituent assembly would take place in seven months. This agenda was agreed to by the main Nepali parties to the peace agreement, as it should. A short timescale was encouraged, however by external forces, whether it be due to national interest, and/or international aid and PCR paradigms.

This approach will, however, reduce the time available for the kind of extensive and inclusive consultations which would ensure timing that is appropriate to the needs and interests of the local context. Initial agreements around the predicament of the security services have, for example, been made at national level without reflecting the realities outside the capital. This will tie local actors to ill-prepared commitments in the initial settlement which they may well opt out of or undermine due to their exclusion from the decision-making process.

High visibility and quick impact programmes that deliver much needed services to Nepalis are undoubtedly important. However, the processes for doing this must be context-driven and consultative to build ownership and trust between the people and the ‘new’ Nepali state governors.

### 2.1.3 Clean-sheet template vs. localism

Existing international approaches to PCR have viewed societies emerging from conflict as blank slates onto which a simple template of democracy, economic liberalisation and physical reconstruction can be drawn. This raises serious questions, however about the extent to which donor approaches are driven by individual (and perhaps contradictory) ideological or political interests, as well as the extent to which they are based on the country’s particular cultural, political, social and economic context. This approach also

<sup>10</sup> For example, one researcher argues that, ‘Regardless of the character of an intervention—whether it be military or economic—both are associated with longer conflicts’. Regan, P. M. (2002). Third-party interventions and the duration of intrastate conflicts. *Journal of Conflict Resolution*, 46(1) 55–73: 69.

<sup>11</sup> Smith, D. (2004). *Towards a strategic framework for peacebuilding: Getting their act together*. Oslo: Norwegian Ministry of Foreign Affairs.



automatically excludes local actors and their perspectives, as well as opportunities to address the causes and consequences of the conflict in question.

## 2.2 Conclusion

Aid paradigms, including PCR approaches, therefore risk repeating many of the problems of aid in Nepal in the past. Within the country's fragile transitional state, international lessons may also fall on deaf ears in donor headquarters in the rush to support the peace process and implement aid via traditional aid frameworks.

### 3. Donor Responses to Nepal's Transition Period: Recommendations

Using the arguments above, what practical alternatives can donors in Nepal put forward to their headquarters in support of peacebuilding in Nepal's transition?

#### 3.1 Address the causes and consequences of the conflict

Experience in the 1990s suggests that peace agreements generally break down for one or more of five main reasons:

1. One party (and sometimes more than one) is insincere;
2. The commitment of one party (and sometimes more than one) to the agreement was conditional in ways that it did not make clear until too late;
3. One party (and sometimes more than one) fragmented, often as a direct result of the agreement;
4. The consequences of the war—economic, military, human, political and/or social—are so heavy that the country cannot function normally; and
5. The long-term causes of the original war are not addressed and the problems not solved. After a while the country slides back into war because there is nowhere else for it to go and no leader knows how to do anything else.

The key question here is where can international donors contribute most? The first three points will largely be outside the control of the majority of international donors and will remain a Nepali-led matter. However, addressing the consequences and the causes of the conflict are two key areas where international aid can contribute.

In order for Nepal to function, many of the economic and human costs of the conflict need to be addressed in a timely but appropriate manner for Nepalis. In addition, if the causes are not addressed, the likelihood of recidivism is high. If not addressed, this will, for example, provide an easy source of grievance that a politician or separatist group can exploit for their own political or ideological means through violent or other means.

An important part of addressing the consequences and causes of conflict in Nepal must include support for strengthening structures, processes and mechanisms for enabling the state and communities to govern and participate in decision-making processes at all levels and sectors of society and state. This will enable Nepalis to address their conflict issues prior to their becoming violent. The question is how to do this without repeating some of the mistakes of the past.

#### 3.2. Develop common analytical and strategic frameworks with all donors.

Some, if not all of the five scenarios listed above could be related to Nepal. Donor agencies need to be aware of the potential for and consequences of each of these scenarios (or their combination) in order to understand how aid interventions may undermine or encourage certain trends. Common analytical and strategic frameworks related to the conflict context are already tools common among the like-minded donors. Efforts should also be made, therefore to share these with, and draw in other donor agencies whose diverging approaches could undermine the overall impact of donor interventions for peace.

Analytical and strategic frameworks need to function on an informal and flexible basis so that they are live documents where the focus is on the process and not a work-heavy output. These frameworks do also need, however, to be formalised in order to maintain institutional memory and consistency. The UN could, therefore, be a useful forum for this.

### 3.3. Establish a transitional trust fund for Nepal.

As international experience shows, timing and absorption capacity is a key issue in terms of donor coordination. Getting the money while the inevitably short-lived attention of the major leaders is focused on the country makes sense, but not to the detriment of the country itself. Therefore, a trust fund mechanism that allows aid to be spent at a different rate that is more responsive to the needs of peacebuilding could be a viable option to be agreed at the NDF in March 2007.<sup>12</sup> This will have to involve a common analytical and strategic framework for Nepal's future, based on a consultative and inclusive process involving all parties and local actors outside Kathmandu.

More research is needed, however, in order to agree on what appropriate amounts of aid would be needed within the Nepali context before decisions can be made. Research on appropriate aid levels cannot be based on PCR frameworks, nor wholly on anti-poverty paradigms such as the MDGs. This will only encourage an immediate increase in funds to reach the 2015 goals and will most likely take place without proper assessment of governance and conflict-fuelling factors and peacebuilding opportunities.

Adaptation of other models of coordination could also be explored. This could include donor teams or focal points based around a particular issue or region with whom all donors agree in principle to liaise. In Sudan, for example there is a multi-donor trust fund on security sector reform that is led and coordinated by a joint donor team.<sup>13</sup> However, it should be recognised that multi-donor trust funds tend to be pooling mechanisms rather than income-smoothing mechanisms. While these models may be useful in terms of coordination, they would need to be adapted to respond to key timing and aid absorption issues in aid delivery in Nepal.

### 3.4. Strengthen peacebuilding capacities within the state and civil society, based on a consultative and strategic framework.

Local-based and owned capacity in peacebuilding within the state and non-state sector is essential for longer-term peace prospects in Nepal. This could include supporting training, university courses or fact-finding missions to develop capacity in, for example, conflict analysis, non-confrontational advocacy or mediation skills for civilians (state and non-state) and the security sector.

This could also include providing support in building the capacity of structures and processes at a state and non-state level. The potential role of peace committees at the VDC and district levels seems to have widespread support at local and national levels, especially in regard to helping to solve local conflict related to reintegration and reconciliation.<sup>14</sup> This is notwithstanding, however, the inevitable political sensitivities and challenges with regard to potential duplication of traditional systems of dispute resolution, and around issues of ownership and legitimacy in setting up and managing the committees. Lessons could be learned from other contexts, such as in Rwanda where community-based structures have successfully supported the justice and reconciliation process under the Gacaca community courts system.

### 3.5. Promote and build the capacity for sectoral approaches to peacebuilding.

The vast majority of aid is likely to go towards rural infrastructure development, the health and education sectors. Sectoral approaches to development must be

<sup>12</sup> Smith, D. (2004). *Towards a strategic framework for peacebuilding: Getting their act together*. Norwegian Ministry of Foreign Affairs, Oslo.

<sup>13</sup> While all participating donors are joint partners, one or two donors informally take the lead.

<sup>14</sup> This is based on field research undertaken by International Alert and Friends for Peace.

fundamentally reviewed to ensure that they are planned and delivered as tools for inclusive, accountable governance and peacebuilding. This sectoral approach to peacebuilding could be applied across every development sector, and build upon the work of the OECD DAC Fragile States work streams that aim to better facilitate turnaround in fragile states through service delivery.

The national Education For All programme, for example currently receives US\$40 million per year from donors, significantly more than any expenditure on direct peacebuilding investment in Nepal. However, the education sector has a huge role to play in peace, and not only in terms of peace education, for example. The education sector can also work more on conflict by, for example, building decision-making and information-sharing processes that are inclusive of all stakeholders (teachers, youth, parents, minorities, etc.) and including government officials and political parties in these consultation processes. This would not only enable people to raise their own perspectives, at times across the conflict divide, but would also enable political parties to develop education policies that respond to the needs of the people and give Nepalis something to vote, and hold their governors accountable, for.

### 3.6. Design exit strategies in consultation with the Government.

Lack of state capacity to deliver services is the reality in Nepal. One hundred percent direct budget support is therefore unfeasible and shadow alignment is a sensible option in the short to medium term, as part of a context-specific, mixed mechanism approach. However, as has been seen in other contexts, this can lead to the establishment of long-term, parallel structures and dependency on international aid. Timelines, benchmarks and strategies need therefore to be planned for thorough consultation to ensure a meaningful hand-over and exit strategy. This should include attention to how state funds can be collected from public sources as an alternative to foreign aid. This is essential not only for reducing aid dependency in the long term, but for building accountability and hence a social contract between the state and the Nepali people.

### 3.7. Help build transparency that supports good governance and peacebuilding.

International experience shows that transparency is a key governance and peacebuilding issue. Without transparency, how can the poor and marginalised hope to have ownership or hold decision-makers to account? Foreign aid can, therefore, indirectly feed conflict potential by undermining the relationship between the state and the people.

The *Basic Operating Guidelines* state, ‘We ensure that our assistance is transparent and we involve poor people and their communities in the planning, management and implementation of programmes. We are accountable to those whom we seek to assist and to those providing resources’. However, the total inflow of aid into Nepal is unknown to the donors, the Nepali Government and the Nepali people.

While information on aid flows is publicly available, the data sources are disparate and at times contradictory.<sup>15</sup> Based on research undertaken by International Alert, for

<sup>15</sup> The Nepali Government publishes an Economic Survey, which includes only that part of foreign aid that is received as budgetary support. In these statistics, there is no donor-wide breakdown. The Government also publishes two documents on INGO contribution and technical assistance, but these documents give only the planned figure for the coming year, and not actual disbursements. Each donor has a website. Despite huge amounts of information about their programmes and projects, they (mainly bilateral donors) do not give information on actual disbursements. In addition to this, most donors do not make their annual reports public. DfID published its annual report for the first time in 2005. During the 1990s, UNDP produced Development Cooperation reports on an annual basis. These gave the total inflow of aid for OECD DAC countries, thus excluding assistance received from non-DAC sources such as India, China

example, the Ministry of Finance report for the period 1999/2000 to 2003/04 shows less than half of actual inflow of aid from OCED DAC countries.<sup>16</sup> Few people will have the capacity to research and analyse this contested information, let alone disseminate it across the general public.

Neither the Government, the Maoists, nor civil society have the capacity to ensure transparency and accountability, so donor agencies must help fulfil this role in partnership with all parties.<sup>17</sup> First, however donors must get their own ‘house in order’ and ensure all information is systematised and accessible to Nepali people. This must therefore be a central aspect of the NDF (see below).

### 3.8. Design coordinated, negotiated and context-specific conditionality.

International literature largely supports the idea that political conditionality does not work. However, economic conditionality is an intrinsic and important aspect of donor strategies in terms of reporting requirements, modes of working, and so on. The problem does not lie, therefore with the concept of conditions, but more with the process of enforcing them without coordination. If one donor withdraws, for example, there are many more to whom the Government or other actors can turn to for financial support. This has clearly been illustrated by Nepal’s constant aid flows since the 1990s, despite wide fluctuations in bi- and multilateral contributions (see Figure 2). The strategic deficit in Nepal’s aid conditioning framework needs to be addressed if conditions are to be effective and foreign aid is to support the peace and development process.

Inevitably, as part of all donors’ new or renewed commitment under the NDF, conditions will need to be set, monitored and met. This should include the publication of audited budgets, planning, implementation and monitoring processes, much of which is already integral to donor planning and implementation in Nepal. Donors could, however, also learn from wider, varied experiences of conditionality such as those examples outlined below.

DFID’s Decentralised Financing and Development Programme in Nepal could be a pilot, for example, where cutting off funds is a condition for DDCs and VDCs should they fail to deliver the appropriate transparency procedures. Experience from Article 96 of the EU-ACP Cotonou Agreement could also be drawn upon. Here benchmarks and timeframes are agreed on with all parties (or partners) to enable governments in fragile states to deliver realistic goals within their capacity. The process is based on diplomacy and negotiation as the first stage of engagement before withdrawal of funds. This approach would not work in all contexts, but could be useful in contexts where governments are willing, but less able to deliver on transparency and accountability conditions due to their weak capacity.

Conditions and conflict-sensitive indicators should also be set on the implementation of inclusive processes to ensure that they are embedded in practice for the long term. Indicators for monitoring change and contingency plans need also to be produced should the context change and the state no longer becomes a viable option for service delivery.

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and OPEC countries. In 2000, UNDP handed over this work to the Ministry of Finance (MoF). Since then, only one report has been made public.

<sup>16</sup> According to the MoF report, the average aid inflow for 1999/2000 to 2003/04 was NRs 17 billion (equivalent to US\$ 226 million). International Alert’s research shows, however that the average aid inflow for the period 2000–2005 was around US\$ 420 million, excluding the aid inflow from China, India and other non-DAC sources.

<sup>17</sup> See International Alert (May 2006). *Supporting civil society in building peace at the community, district and national level: Recommendations to donors.*