Managing Chaos: Recommendations for Ending Extreme Poverty in Fragile States
QDDR II Memo for Tom Perriello

Overview
Aligning U.S. policy, civilian structures and funding mechanisms around efforts to eradicate extreme poverty in fragile states should be one of the "six big ideas" for QDDR II. With U.S. policy, the World Bank and other global donor frameworks coalesced around the agenda to eradicate extreme poverty by 2030, and a growing body of evidence concluding that the extreme poor are increasingly concentrated in fragility traps, now is the time to put in place a management reform blueprint to better leverage foreign assistance. Such a blueprint will greatly help to advance U.S. efforts to break the cycle of chronic poverty and instability in the most vulnerable countries around the world.

Why Focus on Fragile States?
While global poverty has decreased over the last 25 years, the number of extremely poor people has remained roughly the same in countries most affected by fragility and conflict. Roughly half of the world’s extreme poor will live in fragile states by 2018. These are contexts in which people are twice as likely to be under-nourished, lack clean water and see their children die before age five and where they are more than three times as likely to be unable to send their children to school than those in other developing countries. The lawlessness of fragile states invites violence, corruption, human rights abuses, the exploitation of natural systems, and in some cases, terrorism.

Many of these states are countries of strategic importance to the U.S., yet they are also places where U.S. or international assistance has had little success in breaking cycles of conflict or poverty despite two decades of concerted international development and humanitarian responses. In the Democratic Republic of the Congo (DRC), for example, the U.S. has invested billions of dollars into humanitarian assistance over the past 20 years, yet 85% of the population remains trapped in extreme poverty and state institutions still cannot provide basic services. In Yemen, long-standing political instability, civil conflict, and water shortages continue to drive chronic humanitarian needs: despite concerted foreign investment, the number of people living in severe food insecurity (now five million) has doubled over the last five years.

What is the problem?
While U.S. aid reform efforts are moving in the right direction, there is still a need for significant management reforms. Eradicating extreme poverty in fragile states will require a different business model than in other more stable development contexts. The UK and other global donors have begun orienting policy and funding structures to address these needs; however, the U.S. is falling behind. Indeed, a plethora of current management structures at USAID and the State Department prevent implementing partners from addressing the root causes of extreme poverty or chronic insecurity because they fail to make available the funding mechanisms, tools, trust and flexibility to solve the complex problems that exist in fragile environments. An overarching reform initiative should address five distinct, yet interconnected problems:
1. U.S. conflict management structures and funding mechanisms are disproportionately oriented towards crisis response, rather than prevention or resilience building;
2. Few funding mechanisms are available to address the underlying causes of extreme poverty and chronic insecurity;
3. U.S. foreign assistance does not effectively target or reach the extreme poor;
4. Grant and contracting mechanisms discourage adaptive, high impact programming;
5. U.S. foreign assistance programs often hinder, rather than cultivate, new forms of national and regional partnerships and market-based solutions that can reach the extreme poor at scale in fragile contexts.

This memo contains a brief overview of each key problem, accompanied by tangible recommendations to address them.

1. **U.S. conflict mitigation and management structures are disproportionately oriented towards crisis response, rather than prevention or resilience building.**

   **Problem:** For the first time in U.S. history, QDDR I elevated conflict prevention as a core pillar of U.S. foreign policy. In the interceding years, U.S. policy has continued to emphasize conflict prevention, yet funding mechanisms do not yet support full implementation of the policy. Because political systems are inherently reactive, Mercy Corps believes we must program to build resilience to conflict in order to mitigate crises before they start or develop into intractable conflicts.

   **Solutions:** We see three opportunities to shift conflict management structures away from crisis response and towards longer term planning horizons that can advance resilience and prevent conflict.

   1. **Require Ambassadors and Mission Directors in fragile states to design budgets with a resilience lens, and support long-term planning.** Build on OMB, State and USAID's existing efforts on budget planning around “Relief to Development Transitions” (R2DT) and require all missions to include a resilience and conflict prevention lens to their budget submissions and provide a plan or strategy for steps and funding needed to best graduate programs from emergency to early recovery, to long term development.

   2. **Increase mechanisms for supporting good governance and civil society.** A state’s fragility involves more than just governing institutions, but also state-society relations. Both effectiveness and perceived legitimacy are equally important. Yet, few U.S. assistance mechanisms address governance in an integrated way. Governance investments should focus on partnerships at the local, sub-national and national level, specifically addressing how mechanisms, processes and institutions facilitate citizens and groups to articulate their interests; exercise their legal rights; meet their responsibilities; and mediate their differences. Linking grassroots initiatives with national efforts and focusing on building civil society capacity are critical in order to promote the systemic change necessary for lasting peace.

   3. **Protect and scale up rapid contingency funds, such as the Complex Crises Fund (CCF).** Created in 2010, the CCF has quickly become a critical tool in the U.S. foreign policy toolkit. It has proven to be a crucial source of global, flexible funding, enabling USAID, the State Department and non-governmental partners to undertake rapid prevention, stabilization, and response activities when stove-piped assistance funds otherwise cannot.
2. Few funding mechanisms address the underlying causes of extreme poverty or chronic insecurity.

**Problem:** Addressing the interconnected development and insecurity challenges in fragile environments requires long-term planning and intentionally sequenced interventions that promote resilience, foster community ownership and discourage aid dependency. Yet, few funding mechanisms are available to implementing partners in these environments that support the programming necessary to address the multi-sector, interconnected and deeply structural root causes of extreme poverty, conflict and fragility. Instead, the majority of USAID, State and UN funding mechanisms available in these contexts are short-term emergency assistance grants focused on meeting emergency humanitarian needs without transition structures to support early recovery, long-term development or systems change. This serves neither the extreme poor nor the American taxpayer as it leads to a succession of expensive humanitarian interventions without longer-term problem solving.

**Solutions:** Now is the time to pursue a much-needed paradigm shift to integrate humanitarian, conflict mitigation and development silos. Assistance frameworks must better integrate emergency response, conflict mitigation, early recovery and long-term development recognizing that in reality, many countries like the Central African Republic and South Sudan go back and forth between all three as the contexts evolve. To do so, we suggest that the U.S.:

1. **Increase the number of multi-year, cross-sectoral funding mechanisms in fragile states.** Successful programs in fragile contexts require intentional integration of development and peace building tools that address livelihoods, governance, and social cohesion challenges. USAID’s Food for Peace program – which funds long-term programming that spans a relief to recovery and development spectrum – offers one model structure for replication, as appropriate, across USAID and State.

2. **Integrate conflict management interventions into assistance efforts.** The mutually reinforcing relationship between fragility, poverty and armed conflict necessitates a directed effort to weave conflict management into programs. Communities and governments that are equipped with skills and strategies to better manage conflict can help prevent violence from erupting. This has the dual benefit of breaking the cycle of poverty and conflict.

3. **Link relief to early recovery and development to break cycles of chronic need.** Local staff capacity and knowledge, community trust, and early recovery gains are often lost as USAID transitions from emergency response to development. This is often due to slow or poor coordination within bureau-level and programmatic silos and/or a lack of multi-year assistance. USAID should streamline the process to ensure smooth transitions out of emergency response towards early recovery and development.

4. **Institutionalize emphasis on partner capacity building.** Capacity building is a central focus at the onset of the program design phase but throughout a program’s lifecycle, it is often either whittled down or pushed lower on the priority list. This perpetuates aid dependency. Building partner capacity and graduating ownership, especially for youth and women, is critical.
3. Foreign assistance frameworks do not effectively target or reach the extreme poor.

**Problem:** U.S. aid programs focus disproportionately on providing direct support to individuals rather than fixing systemic challenges that impede access to services or hinder long-term poverty alleviation. While the parameters for this are now in place with USAID’s “Local Systems: a Framework for Sustained Development”, more still needs to be done to operationalize this on the ground. For example, Feed the Future – considered USAID’s flagship food security program - aims to address systemic barriers to food security. Yet, it still pushes implementers at the monitoring level to prioritize and measure outputs such as the number of trainings hosted, or quantity of seeds delivered, rather than broad-based impacts like changes over time in trade patterns. Our work with food insecure populations in Uganda has found evidence that the root causes lie less in missing skills and inputs, and more in underlying structural issues like expensive transport, high interest rates for credit lines, and a shortage of decent storage facilities that allow traders to preserve food for longer periods, especially into the lean season. Interventions must address root, systemic causes of poverty rather than only treating the symptoms.

Secondly, investments often fail to prioritize efforts to help the extreme poor access market solutions when they do exist. A feedback loop – and process for marketing to and creating demand for interventions amongst the extreme poor – must be a central component of program design and adaptation of programming over time. No program design is perfect at the outset, especially when trying to impact the extreme poor, so continual learning and adaptation must happen in order for programs to ‘learn their way into impact’. In some cases, this means addressing the barriers that stand in the way of access, such as a lack of adequate opportunity for asset building or social safety net programming that allow the very poor to take calculated risks in new investment opportunities. For example, when Mercy Corps partnered with USAID in Guatemala to provide technical assistance to help producers understand and meet large commercial retailers’ demanding product quality and safety standards, limited support was provided to help producers make necessary upgrades to their production equipment and infrastructure. Instead, these producers were required to invest their own (limited) resources into any upgrades. The extreme poor, however, with no long-term or even short-term guarantee on returns on investment, were unwilling to risk their scarce resources for a new and untested commercial relationship. In this case, although the program significantly helped low and middle-income farmers, the technical assistance alone was not enough to overcome market entry barriers facing the extreme poor. In other words, the program did not reach the ‘last mile’.

Furthermore, the mobility of the extreme poor – many of whom are refugees or internally displaced – requires that programming strategies increasingly span national boundaries and address transnational systems. Many of the systemic issues that drive poverty – drought, pollution of shared watersheds, deforestation and flooding – are also frequently regional concerns. One way of linking local initiatives to multi-country aims is to integrate localized approaches with a policy or programmatic overlay at the national and regional level. Broader initiatives like this often have the benefit of drawing public attention, the interest of political leaders, as well as funding opportunities, and information sharing platforms. Such linkages allow local solutions to affect systemic political or economic changes that can further cycle back into enhanced local impacts.

**Solutions:**

1. **Ensure that market-based poverty alleviation programs address systemic barriers and access issues for the extreme poor.** Reform efforts should continue to move away from direct beneficiary measurements as indicators of success.
2. **Institutionalize learning.** Build in iterative monitoring processes that allow adaptive changes and encourage pilot interventions like budget realignment or work plan modifications to test strategies in order to expand programming to reach the most vulnerable. Require implementers to demonstrate periodically the adaptive programmatic changes that have evolved from iterative learnings.

3. **Link grassroots initiatives with policy frameworks that cross national boundaries to institutionalize and fund changes at the political level, creating a feedback loop that brings inter-connected regional issues back into local program design.** Power Africa is one example that other sectors should replicate.

4. **Grant and contracting mechanisms discourage adaptive programming.**

**Problem:** Communities at the nexus of extreme poverty and fragility live in “complex” development environments – fluid, dynamic and uncertain. Implementing a program that can respond to both emergency needs and address root causes in complex environments requires a certain degree of flexibility, within the bounds of reason and responsibility, to respond to constantly changing circumstances. However, USAID procurement, management, and monitoring and evaluation (M&E) structures often encourage and expect the opposite from partners: rigidity in planning and budgeting, risk aversion in implementation and a culture that discourages failure and innovation.

**Solutions:** USAID should reform its procurement, management and M&E structures to support an adaptive management approach to complex development contexts. In many ways, “adaptive management” follows a scientific process of discovery or Silicon Valley business model of innovation: examine, hypothesize, test, measure, analyze, iterate, and repeat. Such a management structure anticipates change in complex contexts and effectively influences the structures of complex socio-economic and political systems and the patterns of human behavior that cause them. New approaches should build on work already done on integrating learning into the program cycle, such as through USAID’s Bureau for Policy, Planning and Learning (PPL). The reform process should be cross-cutting, and there are specific best practices that we recommend the U.S. to consider, including:

1. **Build a structured inception phase into procurement and design phase.** Already championed by other donors such as the UK’s Department for International Development (DFID), the Swiss Agency for Development and Cooperation (SDC), and the Swedish International Development Cooperation Agency (SIDA), inception phases are a first phase of programming that aims to develop a set of research questions with specific indicators and methodologies for ongoing M&E to ensure that program outputs and outcomes are chosen for maximum impact throughout the life of a program. Inception phases also allow time to test and refine program designs and strategies to ensure a program is appropriately addressing complex problem sets, including analyses of partnership potentials with local authorities, private sector and other key actors that are not direct beneficiaries (this is a critical element often unmeasured). They also help ensure that interventions will indeed reach the extreme poor. USAID should develop these modalities, taking advantage of the memorandum of understanding they recently signed with SDC and DFID to explore collaboration toward building inclusive markets.

2. **Reform M&E structures to match adaptive programming.** Overall, M&E should be re-conceptualized as an internal feedback loop for management and impact, rather than rigid measurements of quantitative outputs. Mercy Corps and other agencies have invested significant resources into developing indicators and data collection tools to measure program
impact, with particular attention to examining the links between poverty and conflict. To improve donor M&E practices, primary reforms should include: (1) shifting away from large numbers of quantitative/activity-focused indicators and towards fewer, but more meaningful outcome indicators, such as those that measure individual and community-level behavior changes, institutional or economic systems changes, and the interactions between them; (2) allowing for more flexibility in adapting indicators and measurement plans throughout the program cycle to adjust to new learning and fluid realities; (3) championing more efficient processes to collect indicators and data that are tailored to meet the lifestyles of the extreme poor - for example, in some cases we have seen over zealous data collection modalities that can take up to 2-3 hours per person to complete thereby taking precious time away from income-earning activities.

3. **Build in ex-post program evaluation mechanisms.** Current M&E structures do not always measure impact. If we implement a six-month agricultural restoration and livelihoods program in South Sudan, for example, and are asked to measure the impact at the end of six months, how can that realistically measure the long-term resilience of communities or a projected change in the agricultural market? One best practice DFID is developing is a legacy grant mechanism (small funds that can fund staff or external contractors to conduct an M&E initiative after the program ends) to measure change in a system one or two years after the intervention took place.

4. **Forge a culture of transparency, trust and risk tolerance between donors and implementers.** Donors and implementers must develop an open relationship from the beginning in order for adaptive management to succeed. Good development programming, particularly in high-risk contexts involves, by its very nature, a certain degree of risk and failure.

5. **Build in budget lines to respond to emerging needs and unexpected opportunities.** Flexibility should be built into program budgets, or set aside in global funds within USAID, to allow quick access in response to unforeseen crises, or to pilot new ideas that may arise in fluid contexts. In doing so, less focus should be placed on funding specific, pre-determined projects with a greater emphasis on facilitating community-led programming and innovative solutions. Best practices for unplanned needs include crisis modifiers and trigger funds.

5. **Assistance frameworks hinder, rather than cultivate, new forms of partnerships and market-based solutions that can reach the extreme poor at scale in fragile states.**

**Problem:** There are still many framework gaps and administrative uncertainties that stand in the way of ‘out of the box’ private sector partnerships geared towards stimulating economic growth. Mercy Corps’ and USAID’s desire to invest USAID funds in an export-grade slaughterhouse in Ethiopia illustrates this point. Envisioned to be the first of its kind in the Somali region of Ethiopia, the slaughterhouse will enable the export of processed rather than live animals, which will result in a number of economic benefits for the local economy. Mercy Corps’ program – designed to support resilience among pastoralist communities in Ethiopia – had a $5 million core fund designed to stimulate and promote investment in areas targeted by the project. However, since the idea of augmenting the initial capital investment needs of the slaughterhouse enterprise did not fit the traditional model of issuing either a sub-award or a procurement contract, the actual framework for transferring funds to the enterprise took months of discussion between Mercy Corps, the USAID Mission and USAID Washington, despite the fact that the partnership was actively championed by the
USAID Mission. Though all parties were committed to the idea and actively worked towards a solution, the rigid flow-down requirements and inability to adapt either model to an investment mechanism – in other words, the framework for investments - led to a time consuming process (lasting eight months) to obtain approvals that has slowed down the impact of the program.

The lack of an existing mechanism to fund a range of non-traditional partnerships is further exacerbated by a growing emphasis on risk by USAID, which is overwhelmingly fiduciary in nature, and ignores the potential for reduced programmatic impact that results from overly cautious or prescriptive programming. This risk-adverse culture, coupled with a reliance on external auditors who have a limited understanding of applying the regulations to the international development context, leads many international partners to focus more on compliance requirements than program quality and to over-manage local partners to avoid cost penalties resulting from minor infractions of grant rules and regulations. USAID’s typical program model makes it difficult to adjust and adapt programming to inevitable shocks and stresses in the market and political environment inherent in fragile state settings.

The creation of the U.S. Global Development Lab was a good first step toward breaking down some of the barriers facing non-traditional programming and partnerships.

Solutions:

1. **Set up a special projects group with legal and procurement specialist teams within USAID/OAA to develop a funding model for private sector and other ‘out of the box’ partnerships and award agreements.** To encourage the acceptance of program designs that include “smart-risk” taking, USAID/OAA must fully commit to the USAID Procurement Reform objective to remove or streamline non-value added administrative requirements.

2. **Refocus auditing efforts towards major compliance risks** and away from non-valued added administrative requirements.

3. **Build in innovation funding streams into budgets** to be set-aside for pilot programming to reach communities not already benefiting from assistance programs, or to pursue an emerging opportunity to take an intervention to scale, for example.

Conclusion

QDDR I created a new paradigm. It helped to build the political will and internal structures necessary to try to prevent conflict and engage more strategically in fragile states. These commitments have been taken to heart over the interceding years, and significant progress has been made. QDDR II now has the opportunity to build on this legacy by complementing this progress with much needed internal management reforms that will operationalize President Obama’s commitment and policy directive to eradicate extreme poverty and stabilize fragile states. We greatly appreciate your consideration of these requests, and look forward to doing what we can to support this critically important process.

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President Obama, 2013 State of the Union: “We also know that progress in the most impoverished parts of our world enriches us all -- not only because it creates new markets, more stable order in certain regions of the world, but also because it's the right thing to do. In many places, people live on little more than a dollar a day. So the United States will join with our allies to eradicate such extreme poverty in the next two decades by connecting more people to the global economy; by empowering women; by giving our young and brightest minds new opportunities to serve, and helping communities to feed, and power, and educate themselves; by saving the world’s children from preventable deaths; and by realizing the promise of

The High Level Panel on the Post-2015 Development Agenda has set the goal of ending extreme poverty by 2030 as the key task for a widely anticipated successor set of development goals.


http://www.worldbank.org/content/dam/Worldbank/Feature%20Story/Stop_Conflict_Reduce_Fragility_End_Poverty.pdf

Specifically, program design and management in these contexts need the planning horizon, tools and flexibility necessary to toil with the multi-sectoral and multi-level factors that perpetuate cycles of insecurity, including: lack of access to basic services, mismanagement of resources, weak, unresponsive and/or predatory governance, stagnant economic markets, intercommunal conflict, mistrust across sectors, poor capacity of multiple stakeholder, and absence of rule of law.

Mercy Corps’ progression in Ethiopia from a 4 year USAID OFDA bridge relief-to-development program (RAIN) to a 4 year USAID FTF program (PRIME) to enhance resilience among pastoralist communities and thus enhance prospects for long-term development is a primary example of what is possible and how it can be done right. [http://www.mercycorps.org/sites/default/files/Resilience%20in%20EastAfrica%20Capacity%20Statement%20Nov%202013.pdf](http://www.mercycorps.org/sites/default/files/Resilience%20in%20EastAfrica%20Capacity%20Statement%20Nov%202013.pdf)

See for example: [http://usaidlearninglab.org/learning-guide/adaptive-management](http://usaidlearninglab.org/learning-guide/adaptive-management)

USAID has done this with its EQUIP 3 program, and signed an MOU with SDC and DFID towards this end, but we haven’t yet seen this institutionalized or becoming normative. See: [http://www.microlinks.org/learning-marketplace/news/usaid-dfid-and-sdc-explore-collaboration-inclusive-markets](http://www.microlinks.org/learning-marketplace/news/usaid-dfid-and-sdc-explore-collaboration-inclusive-markets).


The Complex Crises Fund (CCF) now exists to serve this purpose, but is far too small. Mercy Corps is urging for scale up of the CCF to $100 million, non-earmarked, un-programmed funds.

A crisis modifier is funding made available on a contingency basis to a development program to implement emergency relief activities. The mechanism allows implementers to respond to destabilizing seasonal shocks and unforeseen emergencies while maintaining development gains.

We are seeing this more and more. USAID/PRIME in Ethiopia has a crisis modifier which allowed for high impact programming and strong donor-implementer-community relationships. USAID/LEAP in Kenya had this, and there is flexibility built into a new Guatemala RFA, Strengthening Communities. We commend and support this movement.

Innovation funds are un-programmed budget lines built into the beginning of a program to support new opportunities that may arise to advance the objectives of a program. In Uganda, Mercy Corps used innovation funds to implement a pro-poor marketing campaign to encourage extremely poor female consumers in Karamoja, Uganda, when our M&E found that extremely poor women with the purchasing power to purchase new solar goods still were not purchasing them in the market despite increase in supply.