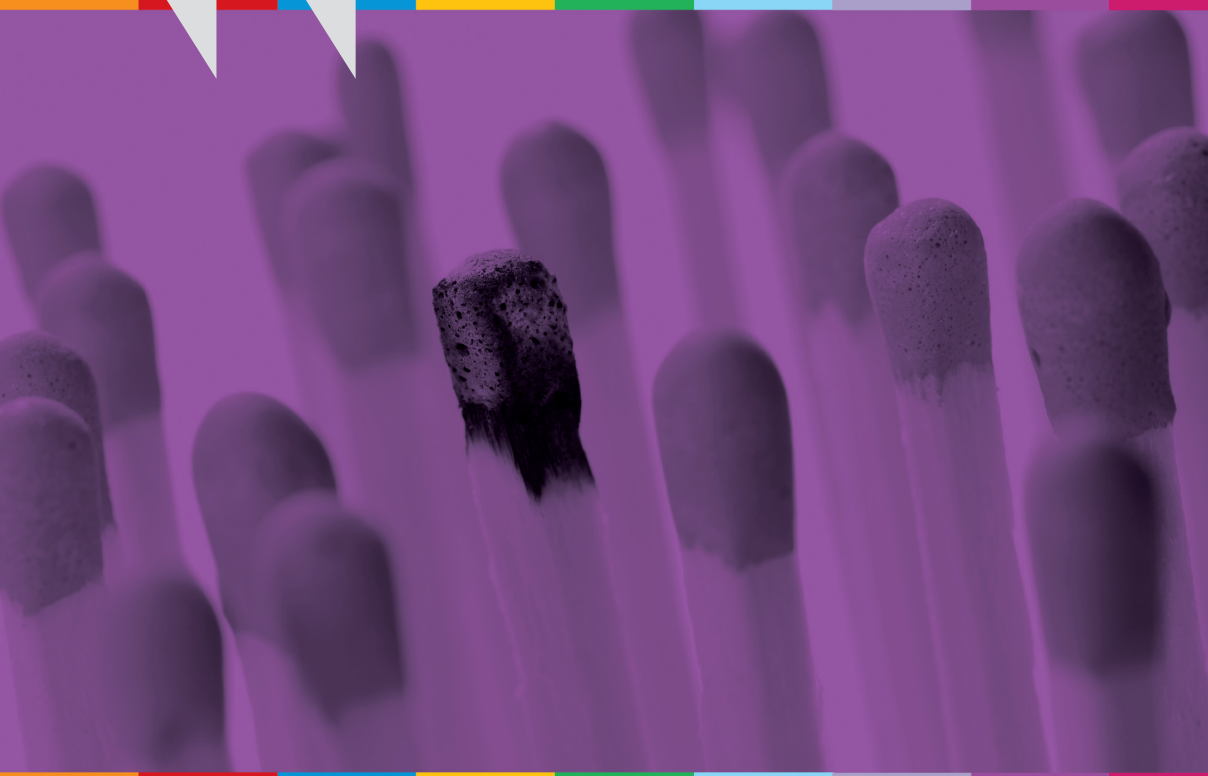
Conflict and Fragility

Do No Harm

INTERNATIONAL SUPPORT FOR STATEBUILDING



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Foreword

In recent years, there has been increased interest in understanding how donor interventions in situations of fragility and conflict can contribute to processes of statebuilding. While external actors cannot determine the outcome of those processes, they can target their assistance to support positive statebuilding dynamics. Donors must ensure that they "do no harm" and consider both the intended and unintended consequences of their interventions.

This publication fills an important knowledge gap by addressing two fundamental questions: what are the negative impacts that donor interventions can have on statebuilding; and what measures should donors adopt to avoid negative impacts on statebuilding processes?

Do No Harm argues that the challenges of statebuilding are such that donors must develop a sophisticated understanding of political processes, patterns of state-society relations and sources of legitimacy in the countries where they are operating. It helps to clarify some of the most important trade-offs among diverse goals and looks at how donors have approached them in the past and how they might approach them in the future. The publication demonstrates the ways in which decisions donors make concerning how aid is delivered can have a profound impact on policy-making processes that are central to a well functioning state. The risks of creating a dual public sector by channelling aid resources through non-state agents are highlighted.

Based on an extensive literature review and on six country case-studies (Afghanistan, Bolivia, the Democratic Republic of Congo [DRC], Nepal, Rwanda and Sierra Leone), *Do No Harm* offers a valuable addition to our knowledge on statebuilding in situations of fragility and conflict. I hope that policy-makers and practitioners working in capitals and the field will closely examine the recommendations put forward in this report. This will help to ensure that external engagement will reinforce – rather than undermine – positive statebuilding processes in situations of fragility and conflict.

Eckhard Deutscher

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Abbreviations

DAC	Development Assistance Committee, OECD
DDR	Disarmament, Demobilisation and Reintegration
DFID	Department for International Development, UK
HIPC	Heavily Indebted Poor Countries Initiative
IMF	International Monetary Fund
LTO	Large Taxpayers Office
MONUC	Mission de l'Organisation des Nations Unies en République démocratique du Congo (United Nations Organization Mission in the Democratic Republic of the Congo)
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
PBA	Programme-Based Approach
PIU	Project Implementation Unit
PRSP	Poverty Reduction Strategy Paper
RDF	Rwanda Defence Force
RPF	Rwandan Patriotic Front
RRA	Rwanda Revenue Authority
SSDAT	Security Sector Development Advisory Team
SSR	Security Sector Reform
SWAp	Sector-Wide Approach

Executive Summary

Introduction: A statebuilding lens and "do no harm"

This report examines the ways in which donor interventions in fragile situations can "do no harm" or positively contribute to processes of statebuilding, by focusing on the ways in which donor interventions affect five central statebuilding dimensions: the endogenous political processes that drive statebuilding; the legitimacy of the state in society; the relations between state and society; the expectations society has of the state; and the capacities of the state to perform its basic functions (security, the rule of law, taxation, management of economic development and the environment, and the delivery of essential services).

It follows from a prior review of recent academic and policy literature on statebuilding, and is based on six country case-studies: Afghanistan, Bolivia, Democratic Republic of Congo (DRC), Nepal, Rwanda and Sierra Leone. Research in these countries took place over a concentrated three-week period involving one international expert, a lead local researcher and assistance from partner organisations. Key stakeholders drawn from among state officials, civil society representatives and donor organisations present in country were interviewed and brought together in workshops to discuss the impact of donor activities on statebuilding processes.

Doing no harm essentially means that donor intervention does not undermine statebuilding processes. Donors can inadvertently do harm when the resources they deliver or the policy reforms they advocate exacerbate rather than mitigate the conditions for violent conflict, or they weaken rather than strengthen the state as a site of decision making and policy formation over the deployment of public resources. They can do harm when aid is delivered in such a way as to act as a disincentive to states to consolidate their own revenue base. By not understanding the history and power dynamics in a partner country, donor actions can disrupt the political settlement that underpins the state, weakening the incentives for powerful elites to "buy in" to statebuilding processes and increasing their incentives to "opt out".

Positively contributing to statebuilding processes means that donor interventions affect the five dimensions in ways which promote inclusive political processes, state legitimacy, constructive state-society relations, social expectations that push states to do more but are not wildly beyond what states could reasonably accomplish, and the development of sustainable capacities to carry out state functions.

Donor impact on statebuilding: The macro perspective

The first area of research explored, at the macro level, is how donors, state officials and civil society actors view the challenges of statebuilding and the impact of donors on these processes. Major strategic issues and trade-offs confronting donors in their interventions in fragile states were examined, as well as the direct impact of donor interventions on the political processes, state-society relations, social expectations of the state, and state legitimacy that are at the heart of statebuilding.

Strategic dilemmas

Donors are often faced with the difficult task of reconciling their government's strategic objectives in-country with statebuilding and development objectives. In the past the former have usually trumped the latter. Geopolitical objectives remain primary, including international security (today marked by the "war on terror" and regional conflicts), global economic integration and problems of global warming as well as strong ideological commitments around the defence of human rights and the propagation of democratic politics. While there are endless efforts to suggest how all these goals are interconnected and sit easily together, reality demonstrates that they are often contradictory.

The strategic dilemmas confronting donors will not disappear and statebuilding objectives will not always trump other strategic objectives. In such situations, it may be impossible for donors to avoid "doing harm" to statebuilding, from the vantage point of actors within a given state. Understanding these strategic dilemmas is arguably the first step in undertaking an assessment of the impact of donor intervention on statebuilding.

Political processes and political settlements

Donors need to understand how their interventions may affect political processes, which are the mechanisms through which state-society relations are mediated, and the political settlement – which reflects the balance of power that exists and the bargains that have been struck between contending elites and social forces – that underpins and is institutionalised in the state. The way donors intervene can affect the incentives elites face to buy in to

or opt out of statebuilding processes. The consequences of not understanding the shape of a political settlement can lead donors, often unknowingly, to do harm to statebuilding. Donors' impact on political processes has been explored by looking at their role in the promotion of electoral processes, as well as their support for decentralisation initiatives.

In deciding what stance to take towards elections, donors need to assess whether electoral competition is likely to lead to a more or a less inclusive political settlement. Donors risk doing harm to statebuilding by promoting elections where major political organisations, or elite factions, are excluded from the process, or where incentives remain in place for political organisations and powerful elite interests to exit and engage in violent confrontation. Similarly, where the demographic parameters of violent ethnic conflict mean that those who suffer oppression can never gain voice through electoral exercises, then competitive elections may also breed further violence, forced exit, reduced voice and less inclusive political settlements. Doing no harm in these situations may mean that donors accept a political settlement where open electoral competition is curbed and power is shared. Donors may need to sequence their interventions, supporting the resolution of security problems before supporting electoral processes.

Donors face similar trade-offs in decisions around support for decentralisation, involving both administrative deconcentration and political devolution. There is mixed evidence on the extent to which support for such measures has promoted more inclusive or exclusionary political settlements. As in other studies of administrative deconcentration, it was found that this needs to be accompanied by significant measures to strengthen capacity in the central state. In terms of political devolution, it was found that the character of central power makes a difference where more fragmentation in the political settlement at the centre risks seeing devolution processes simply extending factional politics.

Generally, donors lack the knowledge of local politics, of the balance of power between locally contending groups and elites or how they are linked to the centre, so support in this area is often blind and therefore in danger of provoking unintended outcomes.

State-society relations

The evolution of a state's relationship with society, writ large, is at the heart of statebuilding. Donors' interventions can have an impact on improving state accountability to society, on the capacities of a state to respond to social demands and on the capacities of society to make demands on the state or to intervene in debates about state policy. Donors also can influence the polarisation or co-operation that exists between state and society.

Donors do not always understand that "civil society" – the associational sphere that lies between the state, family and private sector – emerges in tandem with the state and economic development, and its consolidation needs to be considered as an aspect of statebuilding. Overall, donors have made moderate contributions, through subtle pressures on states, to improve their accountability and open up to interaction with emergent civil society. However, too often donors still equate civil society with non-governmental organisations (NGOs), where most of donor support to non-state actors is channelled. This support, largely devoted to service-delivery programmes, has generally been positive. But donors have contributed far less or not at all to assisting states to develop the regulatory frameworks in which NGOs work. Delivering assistance to societal groups in the absence of a regulatory framework at times has contributed to polarisation between them and the state. Donors often have little knowledge about the myriad ways associations and groups within civil society are linked with political organisations and therefore how their support for these associations and groups may indirectly affect parameters of the political settlement. For this reason donors need to base support for NGOs and other emergent associations on a much better mapping of social organisations and how they may be linked with existing political networks.

State legitimacy

A state's "legitimacy" is the acceptance in society that the organisations and institutions that make up the state have the "right to rule". Legitimacy is extremely complex because it has multiple sources and changes over time, presenting enormous challenges to donors as their interventions can affect a state's legitimacy in many different and unforeseen ways.

The sources of legitimacy differ both between societies and among different groups within a society, and they are discussed here in terms of state performance, state processes and the alternative sources for legitimacy anchored in tradition, ethnicity, identity and region. Donors have not always paid attention to understanding how social groups may prioritise legitimacy. In insecure environments, security emerged overwhelmingly as the most important basis for legitimacy of both state and non-state contenders for power.

Generally donors need to invest much more in understanding the sources of legitimacy and how they are changing over time within the states where they are working.

Social expectations of the state

The gap between what different social groups expect from the state and the ability of the state to meet these expectations is vital to the legitimacy of the state. Donor interventions can affect society's expectations of the state

in at least three ways: they can raise social expectations beyond what the state can reasonably meet and thus damage statebuilding processes by negatively affecting state legitimacy or by affecting political processes; they can foster demands within society that put positive social pressure on the state to improve responsiveness and increase accountability; or they can alter expectations in ways that support one or another normative view of what the state should or should not do, thus affecting political processes.

Donors have shown considerable awareness of the dangers of raising social expectations beyond what the state can reasonably deliver. Donors do not appear to have paid enough attention to how their interventions interact with and may influence the balance of power between contending political organisations' normative visions about what the state should do.

Key findings

- Donor countries need to take account of the tensions between their strategic objectives and statebuilding objectives in their interventions in fragile states as a first step towards elaborating more coherent and constructive interventions.
- Donor support for electoral processes may do harm to statebuilding when conditions for achieving a more inclusive political settlement and elite buy-in to statebuilding processes are not present.
- Donor support for administrative deconcentration or political devolution may do harm when political power at the centre is highly fragmented or constellations of local power are misunderstood. To make a positive contribution to statebuilding, donor support for decentralisation needs to be matched with support to capacity building at the central state level.
- Donor support for civil society organisations, including NGOs, can affect state-society relations, either by increasing "voice" with positive impacts on political inclusiveness and the capacity of society to make demands on the state, or by enhancing antagonistic polarisation with a potentially negative impact on processes of statebuilding, often unwittingly affecting political processes.
- States and political actors have multiple sources of legitimacy, the importance of which differ depending on conditions of fragility and over time. Donors can positively contribute to statebuilding when their actions are based on an understanding of prevailing patterns of legitimacy, but they can do harm to statebuilding when these patterns of legitimacy are poorly understood or ignored.

- Ensuring livelihoods and employment opportunities for the population at large remains a central source of state legitimacy in all fragile states where people often live on the margins of subsistence. Donor programmes that contribute to livelihood protection can enhance state legitimacy providing they keep track of the impact these have on the informal economy.
- Donors need to be cautious about not raising social expectations too high, to a point beyond state capacity to respond, while also attempting to support social groups' capacity to put demands on the state. They need to be more aware of the ways in which their interventions can buttress normative views of the state promoted by political actors in partner countries and thus affect political processes.
- The complexity of working in statebuilding contexts, including the need for detailed historical and local knowledge and commitment over time, means that donors will have to consider a higher ratio of donor personnel to resources spent than is commonly implemented in their development assistance programmes.

Trade-offs in aid-delivery mechanisms and their impact on policy processes

Donors face difficult trade-offs between providing assistance that allows a state to minimally function and creating sustainable systems and practices in the multiple organisations that underpin the state's capacity to respond to social expectations, which take time before they can work effectively. These trade-offs are expressed in donors' choice of the mix of aid instruments to use in different country programmes. The decisions donors make over how aid is delivered can have a profound impact on the policy-making processes that are central to a well-functioning state.

Mix of aid instruments and the challenge of getting aid "on budget"

In a majority of the six case-study countries, donors are still delivering most of their support in various forms of project aid that is usually not reported on a country's budget, which can inhibit the development of state capacities in public financial management. While donors increasingly recognise the value of channelling aid through budget support, the weak systems in most fragile states make this still a distant goal.

Donors could do much more to get aid on budget in these states. The design and bargains made over budget spending are at the heart of political processes in any state and the failure to get more aid on budget weakens this heart-line of statebuilding. The delivery of aid to line agencies within the state without central co-ordination further disrupts the building of capacity and budgetary systems,

with huge transaction costs. Continued flows of aid to project implementation units (PIUs) create sites of power outside the state, which has a deleterious impact on political processes. Keeping aid off budget weakens the development of public accountability and therefore state legitimacy. Channelling aid through non-state multi-stakeholder bodies can also distort sectoral spending as it has done in health sectors, weakening the capacity of states to deliver services with the consequent impact on legitimacy and state-society relations.

While the systems within states for monitoring aid flows are still weak, the biggest problem rests with donors who, despite commitments made in the Paris Declaration, still are not providing timely, coherent and accurate information on aid disbursed.

Donor efforts, however, to promote sector-wide approaches have contributed much more positively to the creation of capacity within the state to articulate and implement policy and have had a positive impact on political processes and state-society relations.

It is clear that not all aid should be on budget and a legitimate statebuilding objective is to deliver aid directly to civil society associations and NGOs, but this needs to be coupled with the establishment of better systems of regulating these non-state actors.

Aid outside the state: Creating a "dual public sector"?

One of the biggest challenges donors face in fragile states is how to support an increased delivery of services to society where state capacity is weak or non-existent without pre-empting the development of capacity within the state.

Opting for non-state delivery mechanisms of functions traditionally under the authority of the state risks the creation of a dual public sector, that is, the emergence of an externally financed sector run parallel to, and often in competition with, national state structures. This creates centres of resource allocation, focal points of lobbying and sources of patronage outside of the state, which can have a significant impact on the political processes that drive statebuilding, the processes for articulating and implementing policy and the sources of legitimacy of the state. The still widespread proliferation of PIUs reinforces these tendencies.

Donors have made progress in working with state officials to develop new initiatives to anchor the management of aid funds more firmly within the state. Most promising are jointly managed donor and state funds with "dual-control oversight mechanisms", that increase the resources managed by the state but guard against corruption and reduce the fiduciary risks that donors face. Rather than creating a dual public sector, this approach contributes to creating a "virtual public sector" where state officials gain experience in

managing public finances and where decision making and political negotiation over spending and policy formation remain within the state. Donor contributions to developing aid co-ordination and tracking methods within the central state also create capacity for national planning and policy making.

Technical assistance and state capacity

Donor programmes in fragile states where a statebuilding agenda is relevant are heavily reliant on technical assistance, which accounts for an important percentage of total aid flows. The donor community faces the difficult trade-off between providing technical assistance to ensure basic functions of the state are carried out and providing technical assistance for the more difficult task of capacity creation within the state. Donors still engage in uncoordinated provision of technical assistance and do not provide accurate information on just how much aid is spent on it, or where it is deployed.

Not enough attention or effort has been invested into developing the capacity of state officials to manage technical assistance themselves. This involves creating the capacity to identify the needs for assistance, to consider and choose the consultants to be hired, and to monitor and evaluate their work. The balance between providing long-term and short-term technical assistance needs to be determined by more thorough assessments of capacity gaps within the state and a strategic consideration of capacity building over time.

Decisions should be linked to processes of civil service reform. Perverse incentives often exist in this regard, where state officials themselves find it easiest to "get a job done" by looking to a donor to pay the bill for technical assistance, absolving them from the more difficult task of creating capacity locally. Donors should pursue efforts to place increasing responsibility in the hands of state managers.

Donors' impact on employment in the skilled labour market

One of the consequences of the expanded programmes of donor agencies in fragile states is the impact they have on local labour markets, especially the market for skilled labour. The channelling of resources to non-state actors can have a profound impact on the human resources available to staff state agencies, and thus on the possibility of building effective state capacity.

Donors face trade-offs between the positive impact hiring local people can have on training and on informing donor organisations with local knowledge, on one hand, and on the other hand, the negative impact it has on the pool of skilled labour available to state organisations as well as local civil society and private sector organisations. There is little evidence that donors are monitoring their own direct impact in this way. The availability of work with foreign agencies pushes

up the salary costs within state organisations, which have often moved towards models of hiring local consultants at higher rates than for permanent civil servants, with obvious consequences for developing sustainable state capacity.

Many donors acknowledge that their practices of funding salary supplements to public sector pay do not provide a long-term solution to the problem.

Key findings

- Donors need to pay more attention to how they support the development of capacity within a state for the articulation and implementation of policy. The choices donors make in aid delivery can influence policy-making processes at the centre of the state, affecting all the major dimensions of statebuilding.
- Donors risk doing harm to statebuilding, weakening the capacity for public financial management, through a persistent failure to provide accurate and timely information and data on their aid disbursements in partner countries.
- Donors need to devote greater attention to working with partner-country officials to get an increasing proportion of aid reported on budget, to strengthen accountability mechanisms and the political processes that underpin budgetary bargaining.
- Donors' efforts to push sector-wide approaches (SWAps) have made positive contributions to developing capacity within the state for development management.
- The continued channelling of aid to project implementation units risks doing harm to statebuilding by creating what is effectively a dual public sector.
- Donors have made positive contributions to statebuilding through the creation of what can be seen as a virtual public sector by supporting joint donor-development partner mechanisms to manage public finances and monitor expenditure.
- Donors generally continue to manage the whole process of deployment of technical assistance and have made little progress in developing the capacity within states to identify technical assistance needs, to hire consultants, to manage their work and to evaluate their performance, with potentially negative consequences for long-term capacity building within states.
- Hiring practices of donors can distort the local skilled labour market and retard state-capacity creation and civil service reform.

Donors' direct impact on state capacity to perform its basic functions

Security

While great advances have been made in the international development community in relation to understanding security in broad terms, the specific requirements of establishing military security – the legitimate monopoly over the means of large-scale violence, which lies at the heart of statebuilding – are still poorly understood. A state's control of security is essential to its legitimacy in the eyes of both elites and ordinary people, because this dimension of security is so central to the conduct of their everyday lives, whether in doing business and trade or engaged in subsistence farming.

Donor countries face strategic dilemmas when considering the security dimensions of statebuilding, as the requirements dictated by security needs in any given state may not match with geopolitical concerns. However, developing a better understanding of the consequences of not ensuring security within a given state may influence donor countries' geopolitical analysis in the future.

When the establishment of security within a state is barred by particular dimensions of a reigning political settlement, donors need to engage with state actors to examine ways these barriers can be addressed as a prerequisite to providing almost any other support to statebuilding. While there are many admirable contributions made by donor countries and agencies to security sector reform (SSR) and the conceptual and practical rapprochement of national and human security dimensions, as a whole the military assistance programmes of the donor countries in fragile states remain piecemeal and uncoordinated (in terms of training, doctrine and equipment procurement).

Assistance to disarmament, demobilisation and reintegration (DDR) programmes appears not to take enough account of specific conditions based in integrated economic, social and military analysis. This is perhaps the single biggest area where donor intervention can actually do harm to statebuilding. Acting to correct these and to provide sound support to the establishment of security functions of the state will require a high degree of flexibility on the part of donor countries and interventions moulded to each particular state.

Rule of law and access to justice

At the root of the definition of a "modern state" is that it is a set of organisations and institutions that ensure the rule of law within a given society. For a state to survive in a territory it must ensure that its own rules trump rival rules (whether they be the rules of neighbouring states or sub-national groups within its territory) and that it can guarantee the protection of property rights and the resolution of conflict according to its rules. Whether the state's rules

trump those of rivals cannot be assessed purely on the basis of the adoption of a new constitution or set of legal reforms, but needs to be seen in the implementation of the law. That state rules trump the rules of rivals is crucial to the legitimacy of the state in the eyes of elites and to the creation of a context conducive to their peaceful competition within the state and their investment in economically productive activities.

Nowhere is there more struggle within a state than over the evolution of its legal system and efforts to extend rights usually first enjoyed by elites to the wider population. Donors have played a major role in assisting transitional states in drafting new constitutions. In doing so they have tended to support the promotion of liberal democratic ideals, but have been less successful in ensuring constitutional measures and capacities to implement the law can deal effectively with the competing rule systems that continue to characterise societies in most fragile states.

Donors' support for the creation of infrastructure and training in the legal sector has made positive contributions to statebuilding. Donor support to programmes to expand access to justice must still grapple with trade-offs between providing support for traditional and existing networks that manage conflict, through ethnic and gender exclusionary processes, and support for justice programmes more closely integrated with the national and local state and based on international standards of justice. Nevertheless, there is considerable evidence that the donor community should play a more active role in fragile states in raising awareness of individual rights and duties, laws and access to justice, while paying attention to how such campaigns affect social expectations, the balance of power and the political settlement underpinning the state.

Taxation

The establishment of a capacity to raise revenues, particularly through taxation, is central to the existence of a state. When states fail to establish a monopoly over taxation in their territory, this has often been related to the proliferation of trade in illicit commodities, which is both a security problem within a state's territory and a problem of international incentives (demand for such commodities in the wealthy countries and legal sanctions against trade in these, which makes the trade so profitable). The international community needs to build on recent progress in changing international incentives (such as in the trade of precious gems and minerals) to assist states in bringing currently informal and illicit activities into the formal sector.

Overall, the international financial institutions and bilateral donors have played a positive role in processes of tax reform and the construction of basic taxation capacities within the states studied. Where these processes have been most successful, state officials have assumed the lead and devised their own strategies and revenue policies.

There is contradictory evidence concerning the extent to which aid dependence has created negative incentives for the expansion of domestic revenue collection. This needs to be assessed on a case-by-case basis. Where revenue collection falls far below its potential given existing levels of economic production, donors could make a positive contribution by linking expanded aid resources to performance targets in revenue collection. Donors could make a singular contribution to the expansion of the tax base and the creation of expanded capacity within the revenue authorities in fragile states by reviewing the scope of exemptions claimed under the Vienna Conventions and giving partner countries the opportunity to expand local taxation of the expatriate community.

Management of economic development and the environment

At the root of state fragility lie low levels of economic production, usually characterised by particularly low agricultural productivity, little investment in manufacturing and limited entrepreneurial activity in the formal sector. The extent to which states are able to foster growth in these basic productive sectors can become crucial to legitimacy in the eyes of both elites and non-elites and to state efforts to secure its own revenue base.

Donor assistance to the development of the capacity of fragile states to manage the economy has been limited largely to programmes to improve macroeconomic management. The lack of attention to the productive sectors is especially important in relation to agriculture, as this sector still provides the greatest potential for growth and employment in most fragile states. Markets left entirely to their own devices are unlikely to underpin new growth trajectories, particularly in the risky environments found in most fragile states.

States need to develop the capacity for measured intervention to provide the incentives to wealth holders to invest in new productive activities, to promote economic growth and provide expanding employment opportunities, and do so in ways that at least eventually are environmentally sustainable. There is some evidence that donors should review Heavily Indebted Poor Countries (HIPC) conditionalities when they limit the possibilities of well-performing states with sound investment plans from borrowing to finance the infrastructure needed for more rapid economic growth.

Donors risk doing harm to statebuilding by ignoring the need to create capacity within fragile states to manage the expansion of productive activities.

Assistance to service delivery

The impact of donor interventions in service delivery can have a major effect on state-society relations and the legitimacy of the state, especially in the eyes of the poor. At the heart of social expectations of the state,

particularly among non-elites whose economic position is often one of dire poverty in fragile states, is the state's provision of, or its guarantee that others provide, the basic services that allow for a modicum of "human development": access to health care, education, clean water and sanitation. Donors are faced with trade-offs in choosing the means to support such activities. Donor programmes risk raising expectations beyond the capacity of the state.

Key findings

- Donors may do harm to statebuilding by failing to prioritise the consolidation of state security and to engage with state officials to transform political settlements when they embody incentives for violence and warfare.
- Donors can do harm to statebuilding by providing piecemeal military assistance to fragile states where there is no functioning national army or police.
- Donors need to bolster what have generally been positive contributions to establishing legal institutions and infrastructure by supporting the creation of capacity to implement law in ways that deal with local dispute resolution mechanisms and contradictions between formal legal institutions and the informal institutions that often reign in communities.
- Donor programmes to support the creation and consolidation of taxation systems have made a positive contribution to statebuilding. Where revenue collection remains significantly below what is possible, donors should consider linking increases in aid to revenue performance targets.
- Donors could make a singular contribution to the expansion of revenue collection in fragile states by reviewing the scope of exemptions claimed under the Vienna Conventions and giving partner countries the opportunity to expand local taxation of the expatriate community.
- The biggest source of revenue available to armed groups challenging state power is usually informal trade in often illicit goods. The international community needs to build on positive experiences in creating incentives for the formalisation of these activities to assist states in establishing a monopoly over taxation within their territory.
- Donors risk doing harm to statebuilding by failing to provide support for the creation of capacity within fragile states to expand productive activities.

- Donors risk doing harm to state legitimacy unless more attention is devoted to associating the support they provide for service delivery with the state.

Conclusions and recommendations

Strategic issues

- Donor countries operating in fragile states where statebuilding is on the agenda need to undertake "dilemma analyses" in order to identify: *(a)* where strategic objectives contradict statebuilding objectives and *(b)* where statebuilding objectives are themselves at odds with one another.
- Donor countries should undertake a statebuilding impact assessment based on an analysis of how their programmes may affect the key dimensions of statebuilding, the major objective of which would be to establish a better understanding of how interventions and reforms should be sequenced and when action or inaction risks doing harm to statebuilding processes.
- Donors need to pay greater attention to how the combination of their interventions – the mix of aid instruments, advocacy of systemic reforms in governance and programmes to build capacity across state functions – affect the capacity and processes involved in the articulation and implementation of policy in the states where donors are working.

Aid allocation, aid instruments and donor practices

- Donor countries and multilateral agencies must provide partner countries with complete, accurate, detailed and timely information on their aid disbursements, with special attention to data on off-budget support (project, programme and technical assistance), and assist state officials in developing centralised tools for accurately monitoring overall aid flows and their sectoral and regional distribution.
- Donor agencies should channel an increasing amount of their support to programmes that avoid creating a "dual public sector" and instead promote a "virtual public sector"; that is, programmes that can: *(a)* be reported on the budget; *(b)* involve state officials and systems in their management; *(c)* retain decision making in the executive, legislative and judicial organisations of the state; *(d)* involve open public consultations, scrutiny and monitoring; and *(e)* ensure the fiduciary standards that both states and donors require in the spending of their resources.

- Donor agencies should make a specific effort to assist state officials in analysing capacity deficits within state organisations and in securing technical assistance through market mechanisms, where state officials and organisations: *(a)* identify the specific needs for technical assistance in terms of training, "gap-filling" and long-term assistance; *(b)* control hiring; *(c)* monitor and evaluate performance; and *(d)* control payment and taxation of salaries.
- Donor agencies operating in countries where foreign assistance represents an important proportion of GDP should work with state officials in monitoring the impact of hiring practices of international agencies (bilaterals, multilaterals and international NGOs) on the local market for skilled labour and explore adjusting hiring practices and training programmes accordingly.
- Donor agencies should consider implementing a greater "personnel-to-aid spending" ratio when working in fragile states, due to the need for specialist historical knowledge, detailed understanding of political settlements, local knowledge and long-term commitment, in order to positively contribute to statebuilding.
- Donor agencies (bilaterals, multilaterals and international NGOs) should review their application of the Vienna Conventions, which exempt their nationals from paying local taxes, and offer partner country states the opportunity to tax the incomes of those expatriates who are not strictly diplomatic personnel as a means to increase the tax base, expand capacity within taxation administrations and set a positive example for responsible tax compliance. Donors could move more quickly towards the less controversial compliance with local tariffs on goods and services they import into partner countries.

Supporting key dimensions of statebuilding

Political settlements and processes

- Donor-country decisions to support systemic governance reform (constitutional change, initiation of competitive elections, power-sharing arrangements or political devolution) must be based on an analysis of the existing political settlement and pattern of state-society relations, and how the specific reform is likely to affect patterns of inclusivity, exclusion, elite buy-in and conflict in the future.
- Donor-agency support for administrative deconcentration needs to be coupled with support for the organisations of the central state that are required to provide assistance to local administration, especially

departments of budget, revenue collection, health, education, agriculture, industry and environmental management.

- Donor countries should extend support to civil society organisations as part of their programmes to support statebuilding, and this should be: *(a)* coupled with support to states to develop a legal and regulatory framework that governs associational activities; *(b)* accompanied by regular reporting to the state on the quantity and sectoral and regional distribution of funding to civil society organisations; and *(c)* based on a mapping of civil society indicating the range of organisations present and how they interact with prevailing economic, political and social trends.

Security and the rule of law

- Where a partner country's state has not established a monopoly over the means of violence within its territory – as a condition and prerequisite for other forms of foreign assistance – donor countries should provide a combination of assistance and pressure for: *(a)* the resolution of problems in the political settlement, which provide incentives for exit and violence, and *(b)* the design and implementation of a plan to construct accountable and effective military and/or police forces.
- Donor countries should stop providing military assistance in an uncoordinated and piecemeal fashion to countries that are still in the process of constructing an effective and accountable military force that functions through a unified chain of command; instead they should employ all instruments of diplomacy and pressure on state officials in partner countries and within the international community to achieve co-ordinated military assistance that operates according to common and unified doctrine, operational procedures, and training and equipment provision, and also pays attention to ensuring sustainable and reliable financing for, and salaries of, such forces, while providing for means of civilian oversight.
- Donor countries' support for disarmament, demobilisation and reintegration programmes needs to be based on an integrated military, economic, political and sustainability assessment, and open to flexible approaches with a view towards long-term results and impact.
- Donor countries' support for the creation of independent and accessible justice sectors needs to include the creation of capacities to implement the law and to take into account and where possible either incorporate non-formal systems of dispute resolution or support the development of capacity to challenge them on the ground.

Taxation and service delivery

- Donor agencies need to monitor the impact of aid dependency on revenue raising and especially taxation systems, and where tax efforts fall far below potential collection possibilities consider coupling increases in aid disbursements with improvements in tax efforts.
- Donor agencies and international NGOs need to ensure that their programmes of support for service delivery are undertaken in such a way as to: *(a)* encourage the development of state capacity to at least regulate and set standards for service delivery (whether through state or non-state providers) to the population over time; *(b)* ensure that service delivery systems and activities reinforce, rather than detract from, state legitimacy; and *(c)* build in sufficient transparency for public scrutiny to ensure against corruption and that services reach the most in need.

Management of economic development

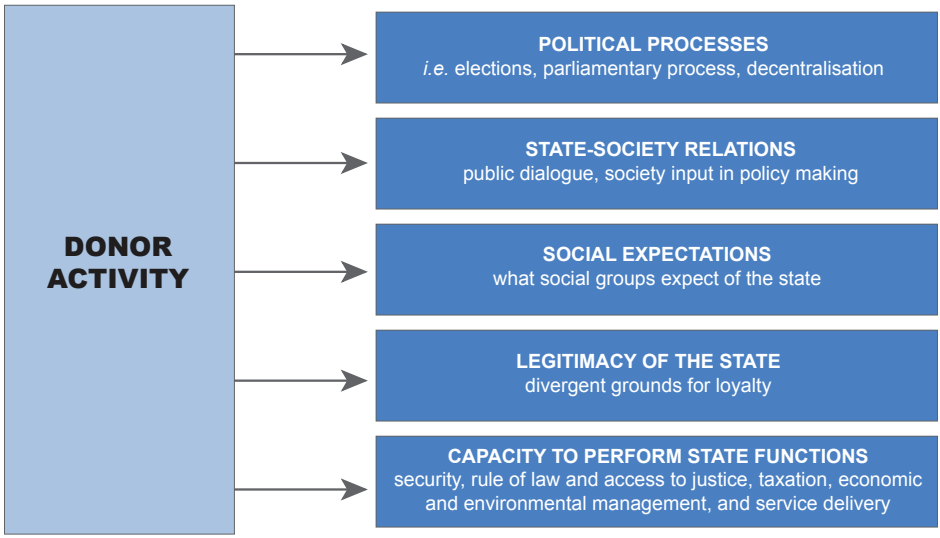
- Donor countries' contributions to programmes aimed at eradicating illicit trade, or the economic activities of non-state armed organisations, should take fully into account the impact such programmes have on the informal economy – both livelihoods of the poor as well as profit-making activities of the better off. Such programmes should be shaped so as to encourage the formalisation and legalisation of informal activities wherever possible to ensure that livelihoods are protected, and to create, where possible, new sites of revenue collection for the state. Donors should consider whether international measures to legalise and regulate some commodities (especially drugs) could reduce the rents from such activities and transform incentives of producers and traders.
- Donor agencies should significantly increase assistance to develop the management capacity within states to analyse, plan and implement the expansion of basic production activities in both the formal and informal agriculture and manufacturing sectors of their economies, and to actively intervene in and promote private sector investment in productivity and infrastructure-enhancing activities that take account of long-term environmental impacts.
- Donor agencies need to support the capacity within states to elaborate national development strategies with a view towards expanding their productive base and increase productivity, in order to increase wealth creation and employment, the revenue basis of the state and the state's legitimacy among elites and ordinary people.

Introduction

The introduction discusses why a "do no harm" approach is relevant to an examination of donor impact on statebuilding processes and outlines the conceptual framework and methodology employed in the study on which this report is based.

The idea of premising international intervention on the edict "do no harm" originates with the pioneering humanitarian work of Mary Anderson and her organisation, Collaborative for Development Action (CDA) (Anderson, 1999; Anderson and Spelten, 2000; Anderson, 2000; Anderson and Olson, 2003; CDA, 2004). The central message that comes out of Anderson's work is as applicable to statebuilding as it is to peacebuilding: donors must be sensitive to the specific context in which they are intervening; that is, universal templates seldom can make an effective contribution to statebuilding; and donors need to develop deeper knowledge of the history and diversity of a country. The Paris Declaration and the Accra Action Agenda issued in 2005 and 2008 noted the importance of shaping donor engagement with development partners to the specific conditions of fragile states and fragile situations. However, they did not, and could not, fully engage with the biggest challenges that face partnerships in these fragile situations: the challenges associated with the fact that statebuilding is still central on the agenda. While OECD countries seek to contribute positively to statebuilding processes, nevertheless their interventions may risk doing harm to these processes. Donors need to look for both intended and unintended consequences linked to their interventions. While they cannot avoid short-term actions these need to be looked at in terms of their long-term impact, which should lead to more realistic expectations of what can and cannot be done.

Figure 0.1. **Donor impact on dimensions of statebuilding**



Donors can inadvertently do harm when the resources they deliver or the policy reforms they advocate exacerbate rather than mitigate the conditions for violent conflict, or weaken rather than strengthen the state as a site of decision making and policy formation over the deployment of public resources. They can do harm when aid is delivered in such a way as to act as a disincentive to states to consolidate their own revenue base. By not understanding the history and power dynamics in a partner country, donor actions can disrupt the political settlement that underpins the state, weakening the incentive for powerful elites to buy in to statebuilding processes and increasing their incentives to opt out. "Doing no harm" means ensuring donor-supported programmes do not impact negatively on statebuilding processes, and that donors recognise that statebuilding is a long-term process and requires detailed analysis since what is appropriate in one country will not be appropriate for another (GTZ, 2008). It also implies that donors need to engage with political, economic, social and cultural realities, which may at times challenge the normative agendas that inform contemporary statebuilding and international development strategies more generally.

The accompanying review of the academic and policy-centred literature on statebuilding and foreign assistance to fragile states (see Annex B) suggests that an understanding of how donors may do harm or do no harm (or, importantly, "do good") to processes of statebuilding needs to focus on the ways in which donors' intervention may affect five central statebuilding processes (Figure 0.1): the endogenous political processes that drive statebuilding; the legitimacy of the state in society; the relations between state and society; the expectations society has of the state; and the capacities of the state to perform its basic functions (security, the rule of law, taxation, management of economic development and the environment, and the delivery of essential services). Where possible, donor-supported programmes should seek to impact positively on these five underlying dimensions. Of course, as Anderson notes, doing nothing may, under certain circumstances, be doing harm, as might doing too much. Positively contributing to statebuilding processes means that donor interventions affect these five dimensions in ways that promote inclusive political processes; state legitimacy; constructive state-society relations; social expectations that push states to do more but are not wildly beyond what states could reasonably accomplish; and the development of sustainable capacities to carry out state functions.

The study on which this report is based was primarily concerned with the ways in which donor activities may have a direct impact on these processes. For instance, donors may support a training programme for parliamentarians that improves the capacity of the legislature to challenge the executive on its proposed budget, thus strengthening the legislature's position in the political system, which most would argue has a positive impact on the political processes that underpin statebuilding. On the other hand, donors may support a decentralisation programme that places more resources in the hands of local elites and weakens their incentives to engage in, shape and negotiate national

political programmes, thus affecting in a negative way, most would argue, the national political processes that underpin statebuilding. Additionally, by increasing access to resources by local elites the programme may shift the balance of power of these elites with local communities, affecting local political processes. If they applied a statebuilding lens, donors might instead support a decentralisation programme that increased access to resources among both elites and local communities while placing the decisions about the resources to be decentralised in the national parliament, thus reinforcing political processes at both the local and national level that, most would argue, contributes positively to statebuilding.

The report addresses two fundamental questions: what are the negative impacts that donor interventions (in terms of strategic priorities and operational practices) can have on statebuilding; and what measures should donors adopt to avoid or reduce negative impacts on endogenous statebuilding processes, and maximise the positive impact of their support. Comparative research was carried out in six fragile states, representing different conditions of fragility (Afghanistan, Bolivia, DRC, Nepal, Rwanda and Sierra Leone). These cases were selected on the criteria that: they cover the OECD's working typology of fragile states; they are sites of significant donor intervention, where positive and negative experience of intervention emerge from the literature; they represent a geographical spread; they are countries where security conditions permit the type of research and consultations proposed; and they are countries where the researchers have particular expertise and could identify partners on the ground.*

Research was undertaken in the capital cities of all the countries; but time, resources and, in some cases, security conditions prohibited undertaking research beyond the capital. Following a preliminary collection of documentation from key organisations in the state, among donors and among civil society organisations, every case study involved an international expert working with a local lead researcher and partner organisation to interview stakeholders from among state officials, representatives of civil society and donor officials. Preliminary findings were presented at workshops in, and preliminary reports prepared for, every country of the study. Initial comparative findings were presented and discussed at a workshop held in London bringing together a selection of representatives from the donor community. This report presents the findings and outcomes of this study.

* Further exploration of the literature and the data suggested that these countries would make particularly strong comparators. For instance, the International Monetary Fund (IMF) has often found it useful to compare the DRC and Sierra Leone, due to some parallels in patterns of conflict and state collapse experienced. Rwanda and the DRC present stark contrasts in patterns of statebuilding and interaction with donors.

Box 0.1. **Country-case studies**

Country	Typology	Why of interest
Afghanistan	Between prolonged crisis/impasse and post-conflict crisis/political transitions	• Between impasse and initial reconstruction • Impact of peace agreements and elections support • Difference between donor notions of state and national beliefs/traditions • Wide range of security and economic interventions
Democratic Republic of Congo	Post-conflict crisis/political transition	• Between impasse and initial reconstruction • Wide donor intervention/experimentation • Impact of peace agreements and election support • High-level needs/weak governance/low capacity
Nepal	Post-conflict transition	• Early reconstruction with considerable success • In-depth redefinition of state-society relations (abolition of the monarchy) • Significant capacity
Rwanda	Gradual improvement	• Considerable reconstruction with success in some areas • State role in orienting donor intervention • Growing capacity
Sierra Leone	Gradual improvement	• Considerable reconstruction with success • Wide range of donor intervention
Bolivia	Deteriorating governance	• Considerable period of reconstruction with mixed record of results • Wide range of donor intervention • Major assistance to decentralisation

Chapter 1

Donor impact on statebuilding: the macro perspective

Chapter 1 examines donor interventions in support of statebuilding at the macro level, along with their potential impact on four crucial dimensions of statebuilding: the political processes that drive statebuilding and the political settlement, the relations between state and society, the legitimacy of the state in society and social expectations of the state.

When donors begin to think of how their interventions affect statebuilding, they are very quickly confronted with the reality that all good things do not necessarily go together. There are tensions and trade-offs in every aspect of statebuilding, and what is required to achieve one goal of statebuilding may make another important goal harder to achieve. For instance, achieving security and stability may mean that programmes to support the introduction of electoral politics have to be put off until an indeterminate moment in the future. Ensuring that services are delivered quickly to those most in need may mean bypassing the state, making the creation of capacity within the state to provide services in the long-term more difficult. Much of the discussion in this report explores the tensions and trade-offs donors face and how they have sought to resolve them.

The issues involved with statebuilding are also characterised by dilemmas where there is simply no way to resolve contradictions between competing goals. In their research on post-war statebuilding, Paris and Sisk (2007) suggest that donors face fully-blown dilemmas, which they cannot resolve. The best donors can do is to manage such dilemmas, which means having an analysis that can recognise dilemmas, as a starting point for deciding what can and cannot be done. There may, indeed, be cases where the wider objectives or goals of donor countries cannot help but do harm, in Anderson's terms, to statebuilding. For instance, statebuilding requires a long time horizon and donors to make long-term commitments; but Paris and Sisk (2007) point out that a prolonged presence of the international community presents its own problems, which can have a negative impact on political processes and state-society relations.

By undertaking the type of "dilemma analysis" proposed by Paris and Sisk, donors can distinguish between what are truly dilemmas – that is, irresolvable contradictions that cannot be solved and therefore require management over time – and trade-offs that donors have to make between short-term and long-term objectives, which can provide a key to how they might sequence interventions. Once statebuilding is recognised as an incremental process, which has historically occurred over very long periods of time, it is possible to form judgements about prerequisites and the sequential character of the process of statebuilding itself around which donors can shape their programmes. Further, despite the major positive efforts to promote co-ordination between donor-country governments, multilateral agencies, and regional and international organisations, each have their own goals and rules or laws that inform actions in relation to any country where statebuilding is on the agenda. At its best the international community works to reach consensus and to take collective decisions. However, the range and character of the component dimensions of statebuilding and the functions of the state it involves – political processes, the relationship of public authority to society, security, law, taxation and the management of economic development

and environment – mean that differences, fundamental at times, will persist between members of the international community over key aspects of statebuilding in any given country.

Dilemma analysis in statebuilding involves, in a first step, an examination of the whole range of goals a donor country or international agency has in relation to the challenges of statebuilding in a given country and identifying where they are compatible, incompatible or achievable only in some sequential progression over time. Too often, both in developing countries in general and in fragile states in particular, there is a rush by external actors to try do everything at once, without pause for consideration of where their goals in one domain (geopolitics or foreign policy) may be at odds with goals in another domain (the promotion of development); or how the goals of a set of external actors may clash; or, importantly, how the goals of an external actor may differ from the goals of those who are trying to build their state. In a second step, dilemma analysis involves an examination of how one statebuilding goal may be at odds with another, or when achieving one goal requires the prior achievement of another. What makes involvement in statebuilding so difficult is that these contradictions differ between countries and across time, making it difficult to apply standard approaches in every situation. However, by specifically undertaking analysis with the objective of considering both contradictions and sequences, donors can draw out general lessons as well as arrive at particular strategies in statebuilding contexts.

The first area of research covered by this study explores, at the macro level, how donors, state officials and civil society actors view the challenges of statebuilding and the impact of donors on these processes. The major strategic issues and trade-offs confronting donors in their interventions in fragile states are examined, as well as the direct impact of donor interventions on the political processes, state-society relations, social expectations of the state and state legitimacy that are at the heart of statebuilding. A key theme in this research is that donor countries' intervention in fragile states is often confronted with trade-offs between goals that do not sit easily together, both wider diplomatic or geopolitical goals and the goals of statebuilding, and between particular statebuilding goals themselves.

Strategic dilemmas

Donors are often faced with the difficult task of reconciling their government's strategic objectives in-country with statebuilding and development objectives. In the past, the former have usually trumped the latter. One has only to think of the colonial adventures into the developing world where colonial powers, even when concerned about constructing viable state structures in the colonies, were driven primarily by their geopolitical objectives in

relation to rivals or the economic interests of their own nationals. Similarly, the developed countries' engagement with the developing countries during the Cold War was overwhelmingly determined by the parameters of the East-West conflict and the economic interests of the international private sector, primarily anchored in the North. It was a great achievement when the OECD laid out the principles of official development assistance (ODA) and began to elaborate standards for development assistance distinct from military, economic or geopolitical interests of their governments (Pearson, 1969; Beall *et al.*, 2006).

Nevertheless, in their engagement with the Global South today, OECD countries have objectives other than those related to statebuilding and economic development. Geopolitical objectives remain primary, including international security (today marked by the "war on terror" and regional conflicts), global economic integration and problems of global warming, as well as strong ideological commitments around the defence of human rights and the propagation of democratic politics. While there are endless efforts to suggest how all these goals are interconnected and sit easily together, reality demonstrates that they are often contradictory. In the country studies, this was most starkly demonstrated in Afghanistan, the DRC and Rwanda.

In Afghanistan, the objectives of the largely US-defined "war on terror" have led to some actions affecting the Afghan state in ways distinctly in contradiction to actions that might be determined purely on the basis of the logic of statebuilding, and economic and human development. In their development interventions, the United States and all those who have committed troops often have been constrained by the political need to demonstrate that their development spending was supporting their military efforts. This has led to provincial inequalities in spending (since troops from different countries are divided by province), and the drive to fund short-term "hearts and minds" projects – which evidence suggests may be in many cases counterproductive. The approach of the United States required an over-emphasis on short-term stability through appeasing potential spoilers rather than attention to longer-term statebuilding. In some cases, this entailed permitting the co-option of warlords, strongmen and tribal leaders into the government, and an ongoing failure to dislodge them for fear of "rocking the boat". It also resulted in the failure to prioritise the security institutions in a timely fashion, for fear of antagonising Pakistan or sympathetic factional leaders. This meant that at the vital moment when funds to Afghanistan could have had an impact, in the years directly following the invasion, an opportunity was missed. It was only when the insurgency gathered momentum, fuelled by the booming opium crop, that the security requirements of the Afghan state were addressed more seriously.

In the DRC, the wars of the late 1990s made it a humanitarian imperative to reach a peace agreement. The imperfect peace reached created a transitional government composed of the previous warring parties, based on power

sharing, and a timetable for the transition process that required the demobilisation of combatants and their integration into a new national army; initial measures of state and economic reconstruction; and the organisation of elections. Donor countries endorsed this process, despite its flaws, as they were determined to do what they could to see peace maintained after the level of violence and destruction that had been caused by what came to be known as "Africa's World War". The peace and transitional agreement came as a whole package with terminal dates requiring elections to be held at the latest by 2006 (Hesselbein *et al.*, 2006). Humanitarian and peace-building objectives trumped statebuilding objectives in this context.

In Rwanda today, there is a contradiction between the donor countries' perception that a strong Rwandan national army might pose a threat to regional security, particularly in relation to Eastern DRC, and the need to significantly increase resources to the Rwanda Defence Force (RDF) to finance its professionalisation and modernisation, which are necessary to further downsize its numbers. For Rwandan state officials the threat posed to the consolidation of the country's security by the continued existence of the *Front Démocratique de Liberation du Rwanda* (FDLR) across the border is palpable and the action of the international community to eliminate that threat has been inadequate. Donors appear to recognise the need for increased resources for the RDF, but they have limited their recommendations concerning the security sector to the elaboration of greater democratic surveillance, while donor governments have provided support only for Rwanda's role in peacekeeping operations in Darfur (*e.g.* JGA, 2008).[1]

Even in the other country studies donors must confront these sorts of dilemmas to some extent. In Bolivia, there are concerns about Andean regional security and the war on drugs that must be counter-balanced with concerns about statebuilding and development. In Sierra Leone, statebuilding within the country is considered in light of objectives to maintain peace in the West African region, which has only recently emerged from internecine conflicts that stretched across borders. Donors must consider the objectives of promoting development and statebuilding in Nepal in the context of regional objectives concerning non-OECD members, especially China and India.

Political processes and political settlements

Political processes are the mechanisms by which the relations between state and society are mediated and bargains are struck and institutionalised. Donors need to understand how their interventions may affect political processes and especially the political settlement, which is the particular balance of power that exists in any reigning political settlement that underpins the state. The political settlement underpinning any state emerges from a bargaining process

particularly among contending elites.[2] The way donors intervene can affect the incentives elites face to buy in to or opt out of statebuilding processes. The consequences of not understanding the shape of a political settlement can lead donors, often unknowingly, to do harm to statebuilding, or at best, to make some positive contribution, but almost by chance. The following discusses this problem by looking at donors' role in the promotion of democratisation programmes and electoral processes, as well as their support for decentralisation initiatives, with an eye to understanding how these interventions have affected political processes and the political settlement on which the state is based.

Democratisation and elections

There are four main reasons why donors have pushed democratisation programmes and electoral processes in fragile states:

- A strong normative belief that this is the best form of government, which can check abuses of power, defend human rights and allow citizens a voice, thus winning legitimacy for those who hold power as a consequence.
- A tactical belief that by providing former rivals who pursued politics through violence a chance to compete through the ballot box, they will be weaned away from violence and become acclimatised to the peaceful pursuit of their interests.
- A political imperative to demonstrate high-visibility development progress. In highly politicised countries the need to achieve high-visibility milestones was noted as a key motivation driving donor policies within countries. Democratisation processes in particular are susceptible to being accelerated to show early results.
- An exercise determined by strategic interests where elections are supported as a means to legitimate a government that donor countries perceive will do their bidding.

Donors' endorsement of democratisation programmes and electoral processes in all the case-study countries was to some extent motivated by the first objective. The second objective figured in the DRC and Sierra Leone, but with radically different outcomes. The third objective played strongly in the DRC, Sierra Leone, Nepal and Afghanistan. The final objective was most clearly illustrated by the case of Afghanistan. In Rwanda, donors have been circumspect about the electoral processes, where political competition has been curtailed by the state, and have provided little direct support to electoral processes.

The big question donors face when considering how hard to push for elections, or how far to rely on elections as part of efforts to support statebuilding,

is whether or not an electoral process is likely to establish or make progress towards a more inclusive political settlement, where previously contending elites have positive incentives to buy in to statebuilding. In order to answer this question, donors need to understand the character of a reigning political settlement and how political processes can affect it.

In Nepal, now in the later stages of political transition where the political settlement is being entirely redrawn, it is probably fair to say that donor engagement with the previous government was based on a limited understanding of the long-standing political settlement on which the state was based and the extent to which it had bred grievances that fuelled the civil war. This included the political and economic marginalisation of large sections of society, a feudal land-tenure system, highly unequal gender and caste relations, and unacceptable levels of social and economic inequality. The political settlement of the old regime suppressed possibilities for voice and bred incentives for exit among increasingly large sections of the population.

In Sierra Leone, donors supported an electoral process that led to a more inclusive political settlement, whereas in Afghanistan the election process supported by donors resulted in an exclusionary settlement that contained within it incentives for continued warfare. While donors can never be certain what the outcome of any intervention will be, the differential result of the electoral processes in these two cases could have been predicted by the very different security parameters in which they were conducted.

First, in both countries, relative security was established through external military intervention: the British in Sierra Leone and the US-led coalition in Afghanistan. In both countries, the transitional regimes established under foreign military protection that would preside over elections excluded important parties to the conflict: in Sierra Leone, the pre-existing government dominated the transition; in Afghanistan, the interim government headed by Karzai, while co-opting some previously rival factions, of course excluded the Taliban and other significant political players. However, the electoral process launched in Sierra Leone encouraged all factions, including the insurgent Revolutionary United Front, to form parties and to participate, provided that they renounced military means. This meant that all factions had, at least in theory, some possibilities for voice and an incentive to engage in the political process.

In Afghanistan, the role of a strong set of Afghan political parties that had flourished in Pakistan and Tehran was circumscribed in an attempt to limit the influence of political groups who relied on support from networks of armed commanders and ethnic and tribal appeals. This excluded from elections important agents of political mobilisation and sections of the contending elites in the country – Afghan political parties, tribal structures and clerics

– providing an incentive for many to exit the political process and engage in activities to destabilise the government.

Security parameters were decisive in affecting the divergent trajectories of democratic transition. In Sierra Leone, a small contingent of British forces, numbering less than 500, was able to ensure a decisive shift in the balance of military power. A ban placed on the international trade of diamonds from Sierra Leone and neighbouring Liberia reduced the incentive for armed rivals to the state to keep fighting, effectively reducing the possibilities of exit of elite factions and previously warring parties from the political process. This drastically reduced the role of potential spoilers of a future transition process. In contrast, the US initially committed few troops to Afghanistan and drove the Taliban from power through a massive air campaign, but the organisation simply melted away and the militias and armed factions the US relied on to pursue them on the ground were not up to the task. So, while the balance of military power was shifted, an important incentive for exit was created and potential spoilers of a transitional regime were not defeated. Similarly, in the DRC, the failure to create an integrated military force during the transition process left spoilers of a democratic transition – elites with their own sources of economic and social power – in place. The fact that armed groups remained intact, particularly in Eastern DRC where the former Rwanda *génocidaires* continued to terrorise local populations, greatly limited what could be achieved through elections.

Another factor that limits the possibility of electoral processes contributing to the establishment of an inclusive political settlement is the presence of an oppressed minority whose very demographic position means that simple competitive elections cannot guarantee their inclusion in a political settlement. This is the reality in Rwanda and also in Eastern DRC (see Box 1.1). Where such demographic conditions exist and politics is conducted in an idiom of ethnic hatred, electoral exercises alone can never secure an inclusive political settlement. Forms of power sharing, which provide incentives to contending elites to participate, and limitations on open political competition are likely to be necessary to even have a chance at forging a more inclusive political settlement. Over time, with the establishment of trust between communities, where state rules trump rules of ethnic politics, more open political competition could lead to a more inclusive political settlement. But in the circumstances that have characterised Rwanda, donors have reluctantly gone along with limitations on political competition. This is a good example of where doing no harm has almost certainly contributed to the process of statebuilding.

The clearest insight that emerges from the case studies is that donor support for democratisation or advocacy of elections, without a sound understanding of the impact their support may have on a reigning political settlement,

risks doing harm to statebuilding. Further, pursuing elections as a means to resolve unresolved armed conflict, or in a country where political processes are marked by mobilising ethnic politics (and at worse the mobilisation of ethnic hatreds) can either exacerbate conflict or, more certainly, leave its roots and causes unaddressed. In Afghanistan, external intervention in political processes seems to have been primarily determined by the perception of strategic requirements in the ongoing war with the Taliban, rather than the logic of statebuilding. Donor countries' tolerance for something less than multiparty competition in Rwanda, on the other hand, is probably a perfect example of how they ensure they do no harm to statebuilding, acting as a point of pressure for incremental liberalisation of politics. Meanwhile in Sierra Leone, external support for the electoral process perhaps is an example of making a positive contribution to statebuilding based on a more sound assessment of how the electoral process shaped the emerging political settlement.

Box 1.1. **Donor aid to elections in the Democratic Republic of Congo**

In the DRC, the enthusiasm of donors and their hopes about the elections revealed a lack of understanding of the political settlement underpinning the state. Donors did not have any choice but to support the electoral process, as it was dictated by the transitional agreements that maintained peace in the country. However, in the face of difficulties in achieving real progress in military integration, the donors abandoned the idea that military integration needed to precede the elections and they put enormous resources into the electoral process in the hope that a new government ratified by an election would have the legitimacy and persuasive power to pursue military integration, economic development and state reconstruction.

But donors failed to take account of the fact that democratic measures could never resolve the conflict in Eastern DRC for at least two reasons: first, the continued presence of the FDLR – the former génocidaires from Rwanda – created a constant source of insecurity for the population of the East, especially the Tutsi population; second, the aggrieved Tutsi communities were too small to ever have an impact in the electoral process – demographically, they could not win and given the hostile stance of many groups towards them and towards neighbouring Rwanda, elections could not ensure their security. Arguably, the elections solved one of the major conflicts that bedevilled the country – the intra-elite conflict between the forces loyal to Jean-Pierre Bemba and those aligned with Joseph Kabila – in favour of the latter, though it remains to be seen if those in power can build a lasting coalition incorporating supporters of the former vice-president who has now been arrested abroad for alleged war crimes.

In effect, and especially due to the failure to ensure the formation of a viable national army, donors' focus primarily on supporting the elections contributed to enshrining an exclusionary political settlement in power with important groups and elite factions with few incentives to participate, in a state whose armed forces are widely known to be among the worst perpetrators of violence and abuse against the civilian population.

Decentralisation: Centre-periphery relations

Statebuilding historically has always involved a powerful centre of authority, where coercive force, administrative capacity, wealth and learning are concentrated, reaching out to incorporate in an increasingly integrated fashion the periphery of its territory. An important measure of effectiveness of the state is the extent to which its presence is felt in the periphery – where social groups benefit from following its rules, from the protection it offers, from the wider networks of economic exchange it develops and from the access to improved opportunities for education, health and other essential services it provides. Processes of decentralisation – whether administrative deconcentration, designed to channel state resources and their management to local communities, or political devolution, designed to enhance the decision-making power of local state organisations – can profoundly affect relations between the central state and the periphery. However, whether such processes will serve to enhance statebuilding or impede it remains an open question.

Donors have generally endorsed programmes of administrative deconcentration to increase the proportion of resources that reach the poorest, to reduce corruption and to increase accountability. They have generally also endorsed programmes of political devolution with the idea that government closer to the people will allow greater voice, more participation and greater accountability. Deconcentration programmes could also play a role in redressing regional inequalities that have often been a source of conflict in fragile states where central states are built on exclusionary political settlements. If deconcentration and devolution achieved these goals, this could bring the state closer to the people, thereby improving state-society relations, increasing the reach of state authority and having positive impacts on state legitimacy. However, whether donor support for these processes actually has these positive impacts on statebuilding is very much dependent on how they affect, and are affected, by political processes. Evidence from the case-study countries is mixed.

There was a general sentiment expressed through interviews in all the case-study countries that donors seldom consult directly with local people and that their knowledge of local areas is not deep. Endorsing programmes of administrative deconcentration and political devolution without an understanding of local configurations of power has the potential to do harm to statebuilding. In Sierra Leone, the uneasy inclusion of paramount chiefs in local political structures has regularly fuelled conflicts between tribal authorities based on their own institutional systems and state organisations operating according to their formal institutional framework. In the DRC, little is known about provincial elite, ethnic and business networks, and how they connect to sub-national power brokers or how they align with national players.[3] Such knowledge is crucial to predicting whether deconcentration and

devolution programmes are likely to lead to processes of national integration or national disintegration, and whether they enhance or curtail the spread of constitutional law throughout a country's territory.

This may also depend on whether the political settlement that reigns in the centre is fragmented or cohesive. In Afghanistan, fragmented political power at the centre meant that deconcentration programmes have been used

Box 1.2. **Decentralisation to project state authority to the hinterland**

In both Afghanistan and Rwanda, decentralisation programmes have been used by political actors at the centre to project their authority into the hinterland. Whether this is positive or negative for statebuilding depends on the shape of political processes.

If politics is highly fragmented at the centre, then the projection of central authority can be seen as the exploitation of administrative deconcentration for the advantage of one faction in its struggle against others. This seems to have been the case in Afghanistan, where there is considerable evidence that the presidency, through appointed governors and the still strong role in public expenditure played by central ministries, maintains considerable power, despite decentralisation, while new elected provincial councils have only advisory powers. Administrative deconcentration has proceeded in Afghanistan without a coherent overarching policy. Resources have been allocated to local areas in an unequal fashion and continue to be administered centrally. Governors are more accountable to the centre and retain enormous informal power. All of this leads to a situation where service delivery remains unaccountable and open to corruption. Donors have provided support to provincial administration reform, local capacity building and policy formation. However, these have all had limited success. The government's launching of the Afghanistan State Outreach Programme attempted the "revival of traditional practices of collective decision-making and community solidarity", but the fact that the programme appears to be setting up parallel structures, where funds seem to be used for political purposes, has led to a situation where donors are divided over whether or not to provide support.

In Rwanda, where politics at the centre is highly purposive, the administrative deconcentration programme was a home-grown model promoted by the Rwandan Patriotic Front (RPF) government with a dual aim of enhancing governance and state performance at the local level and reinforcing the authority of the central state. It revived the traditional concept of imihigo (pledging) to infuse moral content into the model of performance-based contracts promoted by New Public Management. Traditionally this referred to the pledges warriors made to the king before going into battle and now it refers to the pledges made by local government to implement programmes. The government has judged it so successful that it has begun to generalise the practice throughout the civil service. Donors have tended to see these practices as top-down and authoritarian in character, but there is considerable evidence that they have enhanced efficiency in the delivery of services. Despite these misgivings, donors have contributed significant resources through decentralised programmes and these do seem to have supported state integration, closer links between the centre and the periphery, and more effective delivery of services.

to promote the interests of one faction over the others'; while in Rwanda, a cohesive central authority has increased the legitimacy of the state through processes of administrative deconcentration (see Box 1.2). In the DRC, the pattern of factional politics at the centre may well lead to similar outcomes in decentralisation programmes as those observed in Afghanistan. Donor support directly to sub-national sites of government has not been too successful in Afghanistan and the outcome of initiatives in the DRC remains uncertain.

Supporting administrative deconcentration without a parallel effort to reinforce the central administration can starve the centre of capacity and weaken its ability to provide support to the periphery. Something like this may have been the result of programmes in Bolivia, where the trend now is to rebuild central administration. All the case studies underlined the extreme lack of capacity and skills in state organisations at the local level. Most studies of decentralisation initiatives in poor states demonstrate that they have been more likely to achieve both efficiency and political objectives when central states are able to extend support for the establishment of local capacity.

Supporting administrative deconcentration where there is an extreme lack of capacity locally and where non-state authorities are dominant, like the local chiefs and traditional power structures in the DRC or Afghanistan, may work against state integration, political inclusion and stability. There is considerable evidence in the DRC, as in Sierra Leone, that people look to these non-state authorities rather than to the state for the delivery of basic services, including security. In terms of statebuilding, processes of deconcentration and devolution could improve the linkages between the centre and the periphery, ensuring both elite and popular identification with and participation in the state. However, insecurity and geography are huge hurdles to overcome in many fragile states, as is evident in Afghanistan and the DRC. Generally, donors lack the knowledge of local politics, of the balance of power between locally contending elites and groups, or of how they are linked to the centre, so support in this area is often blind and in danger of provoking unintended outcomes.

State-society relations

The evolution of a state's relationship with society, writ large, is at the heart of statebuilding. Donors' interventions can have an impact on improving state accountability to society, on the capacities of a state to respond to social demands and on the capacities of society to make demands on the state or to intervene in debates about state policy. Donors also can influence the polarisation or co-operation that exists between state and society.

Society, civil society and NGOs

In most fragile states, civil society, by definition, is weak or almost non-existent. Civil society is in a real sense a product of the emergence of the state and development itself, as it is the associational sphere that lies between the state, family and private sector, formed of associations whose base is in groups and geographical spaces that are the product of economic change, and whose space and legal status are protected by the state. The expansion of civil society is in this sense an aspect of statebuilding. In Rwanda, state officials spoke of the societal inertia they experience, particularly in the rural areas. State officials argue that they have to activate social groups and indeed to create a civil society. Donors balk at such perspectives for their top-down attitudes.

Too often there is a tendency to equate civil society with NGOs, but NGOs are perhaps the least important set of groups within civil society, as they are self-declared, often established where money is made available from donors and are usually advocacy organisations or service providers rather than membership-based organisations. Civil society is comprised of business associations, trade unions, farmer organisations, women's organisations, youth organisations, community associations and professional associations, among others – the organisations where individuals combine usually both to promote the common interests of members and to lay claims to rights within a polity. Sierra Leone is a case in point. Professional associations, as well as socio-cultural and inter-religious non-state organisations, have a long history in the country, and contrary to some donors' initial assumptions, civil society in the country – especially in its capital city and major urban centres – underwent a remarkable process of revival following the cessation of armed fighting.

While donor organisations by now generally understand that NGOs are but one element of civil society, most of their programmes are steered towards NGOs, although they have a long record of support for women's associations and, increasingly, they are working with professional associations like lawyers or journalists. At times this support has had an important impact on state-society relations by developing associational capacity to exercise voice, for instance among women's organisations. Concern was expressed by several of these associations in the case-study countries who recounted that while donors consult them, they find it increasingly difficult to access donor resources (see also OECD 2008e). This has been exacerbated by donors moving out of project assistance towards budget and programme aid.

Donor support for NGOs and its impact on statebuilding

Support channelled to NGOs has made a major contribution to service delivery in almost all of the country-case studies. However, the passage from supporting NGOs to fill gaps in state provision, which could be perceived as

a form of emergency response, to forms of support that can enhance statebuilding has been much more problematic.

Donors have contributed little to assisting the state to develop a regulatory environment in which NGOs should work (see Box 1.3). At times this has become a source of tension between state officials and donors, as in the early years after the RPF came to power in Rwanda in the wake of the genocide, where most foreign assistance was channelled to NGOs with no attention to the impact this had on political processes related to the genocide. State officials in many of the country studies complained that assistance to NGOs is poorly reported and often outside any overall assessment of where assistance is most needed from the state's point of view.

Where donors have most vigorously supported a rights-based agenda, they have tended to work increasingly with civil society organisations, sometimes with significant impact on state-society relations. In Bolivia, critical views were expressed about donor assistance to civil society organisations

Box 1.3. **Nepal – NGO co-ordination**

From 1992, NGOs became the new medium for implementation of development projects and programmes in Nepal marking the beginning of partnerships between international agencies and Nepal-based NGOs. This gave further impetus to the growth of NGOs in Nepal. There are now a huge number of NGOs operating in Nepal alongside, and often in place of, the state. Several issues are raised, including their effective regulation, efficiency, fiduciary risk issues for donors, "branding" (whether they fly the government or donor flag in service provision) and how they interact with village and district development committees. This is an important area so long as NGOs still have a role as service-delivery organisations rather than engaging in advocacy, lobbying or acting as watchdogs of government policies – more traditional roles for NGOs elsewhere.

The proliferation of NGOs has made it particularly difficult to track who does what, and some stakeholders argue that some institutions are sister organisations or controlled by members of political parties, thus implying that the flow of foreign funds to these institutions are indirectly funding the activities of political parties. Through the Nepal country study there is anecdotal evidence that donors unknowingly support these organisations and thereby indirectly influence the political process.

Donors in Nepal agreed that this is a serious issue which needs to be dealt with both at the national level and by donors in their selection, grant making and monitoring and evaluation of NGOs. Moving forward, however, in order to strengthen the activities of NGOs the mandatory provision of informing the government by any NGO prior to taking technical and grant assistance from donor communities is expected to be enforced more strongly. The system of monitoring Nepalese NGOs is anticipated to be made more effective in future.

and social movements suggesting donors did not give enough consideration to the impact of such support on state stability and legitimacy. However, donor documentation suggested a degree of awareness of the trade-offs in pursuing a rights-based agenda and supporting civil society organisations. When providing such support it is imperative for donors to understand how civil society organisations are connected and relate to different political currents and their programmes. The worry was expressed in at least three of the country studies that NGOs have become captive to, or are instruments of, political parties, often unbeknownst to donors.

From the opposite vantage point, concerns were expressed among local NGOs that donor agencies actively work to create "point organisations", or large umbrella organisations through which they can channel their assistance to the sector. They fear these privilege large organisations – dominated by those who can speak the donors' language and located in capital cities – which act as "gatekeepers" and reduce access to resources by smaller, more grassroots organisations and those in far-flung places. They also fear that the tendency of donors to increasingly channel resources to budget support is reducing NGO access to resources. But for donors or the state, the prospect of working with hundreds of NGOs represents transaction costs that they simply cannot manage. While this is a legitimate position, donors themselves seldom know much about the political and social character of the organisations with which they are working.

In terms of state-society relations there are important challenges presented by the fact that very often it is not civil society associations or NGOs that are in dialogue with the state, but other sorts of social groups, based on region or tribe. These counterpoise themselves to the state and compete with it for legitimacy. Donors have paid very little attention to these sorts of phenomena.

State legitimacy

A state's "legitimacy" is the acceptance in society that the organisations and institutions that make up the state have the "right to rule". Understanding a state's legitimacy at any given time is central to identifying what actions and processes may contribute to, or detract from, statebuilding. But legitimacy is extremely complex because it has multiple sources and changes over time, presenting enormous challenges to donors as their interventions can affect a state's legitimacy in many different and also unforeseen ways. The sources of legitimacy differ both between societies and among different groups within a society. In fact, the bases of legitimacy are always subject to political debate. Politics, in one sense, is about determining what constitutes the grounds for legitimacy. State officials and organisations often have to

compete for legitimacy with non-state actors including those who challenge the state through armed violence. Where there is conflict between the central state and its regions, as in Bolivia, the local state may well enjoy greater legitimacy than the central state.

A state's legitimacy is determined in the first instance by its performance; that is, what it delivers or accomplishes (in terms of providing security, economic growth, poverty reduction, etc.). Secondly, a state's legitimacy can also be based on its processes; that is, how it operates (through democratic or authoritarian methods, permitting or fighting corruption, consultation or dictatorial methods, etc.). Finally, state legitimacy can be based on appeals to alternative sources of authority (anchored in traditions, religion, ethnic identity, nationalism or even charismatic leaders). These different bases of legitimacy are often drawn on simultaneously (claims are made by the state to have both ensured economic growth and to have defended the religious precepts held dear in society), but they can also be substituted one for the other (in the face of economic decline, state leaders nonetheless claim to defend the nation from neo-colonial domination).

State performance

In societies recently traumatised by war, the provision of physical security is almost always the first and most essential grounds for legitimacy. In fact, when security does not appear to figure importantly in establishing the grounds of legitimacy, this is probably because it is taken as granted. In Afghanistan, the DRC and Rwanda, security appears to be paramount to legitimacy. In communities traumatised by warfare, whoever provides security from violent attacks is seen as legitimate. This is crucial to understanding how the Taliban has regained support in certain regions of Afghanistan, or why General Nkunda was able to command allegiance in certain communities in Eastern DRC, or why the state is generally looked on positively across Rwanda. At the same time, the case of Sierra Leone demonstrates that donors can also make decisive positive contributions to physical security.

Beyond physical security is a state's ability to provide other forms of security: security to property in the face of theft, looting or outright destruction, important to ordinary people and the wealthy alike; and security to property rights, important to all with particular investments in assets or who might potentially invest in assets, like farmers or business people. The state's ability to provide security to property and property rights is particularly important for its legitimacy among elites and to secure their "buy in" to statebuilding projects.

A major source of legitimacy among ordinary people is the state's performance in ensuring access to livelihoods or opportunities for employment

and access to health care, education and clean water. In Sierra Leone and the DRC, providing employment was seen as particularly important to the state's legitimacy. In Bolivia, the state's delivery of livelihood opportunities has become a paramount source of legitimacy in local communities, but its cavalier treatment of property rights has lost it legitimacy among middle income groups and the wealthy.

Performance in economic management is a crucial element of a state's legitimacy everywhere. Inflation run wild has a devastating impact on the lives of the poor and the prospects of business people. The Rwandan state has made headway in winning over business people from all regions and ethnic backgrounds on the basis of the state's sound macroeconomic management.

Donors need to understand the complexity involved here. For instance, in Afghanistan or the DRC people earn livelihoods from the patterns of informal economy that grew up through warfare, so if donors support state programmes that undermine the functioning of informal economies and livelihood strategies they may in fact contribute to weakening state legitimacy. Something like this appears to be happening in Afghanistan. On the other hand, in the DRC donors seem to have recognised the need to take into account the survival strategies of artisanal miners as they allocate support for the reconstructing of the mining sector. The research suggests that poor quality donor-implemented projects can further undermine state legitimacy. In Afghanistan, short-term "hearts and minds" projects conducted by the military, wasteful contracting structures and ineffective interventions were identified as undermining the legitimacy of both international actors and the government, as well as narrowing the space for humanitarian action.

State processes

Legitimacy can be derived from the manner in which the state sets in place processes by which it interacts with its citizens. Several observations about donor approaches can be extracted from the case studies.

As seen above, donors put a premium on democratisation programmes and especially the holding of elections as a means for bolstering the legitimacy of states. In the DRC, while people were initially hopeful that the electoral process would deliver improvements in their lives, the failure of the state to provide effective physical and other forms of security has quickly eroded whatever gains it made in establishing legitimacy through the electoral process. Donors pushed for multiparty politics in Rwanda, failing to understand that in the consultative process leading up to the constitution of 2003 there were widespread beliefs within society that competing political parties were a major source of extreme insecurity in the past, and they rejected multiparty politics even more vociferously than the leaders of the ruling party, the RPF.

How a state deals with corruption can have a long-term impact on its legitimacy. In many countries corruption has a long-term corrosive affect on popular attitudes towards the state and politics more generally. The state can become perceived as always a site of corruption and politics as a "dirty business", setting in play popular cynicism toward the state. In times of crisis this can lead people to support any political force that opposes corruption – be it an exclusionary alliance, a demagogic charismatic individual or a group within the state's own military forces. In some of the countries studied, corruption has become normalised in this manner, although recent joint efforts by donor agencies and the national government in Sierra Leone signalled that progress is possible as interventions in public-sector financial management were lauded as successful examples of reducing a widespread perception of corruption among the population. Similarly, the strengthening of the country's Anti-Corruption Commission (a move initiated by the government rather than donors) was also mentioned as a positive example.

Donor support for anti-corruption campaigns thus need to be well measured, since in some circumstances such campaigns can positively contribute to enhancing state legitimacy (Rwanda's zero tolerance for corruption has had this impact), while in others they can simply increase popular cynicism. Beyond democratisation and anti-corruption, however, there has been some progress in instituting processes that link the government to its citizens. In Bolivia, the DRC and Sierra Leone, the need to foster links between the government and civil society is increasingly recognised and is becoming an important ground for donors' intervention in processes that enhance state legitimacy.

Accepted beliefs about the source of authority

Perhaps the dimension of state legitimacy the least well-understood by donors is that derived from appeals to accepted beliefs about the sources of authority in society and values widely held that have little to do with performance or process. Nowhere is the battle for legitimacy between state and non-state forces stronger than in this realm. This can have both positive and negative impacts on statebuilding. Most important for donors is to understand that there are alternative sources of legitimacy and to take account of these in their programmes (see Box 1.4).

Social expectations of the state

The discussion of what society comes to expect of the state is intimately related with the problems of legitimacy discussed above. The gap between social expectations and the ability of the state to meet these expectations is vital to the legitimacy of the state (OECD, 2008b).

Box 1.4. **Donors need to understand legitimacy anchored in traditional beliefs**

In Rwanda, the state's restriction on multiparty politics is based on its claim that it aims to wipe out ethnicity as a basis of political organisation, and it wins considerable legitimacy by doing so because of popular perceptions that multiparty politics is associated with ethnic politics.

Conversely, in the DRC political leaders use the defence of Congo against Rwanda and Rwandan-speaking peoples in the DRC as a ground to win legitimacy across a diverse section of the population, due to the promotion of the idea (based in part on Rwanda's role in the Congo wars) that Rwanda is the source of all the DRC's problems.

The Taliban have gained considerable support in local communities in Afghanistan by claims to be the true defenders of Islam, and the state's own attempt to do so by inserting in its constitution that no law will contravene the tenets of the "holy religion of Islam" rings hollow as the constitution also endorses universal human rights that may contradict certain Shi'a and Sunni interpretations of Islamic law.

Despite constitutional provisions in the DRC about buying and selling property, traditional authorities extract payments from international companies to operate in their traditional territories even though these have no legal status, but such practices are considered highly legitimate in those communities. Appeals to identity or to widely-held popular values (nationalism in Bolivia) can serve as alternative sources of legitimacy for a state that may be performing badly or whose processes of functioning curb popular participation or permit corruption.

Donor interventions can affect society's expectations of the state in at least three ways: they can raise social expectations beyond what the state can reasonably meet and thus damage statebuilding processes by negatively affecting state legitimacy or by affecting political processes often in unintended ways; they can lead to fostering demands within society that put positive social pressure on the state to improve responsiveness and increased accountability; or they can alter expectations in ways that support one or another normative view of what the state should or should not do, thus affecting political processes. This is the difficult tightrope donors need to walk.

"Realist" and "normative" expectations

Expectations of a government differ according to the context. There are at least two ways to look at social expectations: what citizens think a state will do (which one might label a realist approach) and what citizens think a state should do (a normative approach). Many examples have been found where realist expectations within society were very low – that is, people had low expectations about what the state would or could do.

This is not surprising in fragile states in impasse or emerging from conflict. The research suggests that many Afghan citizens, for example, have become cynical about the capacity of the state to deliver security or many basic services. In Rwanda, state officials themselves explain how traditional attitudes of social hierarchy have led to a situation where ordinary rural people tend not to have any expectations of the state at all. In their rural development drives, state officials find themselves in the unusual situation of trying to raise social expectations and demands on the state. Of course, not all realist expectations of the state are negative. Based on repeated evidence of positive performance, people's expectations of the state may grow.

Central to social groups' interaction with, and expectations of, the state is the free circulation of information. Donors could do more to support programmes that provide society with greater information about what the state is and is not doing. Part of this might be achieved through support for the development of high-quality media and journalism. Donors have engaged in modest programmes to support the media in the country studies. In Rwanda, this has proven to be controversial as the state has a somewhat adversarial relationship with the media and believes it can directly disseminate information through its various consultative processes. But donor support here seems to be positive in terms of the extension of information flows to citizens. This was also noted in Sierra Leone.

However, social expectations are also normative and in this sense not uniform across society. Expectations of what the state should do differ along ideological, class or group lines. Bolivia's social movements have promoted a vision of a state where authority is radically devolved and aspirations among the population have been heavily influenced by the personality politics of a leader. Political parties, religious organisations, trade unions, community movements or donor organisations themselves can influence what people think the state should do. For instance, in the recent past donor organisations have promoted a major role for the state in reducing poverty, but have also argued that the state should not overly interfere in regulating the activity of businesses in markets. The way organisations influence normative perceptions of the state is not always conducive to progress in statebuilding.

An extreme example was when those who controlled the state convincingly persuaded many in the society in Rwanda that the state should undertake genocide against one part of the population. In Afghanistan, the constitution embodies an uneasy compromise between Islam and a modern Western presidential system. That ideological tension is in part expressed in the conflict between the Taliban and the government in the rural areas with each side appealing to different normative expectations of what the state should be and do. What property owners or businesspeople think the state should do differs from what workers or landless farmers think. In Bolivia, class expectations of the state stood out in sharp relief. Normative expectations of what the state should do are at the heart of political processes.

Often social expectations of the state are heightened by politicians and governments who rise to power based on populist appeals making promises that are unrealistic. These are perhaps driven more by instrumentalism in politics than any normative belief system. To the extent that donors work with such governments they may contribute to inflating social expectations. However, donor agencies have often played precisely the opposite role, working with new populist governments to design more realistic programmes and policies once they are in power. Social expectations of a state may be altered by a change in constitution, an international intervention, a period of conflict, a peace agreement or a change in government. Social expectations change over time. What is legitimate state behaviour in the eyes of society at one point in time may no longer be deemed so later.

Meeting and managing expectations

The social expectations of a state are social constructs, rooted in cultural traditions of government. Beyond these basic cultural expectations, additional expectations will be based on what promises a government makes.

The donors, through their interventions, alter expectations through both implicit and explicit claims. Evidence in the case studies demonstrates that donors are generally cautious about overly inflating social expectations of what the state can or should do. One clear example in Afghanistan was given of a donor refusing to make a commitment to launch a much called-for electrification project, which they acknowledged would be impossible to deliver in the security environment. This could be an example of good practice by a donor in terms of doing no harm.

Moreover, international donors across the case studies acknowledged the need that interventions – and also promises to citizens to deliver services – should be delivered through the government, as the legitimate authority. This position by donors was challenged by some civil society actors in Sierra Leone, who argued either that accountability mechanisms between the state and society were weak, so government officials could not be held to account for their performance in service delivery, or that donors themselves, despite their rhetoric, act without the government; for instance, as was mentioned in Rwanda, in establishing parallel mechanisms to deliver services, as in campaigns to fight the HIV/AIDS epidemic.

Common in the case studies was the perception, often among local state officials, that donors often drive policy, but that there are no means for holding donors accountable for the promises they make. In Afghanistan, the failure of some international donors to make good on pledged funds was reported as undermining the ability of the government to make promises. Similarly, in Rwanda, state officials said that when the state does not meet

agreed performance targets, it is penalised with the withholding of discretionary aid funds, but when donors do not fulfil their end of the bargain there is no sanction.

The research suggests that expectations could be raised through means other than express commitments to deliver services – the promises being implicit in different forms of intervention:

- In Sierra Leone, expectations of a "peace dividend" and of a "democracy pay-off" were raised through the very fact of a peace process and holding elections;
- The pursuit of a rights-based agenda through citizen empowerment and programmes aiming at improving social inclusion and rights awareness were identified in the DRC, Bolivia and Nepal case studies as having an impact on the expectations of citizens;
- Consultation processes – for example, through the formulation of Poverty Reduction Strategy Papers (PRSPs) and national plans in Rwanda, Afghanistan and the DRC – can raise the expectations that the programming needs identified in these consultation processes will be met;
- Donor conferences can often raise expectations, which later rebound both on the legitimacy of donors and the state.

The precise nature of these unexpressed claims on expectations can be difficult to track, in the absence of a counterfactual that indicates what expectations might have existed in the absence of the intervention. The cessation of violence and the attempt to build institutions – necessary to statebuilding – implicitly raise expectations. There is a trade-off here: on the one hand, empowering citizens to express their demands may make the failure to deliver on these demands more damaging to the legitimacy of the state; on the other hand, only through empowerment will the demands be known in the first place and act to put pressure on states to deliver.

A key aspect of fragile states is the limited ability of the state to deliver services. In Afghanistan, the DRC, Nepal and Sierra Leone in particular, there was a gulf between the expectations of the state and the ability of the government to deliver these expected services. The challenge identified therefore was the need to manage the demand for services while maximising the ability of the government to deliver services. Asymmetric empowerment, where citizens are empowered to demand services without a parallel empowerment of the government to deliver these services, was therefore identified as a key problem.

Donor-driven good governance programmes focusing on anticorruption can cut in two directions. There is widespread cynicism in many states about

behaviour of public officials and the ways in which they often reap personal benefits from positions of authority within the state. To the extent that donor-supported programmes, which push specific reforms to ensure financial probity and accountability, are achievable, this can encourage social groups to act as watchdogs and expect still further progress. However, when anticorruption campaigns receive a high profile but donors have little leverage to encourage significant changes in practice, this can simply increase popular discontent with the state.

Another challenge arises where basic services are met: the need to manage expectations where different factions have conflicting views of what the state should and should not do. Thus, for example, particular groups may have ideologically-based demands on the state. While of course the capacity of the state to deliver the demands will remain an issue, managing conflicting conceptions of the role of the state presents an additional challenge – a challenge faced by all states, and which is a characteristic of all healthy political processes.

Key findings: Donor impact on macro-level statebuilding processes

1. Donor countries need to take account of the tensions between their strategic objectives and statebuilding objectives in their interventions in fragile states as a first step towards elaborating more coherent and constructive interventions.

OECD countries have objectives other than those related to statebuilding and economic development. Geopolitical objectives, including international and regional security, the promotion of global economic integration, and problems of global warming, as well as strong ideological commitments around the defence of human rights and the propagation of democratic politics, may contradict statebuilding objectives in any given country. While there are endless efforts to demonstrate how all these goals are interconnected and sit easily together, reality suggests that they are often contradictory. The strategic trade-offs donors must contend with will not disappear and statebuilding objectives will not always trump other strategic objectives.

In such situations, it may be impossible for donors to avoid doing harm to statebuilding, from the vantage point of actors within a given state. A statebuilding lens, however, may allow OECD countries to reassess some of their strategic objectives, since it focuses attention on how politics at state and sub-state levels is organised and allows an assessment of how interventions, such as the promotion of political or economic reforms, might influence political processes or affect the balance of power between elites. Forcing change to existing political settlements without allowing them time to consolidate before pushing for more widespread reforms could undermine both peace and future prospects for statebuilding.

2. Donor support for electoral processes may do harm to statebuilding when conditions for achieving a more inclusive political settlement and elite buy-in to state building processes are not present.

Security parameters and the demographic dimensions of ethnic conflict are central to determining whether competitive electoral processes are likely to lead to a more inclusive or a more exclusionary political settlement. If significant armed challengers to the state, particularly those backed by contending elites, remain active they are likely to be spoilers in any attempt to move toward open competitive politics. Where armed challenges to the state are defeated there is a greater chance that formerly warring parties and contending elites can be encouraged to participate peacefully in electoral processes that lead to more inclusive political settlements. Where the demographic dimensions of ethnic conflict mean that oppressed ethnic groups are in a minority, competitive electoral processes are unlikely to lead to more inclusive political settlements and may actually do harm to statebuilding efforts by reproducing the conditions for violent conflict.

In these cases, donors need to give more attention to the resolution of security problems in periods leading up to elections and at times they may need to consider supporting alternative power-sharing arrangements, or tolerating limitations placed on open political competition, to ensure they do no harm and open possibilities for the longer term creation of a more inclusive political settlement and elite buy-in to statebuilding processes.

3. Donor support for administrative deconcentration or political devolution may do harm when political power at the centre is highly fragmented or constellations of local power are misunderstood. To make a positive contribution to statebuilding donor support for decentralisation needs to be matched with support to capacity building at the central state level.

Statebuilding has historically involved the projection of central political and administrative authority from the central state throughout its territory. When political power at the centre is highly fragmented, deconcentration and devolution programmes may serve only to promote the interests of one faction against others through the extension of patronage networks, tending to consolidate a more exclusionary political settlement.

Donor support for deconcentration and devolution reforms needs to be based on a sound understanding of the balance of power between local elites, the character of ethnic and business networks at the periphery, and how they connect with sub-national power-brokers or align with national players on the political scene.

4. Donor support for civil society organisations, including NGOs, can affect state-society relations, either by increasing "voice" with positive impacts on political inclusiveness and the capacity of society to make demands on the state, or by enhancing antagonistic polarisation with a potentially negative impact on processes of statebuilding, often unwittingly affecting political processes.

Donors' interaction with civil society has been concentrated, though not exclusively, on providing support to NGOs, especially their involvement in service delivery. While donor support for NGOs has helped to ensure the provision of essential services where the state has been incapable of providing these, donors have paid much less attention to assisting states to develop a regulatory framework to govern the activities of NGOs. There is still too great a tendency among donors to equate civil society with NGOs, with little understanding of how NGOs fit into local political processes or how support to them may affect state-society relations.

There are ample examples of donor support to civil society organisations that have positively contributed to strengthening their voice in domestic political processes. However, donor support has at times unintentionally contributed to polarisation between state and society in ways that weaken state capacity to respond or that have unintentionally influenced the balance of power, or political settlement, underpinning the state. Care needs to be taken in the processes of statebuilding to not create unrealistic and unrealisable expectations of the state within society, especially when civil society is portrayed as an apolitical and homogenous panacea for "social capital."

Donors generally need to develop a better understanding of the social and political map of civil society organisations and actors to avoid unintended consequences of aid distribution.

5. States and political actors have multiple sources of legitimacy, the importance of which differs depending on conditions of fragility and over time. Donors can positively contribute to statebuilding when their actions are based on an understanding of prevailing patterns of legitimacy, but can do harm to statebuilding when these patterns of legitimacy are poorly understood or ignored.

In most fragile states – those at an impasse or in processes of post-war transition – an overwhelming source of state legitimacy (and of the legitimacy of armed rivals of the state) rests on state performance in the provision of security. The legitimacy of the state and its rivals in the eyes of elites depends on the ability to both enforce property rights and protect property, and to present a credible threat to those among elites who might pursue their interests through violence. In dangerous environments, the legitimacy of

the state or its rivals in the eyes of ordinary people is very much based on providing physical security. Security, then, can often trump other potential sources of legitimacy, like good performance in economic management, action against corruption or the promotion of participatory processes. Until security can be taken for granted, the loss of legitimacy caused by a state's failure to deliver security can undermine everything else it tries to do with donor support.

Donors have not always recognised or understood when prioritisation of security above other social goods becomes crucial for state legitimacy. In most states, action against corruption within the state can enhance legitimacy, but imbalanced anti-corruption campaigns can also simply be a source of popular cynicism towards the state. States and their non-state rivals also can appeal to social beliefs about authority, or the defence of ethnic or religious interests against real or imagined threats, to garner legitimacy among both elites and the wider society.

Donor policy prescriptions for fragile states that do not take into account these battles for legitimacy can weaken state legitimacy and strengthen the legitimacy of non-state rivals in ways that do harm to statebuilding.

6. Ensuring livelihoods and employment opportunities for the population at large remains a central source of state legitimacy in all fragile states where people often live on the margins of subsistence. Donor programmes that contribute to livelihood protection can enhance state legitimacy providing they keep track of the impact these have on the informal economy.

The study, not surprisingly, found that after security, the most important source of state legitimacy among ordinary people was related to protecting access to livelihoods and employment. However, in all fragile states, but particularly those emerging from prolonged periods of conflict, livelihood opportunities are often secured in the informal economy and often in the illicit economy. Donor programmes must take care not to undermine livelihoods by advocating or supporting measures aimed at eliminating informal activities and thus weaken the legitimacy of the state.

The donor record in this regard is mixed and greater attention needs to be paid to understanding how diverse programmes, often aimed at promoting good governance, may have unintended consequences for state legitimacy.

7. Donors need to be cautious about not raising social expectations too high, to a point beyond state capacity to respond, while also attempting to support social groups' capacity to put demands on the state. They need to be more aware of the ways in which their interventions can buttress normative views of the state promoted by political actors in partner countries and thus affect political processes.

Donors have generally paid attention to ensure that in their own programmes and the state programmes they support, an effort is made not to raise expectations beyond what prevailing state capacity can deliver. At times this has involved vetoing (or refusing to fund) state projects, which for economic or security reasons appeared to be unfeasible.

Donors are also becoming increasingly aware that wherever possible the service-delivery programmes they support are seen to be provided under the authority and regulation of states, though perceptions remain that too much support for service delivery is channelled through non-state actors. Donors need to be more aware that the way they alter expectations can affect political processes by favouring one set of normative expectations about what the state should do over another.

Donor good governance programmes have sometimes raised the bar of social expectations beyond where the state has the possibility to act, either for economic or political reasons.

8. The complexity of working in statebuilding contexts, including the need for detailed historical and local knowledge and commitment over time, means that donors will have to consider a higher ratio of donor personnel to resources spent than is commonly implemented in their development assistance programmes.

The local and historical knowledge required by donor personnel working within fragile states and the long-term commitments necessary to positively contribute to statebuilding mean that donors need to consider whether this sort of work requires a more intensive commitment of personnel than programmes elsewhere. Detailed knowledge of political processes, of state and societal organisations and institutions, and of the varied sources of legitimacy appealed to by state and non-state actors, implies more investment of time by donor personnel.

Notes

1. The tension is evident in the Joint Governance Assessment (JGA 2008) carried out by the Rwandan government and donors where the text acknowledges a resourcing problem of the security forces but recommendations are limited to elaborating democratic oversight.

2. See especially Khan (1995) and Di John and Putzel (2009), who argue, "Looking at the political settlement focuses attention on intra-elite contention and bargaining (political versus economic elites; landed and non-landed elites, regional elites, rural and urban, religious and secular, etc.), on contention and bargaining between elites and non-elites (either within groups or across them, as between classes), inter-group contention and bargaining (gender, regional, ethnic/linguistic, religious) and on contention and bargaining between those who occupy the state and society more widely".

3. Putzel *et al*. (2008) demonstrate the profound lack of knowledge in the donor community about local configurations of power in the DRC. Little is known about the provincial elite, ethnic and business networks and how they connect to sub-national power brokers or how they align with national players. While donors aimed to learn more about local areas through a recent project called the *Programme d'Appui à la Décentralisation et au Développement Local* (PADDL), which offers a participative diagnostic process, this is not likely to give them analytical insights into the impact of decentralisation and devolution on political processes that underpin the state.

Chapter 2

Trade-offs in aid-delivery mechanisms and their impact on policy processes

Chapter 2 looks at how donors manage the trade-offs involved in the choice of aid delivery mechanisms and the impact these choices have on statebuilding and policy-making processes. It focuses on problems of on- and off-budget aid, the provision of technical assistance and donors' hiring practices.

Donors face difficult trade-offs between providing assistance that allows a state to minimally function and creating sustainable systems and practices in the multiple organisations that underpin the state's capacity to respond to social expectations, which take time before they can work effectively. These trade-offs are expressed in donors' choice of the mix of aid instruments to use in different country programmes. The decisions donors make over how aid is delivered can have a profound impact on the policy-making processes that are central to a well-functioning state. The trade-offs in aid delivery and their impact on policy-making processes were investigated by looking at three crucial cross-cutting problems related to how donors deliver aid in fragile states: balance between on-budget and off-budget aid, where donors face the danger of creating a "dual public sector"; the challenges of providing technical assistance, which builds capacity in the state rather than pre-empting its creation; and donors' own hiring practices and the impact they have on creating capacity within local state and non-state organisations.

Discussion of the different aid instruments deployed by donors is bedevilled by problems in the ways that donors report their activities and the lack of capacity in most fragile states to monitor aid disbursements effectively. The OECD Development Assistance Committee (DAC) has made progress over the years in attempting to standardise definitions of specific aid instruments and reporting categories, while the monitoring process to implement the Paris Declaration and track aid effectiveness has given new urgency to these efforts. However, bilateral and multilateral agencies still apply different definitions and terminology, and partner country governments, particularly in fragile states, are still very far from employing consistent categories for the aid they receive. This makes comparative analysis and policy discussions particularly difficult.

While the challenge of ensuring that foreign assistance is in line with partner country development plans and priorities is a general task taken up by the Paris Declaration, this chapter assesses the impact of aid-delivery mechanisms on statebuilding in fragile states. Use was made of the data available from the Aid Effectiveness Survey (OECD, 2009) to analyse trends in the case-study countries in relation to the delivery of aid through budget support, programme based approaches and project implementation units as a basis for assessing progress towards getting aid reported in national budgets. An assessment is made of the extent to which aid delivery has an impact on the political processes, legitimacy and state-society relations that are central to statebuilding; and also whether the choices donors make in aid delivery in fragile states and the practices they employ strengthen the state as a centre of decision making in public financial management or weaken the state's authority and capacity in this sphere, perhaps even contributing to the creation of a dual public sector where decision points, authority and capacity are created outside of the state, potentially slowing down statebuilding efforts (Ghani *et al.*, 2007; Boyce and O'Donnell, 2007).

Donor contributions to policy-making processes

Donors have given little specific attention to how the whole array of their aid programmes has an impact on the capacity of states to articulate and implement policy. Across the case studies there was considerable concern expressed about this; particularly by state officials in Nepal, Sierra Leone and Rwanda, there were strong suggestions that donors need to channel more of their support through policies that are created and defined by country actors, dovetailing with suggestions that donors need to support processes of national development planning. In Afghanistan it was reported that the government had made considerable progress in "seizing ownership of the aid agenda", especially through fiscal and budget planning, even if there have not been great strides in wider buy-in to the emerging agenda.

Donors' specific attention to the policy process has largely been confined to support for the production of PRSPs, but this is still widely perceived as a donor-driven exercise. At the same time, there was a strong sentiment expressed among informants in several countries that donors should not push too many reform agendas at once. In Nepal, it was emphasised that this is not simply a question of pacing programmes of change, but also based on a concern that each new programme can have an impact on the delicate balance of power and the consolidation of alliances behind building the state.

In Sierra Leone and Rwanda, civil society representatives and some donors suggested that donors should consider providing capacity-building programmes to enhance the ability of non-state organisations to get involved with policy debates and to influence policy content.

The challenge of getting aid reported on budget

Getting aid reported on the budget presents enormously complex problems to both state officials and donor agencies (Mokoro Ltd, 2008). These include confusion over: when external resources are going to recurrent expenditure and when to investment expenditure; timing of actually signing off on aid in donor countries and the timing of a partner country's budget planning process; whether national budgets include or do not include district and other sub-national budgets; the hesitance of governments to include any aid on the budget over which they do not exercise control; and many more. Aid delivered as budget support, which is a transfer by donors directly to a state's national treasury either for general disposition or to finance a particular sector of government spending, requires high standards of public financial management to reduce fiduciary risks; and the challenge of reporting aid on budget is closely connected to building state capacity and developing the

political and policy processes involved in bargaining over the disposition of resources.

In a majority of the six case-study countries, donors are still delivering most of their support in various forms of project aid that is usually not reported on a country's budget, which can inhibit the development of state capacities in public financial management. Table 2.1 reports the amount of aid distributed as budget support (both general and sectoral), which is most likely to be reported in the budget. As might be expected, budget support (a direct transfer of funds to beneficiary government treasuries either to provide general or sector-specific support to budget spending) remains a small percentage of total aid in all the case-study countries. Rwanda, the biggest recipient of budget support as a percentage of total ODA, received 28% of aid in this form, while all the others received considerably less. While many donors increasingly recognise that budget support should be a goal in aid provision, a country needs to have a clear development strategy and robust financial management procedures that reduce fiduciary risk to receive aid in this form.[1] The risks of providing budget support are indeed great, since without developing extensive accountability mechanisms budget support could increase corruption and the wastage of resources. What is more, some donors are prohibited by their foreign assistance laws from providing aid as budget support.

The recent international effort to develop greater aid effectiveness has recognised that increasingly aid should be aligned with development partners' own goals and plans, and thus has set targets to reduce the amount of assistance going to development projects (usually not reported in a state's budget and often controlled by PIUs located entirely outside state organisations. To this end, the donor community advocates that increasing shares of assistance be channelled through programme-based approaches. The 2008 Aid Effectiveness Survey reports donors' estimates of how much of their aid goes through these, and Table 2.1 captures this data for the case-study countries. In no case has more than 40% of assistance been channelled through programme-based approaches (which include budget support), and of the four countries in the study that participated in both the 2005 and 2007 survey, progress in shifting aid into this category was achieved only in Bolivia. What is more, while donors need to demonstrate that aid under this category is going to programmes, rather than one-off projects, and that these are coordinated among donors and involve local leadership, there is no requirement that this aid be reported on the budget or coursed through the state.[2]

While some project aid is no doubt aligned with government policy, in most cases it is not. Various forms of project aid, reported in Table 2.1 as a residual, still account for at least 60% of all donor assistance in the countries that were studied.

Table 2.1. **Budget support, programme-based approaches and total ODA (2007)**

	Programme-based approaches (PBAs)						
	Budget support (USD m)	% Budget support of total ODA	Other PBAs (USD m)	Total (USD m)	% of total ODA in projects	Total aid disbursed (USD m)	Progress in shifting to PBAs 2007/2005
Country surveyed	*a*	*b*	*c*	*d=a+c*	*e=f/(f-d)*	*f*	*(percent)*
Afghanistan	774	21	666	1 440	60	3 623	-3
Bolivia	80	16	127	207	60	514	+8
DRC	200	20	12	212	79	1 019	-33
Nepal	66	11	73	139	77	609	n.a.
Rwanda	213	28	84	297	62	774	-3
Sierra Leone	38	13	40	78	73	289	n.a.

Source: OECD (2009).

Nepal and Sierra Leone first surveyed in 2007.

Table 2.2 also draws on the Aid Effectiveness Survey to illustrate the extent to which donor aid destined for the government sector is predicted accurately in government budgets. First, the table illustrates the gap that exists between predictions made in the budget about aid inflows and actual aid disbursement. In five of the countries, government estimates in the budget were significantly below aid actually disbursed to the government sector, with only Nepal and Bolivia predicting some 70% of the inflow. Afghanistan's budget prediction of aid inflows to the government were wildly above disbursements. While a crude measure, this data reflects the quality of information governments have about aid inflows.

Second, the fact that such a large proportion of aid to the government sector is not captured by government budget predictions suggests that much of this aid is being channelled through direct contacts between donors and executive departments both at national and sub-national levels and not subject to any central budgetary process. Debates over the allocation of resources within a state's budget are central to the political processes on which the state is based.

When donors distribute aid in disaggregated ways to individual departments, they risk distorting such political processes and developing rivalries and conflicts that might otherwise not have occurred, as the study in Bolivia observed. Some donors have suggested that they might channel aid directly to local government, where it could be reported on local budgets. This, however, could institutionalise practices that impede the development of a national public financial management system.

Table 2.2. **Government budget predictions of aid flows (2007)**

	Government budget estimates of aid flows *(USD m)*	Aid disbursed by donors for government sector *(USD m)*	Total aid disbursed in country *(USD m)*	Gap budget and aid disbursed *percent*	Aid disbursed through government as % of total *percent*
	a	*b*	*c*	*d=a / b*	*e=b/c*
Afghanistan	3 647	2 499	3 623	146	69
Bolivia	312	379	514	83	74
DRC	467	802	1 019	58	79
Rwanda	355	695	774	51	90
Nepal	311	422	609	74	69
Sierra Leone	126	235	289	54	81

Source: OECD (2009).

While budget support poses particular risks, getting programme support and projects reported on budget faces obstacles both within states and among donors. There is still a need to improve the capacity within states to monitor aid inflows and also to end practices whereby separate ministries maintain their own relationships with individual donors.

Donors also must provide timely, coherent and accurate information on their disbursed aid. This remains a huge problem in the aid world as a whole, as evidenced in successive reports on aid effectiveness (OECD, 2009). As noted by the United Nations Conference on Trade and Development (UNCTAD 2000; 2002), the failure of donors to provide this information has major negative impacts on macroeconomic management. Donor inaction or lack of significant improvement in this area cripples efforts to build financial management systems, a key dimension of statebuilding, and has the potential of weakening state legitimacy.

Ways off-budget aid can harm statebuilding

There are a number of problems for statebuilding when aid cannot be reported on the budget. Firstly, government officials in all six countries explained that government ownership of the development agenda requires financial ownership. It was felt by some stakeholders that, where assistance is channelled outside the state, accountability remains with the donors, and they also argued that donors are not using their programmes to build government accountability. This can affect not only state capacity for

financial management but also state legitimacy, to the extent that legitimacy is anchored in the way the state is organised.

Off-budget project aid managed parallel to the state system can also affect political processes and impede the development policy-making systems, to the extent that removing the locus of decision making from the state and investing it in PIUs means that those who would seek to influence the way aid resources are spent or gain access to them direct their lobbying and attention to the managers of these PIUs and not to the state.

Further, this kind of aid can distort development priorities. In Rwanda, the large contributions of aid through the US president's Emergency Plan for AIDS Relief (PEPFAR), which all must be dedicated to fight HIV/AIDS, distort the distribution of health spending in ways the government finds are not justified by overall needs within the population. This can potentially affect state-society relations, as the many health challenges beyond the epidemic that people face in their daily lives are not attended to, while those suffering from the epidemic have an inordinate amount of resources spent on their well-being. Funds from the Global Fund are at least channelled through the state and while the compulsion to spend them on earmarked purposes may not be in line with best judgments about overall health spending, they can nevertheless be accounted for and the government can plan its health expenditures accordingly. But US money through PEPFAR has been almost impossible to keep track of.

Another impact of this kind of project aid is that it follows different financial rules and reporting mechanisms, therefore creating a heavy transaction burden for state officials in ministries and departments where donors place aid programmes. Government officials note that some funding mechanisms are particularly rigid and a great deal of duplication in work exists to comply with different donor requirements. Individual ministries must carry out this work, rather than centralising such reporting in one unit, as could be done if aid were systematically coursed through existing government programmes and systems. This has serious impacts on state capacity.

Some advances are being made in co-ordinating aid, aligning it with government policies in ways more conducive to statebuilding. One important mechanism is the sector-wide approach, or SWAp, where donors pool funds to be applied to an integrated sectoral programme designed by the government. In all the case-study countries, both state and donor officials found SWAps the most important intermediate instrument (between disaggregated project support and full-blown budget support) for improving state capacity and keeping the locus of decision making within the state.

The process of setting up a SWAp encourages sectoral planning and policy articulation by pooling donor resources; reduces administrative duplication; and, due to the size and complexity of programmes, requires

significant monitoring and evaluation – all of which contributed to positive capacity building within the state. Further, these processes allow for varying degrees of societal participation, including private sector consultations (as in the SWAp being established in the energy sector in Rwanda) and community participation (as in SWAps in the health and education sectors in most of the case-study countries). These have positive implications for the evolution of state-society relations in the statebuilding process (see Box 2.1).

When off-budget aid can contribute to statebuilding

There is also a counterpoint in investigations into the problem of donors getting more aid "on budget". Civil society actors expressed some fear that coursing aid through the budget would make it more difficult for their organisations to access these resources. Often they were being compelled to join large umbrella organisations to deal with donors and state officials, which has

Box 2.1. **SWAps as a positive contribution to statebuilding**

The Government of Nepal's "Education For All" (EFA) programme began in 2004 and will continue until 2009. It focuses on primary education, and uses a SWAp modality to fund and manage around 25% of the programme. Denmark, Finland, Norway, the Department for International Development (DFID), the World Bank, the African Development Bank and UNICEF support the EFA through a joint funding pool that provides sector budget support, earmarked to the overall EFA-expenditure programme. Donors harmonise around a joint financing arrangement, which commits pooling donors to "alignment with the budgetary and accountability systems and legislation of Nepal". A SWAp set up behind the Local Governance and Community Development Programme will adopt a flexible approach in terms of delivery modalities and include mapping of disadvantaged groups, a social mobilisation approach and public hearings.

In Bolivia, donors are starting to explore a SWAp in the education ministry. In Rwanda, SWAps have been explored in the health and education sectors and now the country is designing the first SWAp in an energy sector anywhere in Africa. In the DRC, donors note that the ministries responsible for health, education and infrastructure have made much faster progress than other sectors in developing draft sectoral strategies and medium-term budget frameworks. Today, these sectors appear to be receiving more aid to help ministries consolidate their policies and take more ownership of the aid agenda.

These programmes all tend to reduce transaction costs in dealing with donors, build capacity within the state for planning, budget management, monitoring and evaluation and often promote new channels of interaction between social groups and the state. They maintain decision-making processes within the state and therefore have neutral or positive impacts on political processes.

had the tendency to exclude grassroots organisations and to privilege large organisations in capital cities against those found at the periphery. Here there is a case for explicitly maintaining a proportion of aid off-budget and developing transparent and participative mechanisms for its allocation.

There is a legitimate role for aid being channelled to support capacity building within civil society, particularly outside of the normal NGO channels – business associations, trade unions, youth and women's organisations. All of these can make positive contributions to the political processes that underpin statebuilding and to state-society relations. These concerns are linked to the need for donors to assist states in developing the regulatory environment in which civil society organisations, including but not limited to NGOs, can operate.

Aid outside the state: Creating a dual public sector?

One of the biggest challenges donors face in fragile states is how to support an increased delivery of services to society where state capacity is weak or non-existent without pre-empting the development of capacity within the state. Across all sectors, donors face a trade-off between channelling resources through the state to create the capacity and systems to perform state functions, and channelling resources through non-state organisations, including the private sector, NGOs and other community or religious organisations. In many cases, for purposes of speed, efficiency and financial probity, donors have established PIUs outside of the state run entirely by the donors, as discussed above.

Similar problems exist when donors have established structures outside the state to administer large aid initiatives, like the national councils charged with implementing campaigns against HIV/AIDS (Putzel, 2004) or similar earlier efforts in integrated rural development (Mkandawire, 2006). Opting for non-state delivery mechanisms of functions traditionally under the authority of the state risks the creation of a dual public sector; that is, the emergence of an externally financed sector run parallel to, and often in competition with, national state structures. While the public-private delivery equation was traditionally thought of in terms of efficiency and transparency, a statebuilding lens reveals that it involves profoundly political dimensions.

Channelling resources outside the state not only does not contribute to development of capacity within the state, but more importantly it creates centres of resource allocation, focal points of lobbying and potential sources of patronage outside of the state, which can have a significant impact on the political processes that drive statebuilding and the sources of legitimacy of the state. While the state/non-state delivery trade-off has often been debated in relation to services such as education or health, today it applies as much to

central state functions like security and taxation, with implications for long-term processes of statebuilding. When aid is channelled in this manner, there is little possibility of developing the organisations of the state that should be at the heart of policy making. Not only are executive organisations undermined but so too are parliamentary bodies.

Aid to Project Implementation Units

As noted above, a large amount of aid in the six case-study countries continues to be administered by PIUs. This trend has been reversed only in Rwanda and Bolivia. All stakeholders, including donors, agree that this is one of the most problematic of donor practices and represents a parallel public administration system as appointment decisions and accounting relationships involve the donor alone. The PIU numbers are particularly high: in the DRC, the OECD (2008a, vol. 2, chap. 14) estimates that 146 parallel management units currently exist, which is four times the amount reported in 2006. Although there is a sense among donors that PIUs are necessary in fragile situations, particularly during early recovery when the public administration is seen as too weak to administer aid, the detrimental impact of some PIUs on statebuilding is all too apparent. In Afghanistan, for example, an international donor has taken over the Ministry of Defence functions almost in their entirety. The Ministry was described as a "hollow ministry", waiting to take over the control of the army, which is being trained chiefly by the United States.

Today, most stakeholders note that PIUs weaken governments: rather than build capacity, they effectively circumvent what donors see as a capacity gap in the public administration. As reflected in the Paris Declaration, there was a general agreement among donor and state officials in the country-case studies that these structures need to be phased out and integrated into government and country structures in order to reinforce state capacity as well as the capacity of social organisations and private organisations dealing with the state, and some progress has been made, for instance in Rwanda. Many PIUs, however, are managing multi-year programmes, and some stakeholders agreed that it would be both difficult and harmful to quickly dismantle these units. As an intermediate measure, some donors have suggested placing PIUs within state ministries, but it is not clear whether this would institutionalise such parallel organisations, making them more difficult to phase out, or whether this could be a stepping stone towards reducing their prevalence.

Although PIUs were often created because donors believed that there was a lack of internal capacity in the state, it is important to note that in many countries the civil service has been in place for a long time, as demonstrated by Nepal. There was a sense that donors often fail to look for capacity in the public administration and immediately discount what exists in government. While it can be argued that urgent service delivery trumps capacity building,

Box 2.2. **Afghanistan Reconstruction Trust Fund**

The aim of the Ministry of Finance is to ensure, insofar as possible, that aid money is channelled through its bank accounts or at least is reported to the ministry through the external development budget. To assist this process, the government of Afghanistan, in collaboration with key donors, put in place the Afghanistan Reconstruction Trust Fund. This allows donors to put their money into a pooled bank account subject to certain minimum fiduciary oversight. The ARTF allows for donors to earmark or "preference" funds for specific purposes. These funds are allocated to the core recurrent or the core development budget. Two other trust funds exist: the Law and Order Trust Fund and the Counter Narcotics Trust Fund. Both the ARTF and the Law and Order Trust Fund have therefore benefited from increased donor commitments.

Donor disbursal of aid to trust funds, by solar year (2002–2007), in USD millions

Year	1381 (2002)	1382 (2003)	1383 (2004)	1384 (2005)	1385 (2006)	1386 (2007)	Total
Afghanistan Reconstruction Trust Fund	185	286	381	404	454	635	2 345
Law and Order Trust Fund for Afghanistan (USD)	7	66	65	81	107	136	462
Counter-Narcotics Trust Fund (USD)				16	24	18	58

Source: Ministry of Finance.

in many cases more efforts could be made to assess existing capacity and to identify resources in the public administration. At the very least, these individuals could be implicated in the design, implementation and oversight of donor programmes.

It is perhaps when looking at the procurement processes of PIUs that one can observe one of their biggest negative impacts on statebuilding. Parallel procurement structures were originally set up to create a competitive and transparent process, seen as lacking in many fragile states, but today they exclude government, make contracts without public scrutiny and offer few possibilities for civil society or media oversight, thus having a negative impact on state-society relations. This was also observed in the lack of adequate engagement between central and local authorities where services of PIUs were being delivered.[3] To the extent that these donor projects are associated with the state and perceived as sites of favouritism in appointments and the allocation of contracts, they can have a damaging impact on state legitimacy. Similar problems emerge from donor practices of contracting in service providers, often creating multiple layers of subcontracting, where

problems of accountability and transparency emerge. NGOs are sometimes contracted to provide a service where they have no local roots and are not accepted by local populations.

On a more positive note, where donors feel that the basic conditions for budget support do not exist, some are developing innovative approaches to strengthen the capacity of the public administration in fiscal management. Jointly managed funds are showing some positive results in terms of building government ownership of aid programming and in strengthening fiscal management capacity. Although the disbursement and formal reporting mechanisms can take many shapes, the funds are managed by the state and the donors with "dual-control oversight mechanisms", therefore increasing the amount of resources managed by the state but guarding against corruption.

This system can be used in both small and large programming (see Box 2.2). Such arrangements, rather than creating a dual public sector, can function as a virtual public sector where the fiduciary risks of donors can be reduced but where public officials gain experience in managing the public purse and develop both individual talents and systems that can contribute to the creation of independent capacity to manage public finances.

Aid co-ordination and its relation to national development planning

It was found that in the case-study countries a number of aid recipients are creating government-owned mechanisms for aid co-ordination, giving them a more directive role in managing and guiding aid. Where these structures exist, governments are better positioned to track aid and to negotiate the development agenda. In several countries, donors have played an important part in this process by providing funding and technical assistance for the establishment and strengthening of aid-monitoring units within the central state administration.

Where countries are starting to record aid, it was found that governments are better able to articulate their development objectives and formulate policy. The government of Afghanistan, for example, has played an important role in tracking aid and in establishing a national development strategy with a medium term fiscal plan (see Box 2.3). Similar efforts have been initiated in the DRC with the establishment in the Ministry of Planning of the *Plateforme de Gestion de l'Aide* (Aid Management Platform) and the creation of the *Programme d'Actions Prioritaires* (PAP), a framework for sectoral ministries to develop strategies and policies for the implementation of the PRSP. Yet outcomes are still uncertain.

Recipient government's leadership in co-ordinating aid and, at the very least, in tracking aid, is particularly welcome by donors. However, it is important to note that aid-tracking and co-ordination tools need to also

support inter-ministerial co-ordination and to ensure that sector ministries have access to the information and know how to use it. There is a risk that some sectors may be sidelined and that the co-ordinating ministry starts to control rather than to co-ordinate aid.

No amount of aid tracking or co-ordination can replace the formation of capacities within the state to articulate its own national development plan and policies. In the DRC and Afghanistan, both development frameworks, the Afghanistan National Development Strategy (ANDS) and the PAP, have been criticised by numerous stakeholders as being unrealistic documents, either because they lack clear policies and budgets or do not prioritise needs. The ANDS is said to resemble something of a "laundry list", which prioritised everything and consequently did not permit focus on any single item. The PAP is said to be too ambitious, to lack buy-in from sectoral ministries and to be seen by the government as an investment plan rather than a reform plan.

In Rwanda, the government's Vision 2020 and the Economic Development and Poverty Reduction Strategy (EDPRS) have laid out a clearer strategy for national development. On this basis the government and donors have agreed a process for joint governance assessment, which looks at progress made and the role of foreign assistance within it. This has greatly improved donors' contributions to state-led development policy.

Box 2.3. **Afghanistan: Afghanistan National Development Strategy (ANDS)**

The establishment of a capacity within the Afghan Ministry of Finance to track aid has contributed successfully to the formulation of the Afghanistan National Development Strategy (ANDS), which together with the Afghan Compact sets out the priorities for the government of Afghanistan and forms the PRSP. The ANDS was established with the financial support of the international donors. It is designed to provide a means of prioritising and co-ordinating the use of external resources through the development budget. This arrangement has gone a long way in promoting Afghan "ownership" of the development budget and Afghan management of aid resources.

The drafting of the ANDS involved technical expertise located in a sector-specific consultative group structure designed to co-ordinate external partners under the leadership of a ministry, together with grassroots consultations. The research suggests that the sector-specific consultative groups and technical groups dominated the process. Among these, there were examples where these technical groups functioned extremely well, with strong co-operation between international and Afghan experts. Other examples suggested less effective processes where sector strategies were written by international experts sitting within the ministry but failing to liaise with ministry staff. However, the grassroots consultation for ANDS priorities was reported as being limited to meetings and workshops with no formal power (see also Nixon, 2007).

Technical assistance and statebuilding

By the very nature of state fragility, donor programmes in fragile states where a statebuilding agenda is relevant are heavily reliant on technical assistance. An important percentage of total donor assistance to all areas of intervention in fragile states is delivered through technical assistance, though generally donor-reporting practices make it impossible to trace exactly how much of their aid is spent on foreign and local consultants. The choices on where and in what proportion to allocate technical assistance – executive functional departments (health, education, finance, defence, policing, agriculture), judicial organisations, legislative organisations, or to support political party or business organisations – and whether it should be short-term or long-term needs to take into account particular strategic statebuilding concerns. Technical assistance needs to be framed in such a way as to feed positively into the development of capacity for policy making within different organisations of the state, including executive, legislative and local bodies.

How the choice is made and whether it involves state actors is also crucial to building capacities within the state. Whether donors consider processes of civil service reform, when allocating expenditure on technical assistance, can have a profound effect on the feasibility of such reforms. How the assistance is identified and managed also has a major impact. Technical assistance can help restore state functions, but whether it contributes to a sustainable process of statebuilding is an indeterminate question. The potential for doing or not doing harm here is great.

The share of technical assistance in aid programmes

While Table 2.3 reports the total aid amounts for technical co-operation,[4] it can be assumed that the lion's share of this is actually being devoted to technical assistance: payments to foreign consultants and personnel.[5] It should be remembered that the figures reported in the table do not include all technical assistance that may be embedded in programme and projects funded by donors.

Nevertheless a very important percentage of total ODA is being spent on what is mainly technical assistance: 40% in Bolivia, 33% in Sierra Leone, 30% in Rwanda and Nepal, and only in Afghanistan a figure of 9.6%. If donors were to report the total amount of aid spent on consultancy in programmes and projects the overall amounts likely would be far higher. The country studies produced some estimates. In 2007, technical co-operation was said to amount to a quarter of aid in Afghanistan. In Nepal, technical assistance was said to represent 34% of total official development assistance. On the other hand, there has been some effort to improve the extent to which reported technical assistance is co-ordinated with government programmes. OECD's survey shows that this has improved across the board, and Table 2.3 illustrates that of aid reported

Table 2.3. **Technical co-operation (2007)**

	Total ODA reported in survey	Total technical cooperation (USD m)	Technical co-operation as % of ODA	% technical co-operation co-ordinated with government
Afghanistan	3 623	347	9.58	54
Bolivia	514	206	40.06	83
DRC	1 019	213	20.89	38
Nepal	609	182	29.88	15
Rwanda	774	235	30.38	84
Sierra Leone	289	96	33.24	22

Source: OECD (2009), Indicator 4.

as technical co-operation some 83% is co-ordinated with government in Bolivia and 84% in Rwanda. However, there is a long way to go in the other countries.

The study shows a clear need to strengthen the capacity of government officials to enhance their skills in managing the day-to-day functioning of a modern state. However, few commentators were able to draw conclusions on whether technical assistance has been successful in transferring skills and strengthening capacity within the state as a whole. The choices donors make in providing technical assistance affect mainly the capacity of the state to perform its basic functions, but they can also have an impact on issues of state legitimacy (see Box 2.4).

Box 2.4. **Technical assistance: A "line of least resistance"?**

Some stakeholders asked much broader questions regarding the impact that technical assistance could have on the political foundations of a statebuilding process, where the government remains fragmented and a country lacks any semblance of national unity. This was the view in Afghanistan, where technical assistance was seen by some as reflecting deeper political dilemmas within the government. As one donor official noted: "We have created a system where it is the technocrats who speak our language rise to the top … so that eventually it is like we are talking to ourselves"; or, in the words of another: "We are recreating Afghanistan in the image of Kosovo." Technical assistance represents a "line of least resistance" for development assistance, and does not address the key underlying questions. The representative of one donor agency noted that their starting point had been: "Let's assume we have a country that can deliver services". By focusing on elements of technical capacity, technical assistance may cause donors to ignore the deeper questions of legitimacy which might call into question the application of their expertise.

State capacity to co-ordinate and manage technical assistance

In none of the countries visited does the development-partner government or donor agency centrally manage, monitor or co-ordinate technical assistance effectively, despite efforts in some states to develop such capacity (Sierra Leone and Rwanda).[6] As a result, both donors and governments were concerned that technical assistance is not maximised and is often duplicated. Double-reported funding figures compromised further the validity and veracity of data on technical assistance. In Afghanistan, a single department of the Ministry of Finance hosted four different teams of technical assistance, funded by four different donors, with the attendant problems of duplication of effort, contradictory advice and waste. A consequence of the supply-driven technical assistance (that is, technical assistance that is identified and allocated by individual donors) is that, while some departments or ministries have made great strides forward, in others capacity remains very low. There have, however, been a number of efforts to better co-ordinate and manage technical assistance (see Box 2.5).

The capacity of state officials to manage technical assistance – that is to identify the need for particular assistance, to hire consultants and to monitor and evaluate their work – remains weak in most of the case-study countries. Only in the Rwandan Revenue Authority (RRA) had government officials been involved in the decision-making process over the choice of the technical advisor. In some cases, government officials were sent consultants whom they already knew and whom they felt did not have the right expertise. Once technical assistance is on-site, there are very few attempts to evaluate performance. Some donors will informally ask government officials for a review

Box 2.5. **Efforts to promote state co-ordination of technical assistance**

In the DRC, and as part of its effort to streamline its programmes and to better support the government's development agenda, the World Bank is undertaking a mapping of technical assistance across all of government, hoping to use this information to convince other donors to co-ordinate their assistance.

In Nepal, where there was a sense that technical assistance across the executive, legislative and judiciary is unequal, some government representatives called for the establishment of a technical assistance pool mechanism to oversee the provision of technical assistance.

The Afghan Ministry of Finance also highlighted this problem in its Afghanistan National Development Strategy, making capacity building and better management of technical assistance as major government priorities (Vol. 1, chapter 7, p. 127). The Ministry of Finance therefore has as its stated goal the need "to harmonise the delivery of technical assistance in line with government priorities and reduce duplication and transaction costs".

but often there is no clear process in place. One exception was the Sierra Leonean National Revenue Authority; while staff had not been consulted on the choice of the advisor they nonetheless felt that they were taken seriously during the subsequent co-operation. The RRA experience in Rwanda differed more drastically precisely because the donor was flexible enough to allow the state to evaluate early technical assistance experience and to recast technical assistance according to its own priorities. Over time there was a gradual reduction of technical assistance and an elimination of its role in permanent posts within the RRA. The good management of technical assistance is largely dependent on the strength and leadership of a ministry or department that receives the technical assistance, as again was demonstrated by the RRA experience.

Other examples of bad practice are lack of capacity-needs analysis and consultations with government to clarify the consultant's role, terms of reference and expected outputs. In the case of the Ministry of Rural Rehabilitation and Development in Afghanistan, the ministry ensures that the terms of reference are aligned to its needs and will not accept teams that do not meet its specific goals and requirements.

Trade-offs between long-term and short-term technical assistance

A crucial issue that donors face is the trade-off between providing long-term or short-term technical assistance. State officials in the case-study countries recognised that in the initial phases of programmes to build state capacity they need to be able to rely on long-term technical assistance, where consultants can learn about local conditions and transfer skills over time. Indeed, concern about the negative impact of experts who come and go was expressed in several countries. To be effective, consultants need time to identify and share lessons and to build relationships with local public servants. But, over time, a measure of success of technical assistance is the ability of states to eliminate the need for long-term assistance and increasingly identify their own needs for specific, short-term expertise.

There was considerable evidence that donors are paying more attention to these problems in the case-study countries (see Box 2.6). However, it is not clear that the particular requirements of technical assistance in fragile states are being systematically assessed. For instance, apparently no attention was given by donors to how their decisions about the allocation of technical assistance may contribute to or detract from processes of civil service reform, often on the agenda in fragile states. For many donors, there does not appear to be an understanding of the value of long-term technical assistance in relation to the specific needs for local knowledge to contribute positively to statebuilding efforts. German technical co-operation offers an exception here as much of its work is based on long-term capacity development.

"Perverse incentives" and the trade-off between capacity building and execution

Donors face a trade-off in the choices they make over the provision of technical assistance in fragile states as between providing expertise that can ensure minimal state functioning and providing expertise that can build capacity. In most cases, officials described consultants as executing specific tasks rather than strengthening the capacity of public officials to do the work themselves. Often, all professionals are paid by donors, and even when they

Box 2.6. **Examples of good technical assistance practice**

Donors have helped to fund the *Comité de Suivi de la Réforme de la Police* (CSRP) in the DRC, which is composed of representatives from the *Police National Congolaise, Mission des Nations Unies en RDC* (MONUC), the European Union Police Mission and civil society, who receive technical assistance to strengthen their skills and capacity to develop a police reform programme. Here the two contracts for technical advisors both included a clear capacity-building component. Feedback from the Director of the CSRP showed a very positive view on how technical assistance had been delivered, both in its longer-term view and in the capacity-building approach used.

The *Comité Technique de Réformes* in the Ministry of Finance is another example of good capacity building that does not seek to replace the state or to execute specific functions. The *Comité Technique de Réformes* is composed of public servants who receive technical assistance in supporting and monitoring the reform process, and in fostering inter-ministerial co-operation between the ministries overseeing a reform process and the Ministry of Finance.

The Rwanda Revenue Authority (RAA) was established with technical assistants holding all major positions of responsibility – long-term technical assistance was crucial to building the foundations of the RRA. However, during the initial period little progress was made in training and building up local capacity. Upon request from state authorities an evaluation was carried out, which demonstrated that the two consultancy firms hired hardly consulted with one another, let alone with state officials, and some consultants sent had no tax experience. After that, technical assistance was recast and incrementally state officials took over the identification of needs and management of the technical assistance. Eventually long-term technical assistance was phased out until today where all technical assistance is identified by Rwanda directors of the RRA and deployed only short-term where specific requirements are needed.

Among donors, German technical co-operation has devoted considerable resources to the deployment of long-term technical assistance with experts assisting change management. This approach allows those consultants involved to develop a deep understanding of local politics and context, which is crucial to ensuring more positive impacts on statebuilding. Its commitment to capacity development and results-oriented monitoring offers a promising model for improving technical assistance more generally (GTZ, 2004; 2007).

were hired with a plan in mind of transferring skills they tend to play the role of operational staff.

In some cases, the government itself may prefer to contract technical assistance through the donors rather than go through the lengthy process of civil servant recruitment. It is a common observation in the case studies that ministers who perceive a lack of capacity to execute their plans often turn to technical assistance as a short cut to get jobs done.

Donor impact on employment and skilled labour market

One of the consequences of the expanded programmes of donor agencies in fragile states is the impact they have on local labour markets, especially the market for skilled labour. The channelling of resources to non-state actors, discussed above, can also have a profound impact on the human resources available to staff state agencies; in other words, on the possibility of building effective state capacity. Another set of trade-offs is faced here by donors, since the best way to ensure they understand the context specific dimensions of statebuilding is to employ local people, but in doing so they may be reducing the possibilities for drawing skilled people into the state sector, thus doing harm to the creation of capacity within the state to perform its basic functions.[7] No evidence was found that the donor community is monitoring its own direct impact in this way.

While employment by international actors can be an important source of training this will have little positive impact on state capacity creation if those trained are not employed within the state. Nancy Birdsall (2007), in a paper discussing doing no harm more generally in aid to Africa, draws on quantitative evidence (Knack and Rahman, 2007) to demonstrate a marked decline in bureaucratic quality with increases in aid, reinforcing arguments that aid agencies were drawing off the most skilled personnel from developing country states and perhaps creating perverse incentives for performance. Most worrying was Birdsall's observation that there has been little monitoring going on by the collective donor community as to the impact their programmes may be having on these trends.

In contexts where civil service working conditions are particularly poor, donors' own hiring practices and approaches to working with the public administration can do harm to the local labour market. Donors' recruitment of local consultants, for example to work in PIUs, can create a brain drain in the civil service. While some donors have a policy of not hiring public administrators who are already in post, it was found that plenty of donor agencies still do so. For local officials, the higher salaries and status associated with working in international organisations are hard to turn down and often employment with donors offers a route to international employment.

Pressure placed on the local market for skilled workers affects the hiring processes of state organisations themselves. Hiring of local consultants to work in the public service can create a parallel civil service structure, which may be difficult to sustain over time, thus having an impact on long-term processes of statebuilding. As noted in one of the more important donor papers on technical assistance and fragile states, budgets for technical assistance often overshadow the budget for hiring civil servants.[8] The discrepancies between pay for consultants and civil servant salaries create important motivational problems and have been a source of conflict within government departments.

Some donors have begun to supplement public sector pay, particularly for doctors and teachers. While some stakeholders view this as a positive initiative, many emphasised the need to harmonise payment policies for state officials, which is starting to be done in some countries. Some critics, however, warn that this practice of paying supplements is not sustainable and that while some governments are undertaking pay reviews for civil servants, these reforms are particularly sensitive and may take a long time. This begs the question of what will happen when donors find that they can no longer pay the supplements.

There was also concern raised in civil society organisations that the salaries offered by international organisations, be they donor agencies or international NGOs, made recruitment of talented people for their organisations and associations much more difficult. Little attention has been paid by donors to this dimension of their impact on local labour markets.

Key findings on donors' management of trade-offs in aid delivery

1. Donors need to pay more attention to how they support the development of capacity within a state for the articulation and implementation of policy. The choices donors make in aid delivery can influence policy-making processes at the centre of the state affecting all the major dimensions of statebuilding.

Donors seldom consider how the sum total of their interventions may have a positive or negative impact on state capacities to articulate and implement policy. Where possible donors should be supporting the capacity of states to articulate policy themselves rather than relying on donor propositions. Donors also have to be careful not to overload state officials with too many reform initiatives, which is not only a matter of pacing but also important to consolidating existing coalitions within the state. When aid resources are delivered outside the state, they weaken the policy-making processes that are at the heart of the state.

Equally, when aid is coursed directly to ministries, often with donors having their special relationships with particular ministries, the collective processes of decision making over the allocation of resources are stifled. Technical assistants often shape policies, but they seldom develop the capacity of political actors within the state to engage deeply in the articulation of policies. Donors have paid scant attention to the way the mix of aid-delivery mechanisms can affect the systems and processes that contribute to a state's capacity to articulate and implement policy.

2. Donors risk doing harm to statebuilding, weakening the capacity for public financial management, through a persistent failure to provide accurate and timely information and data on their aid disbursements in partner countries.

Those charged with developing the public financial management systems in fragile states are still frustrated by the persistent practice of donor agencies to fail to report complete, accurate, detailed and timely information on their aid disbursements. While the capacity to design and manage budget systems is still weak, in most fragile states donors need to do much more to ensure state officials have an overview of finance flowing into the country, especially to the government sector. While most donors publish lists of their technical assistance contracts, more could be done to provide better consolidated information on the distribution of technical assistance in each partner country. With foreign aid making up such a large percentage of government financing, this is certainly an area where donors can do harm by failing to act.

3. Donors need to devote greater attention to working with partner-country officials to get an increasing proportion of aid reported on budget, to strengthen accountability mechanisms and the political processes that underpin budgetary bargaining.

The problem in getting aid reported on budget is related to the weaknesses in donor reporting of aid inflows to fragile states and the challenging task of building capacity and accountability in public financial management systems. While the condition of state bureaucracies and management systems is generally too weak for donors to consider rapidly expanding the proportion of their aid devoted to direct budget support, much more can be done to assist those charged with public financial management in reporting foreign inflows on the national budget. This requires a long-term approach to capacity development within the state and an incremental process of increasing the proportion of foreign inflows captured by the information systems of budget managers.

Failure to pursue this objective weakens the creation of accountability mechanisms within the state, since aid delivered off budget to a large extent absolves state officials from responsibility for how it is spent. Off-budget aid can distort priorities in government spending and limit the creation of capacity within the state to determine priorities, including the political processes involved in what is a key site of decision making and bargaining in any state – the public finances. Donor practices of distributing aid directly to line ministries without central co-ordination (often the preferred method of state officials in these ministries) can have an impact on political processes that are at the heart of statebuilding. It is impossible to even begin imagining building up parliamentary and public oversight over public spending when important portions of public finance are not even reported in the national budget.

At the same time there are justifiable arguments for keeping a proportion of aid out of the state system (ensuring the independence of civil society associations) and earmarked for support to non-state organisations emerging in civil society, as long as an effective regulatory framework is established.

4. Donors' efforts to push sector-wide approaches (SWAps) have made positive contributions to developing capacity within the state for development management.

SWAps have proven to be an important intermediate instrument, between donors providing disaggregated project support and full blown budget support, for improving state capacity and developing decision-making processes within the state. These have increased state capacity for sectoral development planning, and, by pooling donor resources, have reduced the transaction costs within the state in managing foreign assistance.

Sector-wide approaches have also provided considerable room for dialogue between state officials and interest groups within society, thus having a positive impact on both the political processes and state-society relations that underpin statebuilding.

5. The continued channelling of aid to project implementation units risks doing harm to statebuilding by creating what is effectively a dual public sector.

While the Paris Declaration and subsequent efforts to promote aid effectiveness have an explicit aim to reduce the proportion of aid being channelled through PIUs, the practice of running projects and programmes (as in the health sector) through networks parallel to state and country systems is still widespread in some fragile states. These practices fail to draw on and develop existing capacity within the civil service and pre-empt its improvement. There is a real danger that such practices contribute to the construction

of a dual public sector, creating decision points, lobbying points and sites of patronage outside of the state. They limit the possibilities for central and local state interaction and for public scrutiny of procurement and appointment practices. This can profoundly affect the political processes that underpin statebuilding and state legitimacy more widely. Some donors have suggested endorsing the formation of PIUs within state ministries as an intermediate measure, but this could lead to their deeper institutionalisation.

6. Donors have made positive contributions to statebuilding through the creation of what can be seen as a virtual public sector by supporting joint donor-development partner mechanisms to manage public finances and monitor expenditure.

Where the conditions for expanding direct budget support do not exist, donors have engaged in innovative methods of joint management of aid funds and the evaluation of government spending. Jointly managed trust funds, which act not as a dual public sector but as a virtual public sector (as in Afghanistan), and jointly organised assessments of government spending (as in Rwanda), have contributed to building government ownership of aid programming and strengthening financial management capacity.

Such forms of dual-control oversight can increase accountability and limit possibilities for corruption, thus positively affecting state legitimacy, while contributing to positive developmental outcomes. As negotiations over public expenditure are a crucial objective of political bargaining within the state and between the central and local state, such initiatives institutionalise positive statebuilding political processes.

While donor practices in reporting aid flows to partner countries need to be radically improved, as noted above, they have made positive contributions to the capacity of states for development planning where they have supported efforts within the state to monitor aid flows. However no amount of aid monitoring can substitute for elaborating a clear strategy for national development.

7. Donors generally continue to manage the whole process of deployment of technical assistance and have made little progress in developing the capacity within states to identify technical assistance needs, to hire consultants, to manage their work and to evaluate their performance, with potentially negative consequences for long-term capacity building within states.

There is still a large percentage of development aid being spent on technical assistance. While there is a huge variation in practice among donors and partners, in many countries such assistance remains primarily identified, selected, evaluated and managed by donors themselves. Technical assistance

can help restore state functions in fragile states recovering from serious violence and the breakdown of state systems, but whether it contributes to a sustainable process of statebuilding is an indeterminate question. The potential for doing or not doing harm here is great.

The need to have detailed local knowledge in fragile situations argues in favour of greater deployment of long-term technical assistance.

Donors face important trade-offs between providing technical assistance that can achieve preliminary results in terms of service delivery and other functions any state must perform, and providing assistance to create capacity within a state. The challenges of creating capacity within partner-country states to manage technical assistance themselves are enormous, given prevailing weaknesses in civil service sectors. However, continued practices of uncoordinated provision of technical assistance by bilateral donors, of hiring consultants based on donor assessments of need rather than on those of state officials, and of managing technical assistance outside of state management structures all have limited the ability of such aid spending to positively contribute to building long-term sustainable capacity within states. Ideas to introduce a more market-based recruitment of technical assistance with increasing involvement of state officials as the principals in contractual arrangements would be a move in the right direction. This would have the added advantage of bringing considerably more aid on budget and could contribute to bringing expatriate experts working in a country within the orbit of local taxation.

8. Hiring practices of donors can distort the local skilled labour market and retard state-capacity creation and civil service reform.

Donors need to consider more carefully both the direct and indirect impact that their own hiring practices may have on creating sustainable capacity within fragile states. Not only can donor agencies and other international actors like NGOs create a brain drain away from state organisations, but they can influence wider hiring practices within the state that may be difficult to sustain over time or to incorporate in sound programmes of civil service reform. Differential salaries paid to those working as consultants and those on civil service wages can create motivational problems within state organisations with negative impacts on performance and state legitimacy. There is little evidence that donors are actually monitoring these types of impact that their presence in fragile states may be having.

Notes

1. In some cases, donors have piloted budget support with smaller government agencies. In the DRC, for example, the United Nations Development Programme (UNDP) and other donors disbursed funds to government agencies during the transition period but have since stopped after a large percentage of the money went unaccounted. Today, donors have virtually stopped all forms of direct budget support and no longer use the national procurement systems. In 2005, 31% of donor procurement was done via the government channels. In 2008, reports show that only 1% of total procurement is done via the government.

2. For donors to report assistance under the category of programme-based approach, aid should go to programmes where there is: *(1)* local leadership (not necessarily the state); *(2)* a single comprehensive programme and budget framework (not necessarily linked to the national budget); *(3)* harmonisation among donors in terms of procedures for reporting, budgeting, financial management and procurement (not necessarily harmonisation with government procedures); and *(4)* "efforts to increase the use of local systems" (no actual requirement) for programme design, implementation, financial management, monitoring and evaluation (OECD, 2009, p. 30). The requirements here help to explain why there has not been more progress in getting aid reported on budget.

3. In Afghanistan, reports were received of infrastructure contracts with minimal oversight or involvement by the relevant ministry. One significant example is where Provincial Reconstruction Teams implement projects at a sub-national level. In the DRC, schools and clinics are being built without the formal authorisation or even the awareness of the local authorities.

4. Under the OECD definition, technical co-operation includes both: *(a)* grants to nationals of aid recipient countries receiving education or training at home or abroad; and *(b)* payments to consultants, advisers and similar personnel as well as teachers and administrators serving in recipient countries (including the cost of associated equipment).

5. To date donors have not been required to report in a disaggregated way how much of their technical co-operation budget is spent on technical assistance, which is a major problem as noted by the European Court of Auditors (2007) in its review of the impact of technical assistance. In its assessment the Court of Auditors reviewing European Commission aid between 2000 and 2005 reported that 2.2 billion Euros was spent on technical assistance. A detailed examination

of projects found that 36% of the entire budget of the projects was spent on technical assistance. State officials interviewed in the country case-studies could not quantify how much of their aid budgets were devoted to this purpose but many suggested that a large percentage was spent on consultants.

6. Sierra Leone provides an example of a concrete attempt to achieve better co-ordination through the Development Assistance Co-ordination Office (DACO), which has recently been subsumed under the helm of the Ministry of Development and Economic Planning (MODEP). Recently its scope has even been widened by making it the PRSP monitoring and evaluation entity in the country. However, DACO is still struggling to report grants to non-state sectors as well as resources managed through trust funds. A similar attempt has been made in Rwanda through the Human Resources and Institutional Capacity Development Agency (HIDA), but it has made no better progress than DACO in Sierra Leone. Recently, HIDA has been reorganised and its leadership reinforced in an attempt to begin co-ordination across ministries.

7. The case study in Nepal identified another important dimension of donor-hiring practices that warrants further investigation. Donors' own recruitment practices do not always reflect their core messages of social inclusion and representation. This is a particular concern in Nepal, where donors' hiring practices are seen by government and civil society representatives as potentially doing harm by reinforcing class and caste divisions. It was suggested that the stratification in Nepali society is seen in donor agencies as well. Donors want access to the best-qualified people (English-speaking, Western-oriented), most of whom come from traditionally elite groups (Brahmin, Chhetri and Newar, for example). The concern is twofold: first, that donors' impact is reduced by virtue of their circle of interaction with Nepali society being reduced; and second, that donors' message of inclusion and transparency is weakened because they themselves do not practice it.

8. In the Budget Department of the Ministry of Finance in Afghanistan, more positions are funded by technical assistance than are funded from the government's core recurrent budget. In Sierra Leone, many local consultants in ministries reportedly become operational staff. In the Ministry of Justice, where funding for government staff is very limited, donors have reportedly funded local consultants to act as public prosecutors, but they stay for a short time and do not transfer skills.

Chapter 3

Functions of the state

Chapter 3 examines how donor interventions directly affect the efforts and capacity of states to perform their functions: provide security, establish the rule of law and expand access to justice, implement taxation, manage economic development and the environment, and deliver essential services to society.

This chapter examines the direct impact of donor intervention on the capacity of fragile states to perform their basic functions: security, the rule of law, taxation, management of economic development and the environment, and service delivery. The aim is to identify the trade-offs donors face when making decisions that affect the establishment and consolidation of these basic functions and how action, or inaction, in these areas may do harm, do no harm or positively contribute to statebuilding. What donors do, or do not do, in these vital areas of statebuilding can affect all the underlying dimensions of statebuilding: political processes, state-society relations, state legitimacy and social expectations.

It is important to remember that, historically, states have all built their capacities over long periods of time and performance across different functional dimensions of state activity has varied over time. Just as no state emerged in history as a fully modern and capable set of organisations and institutions, the fragile states in the developing world emerging from crisis and warfare will develop capacities unevenly and incrementally. What makes external intervention so difficult in relation to processes of statebuilding is that priorities differ radically between specific fragile states and they change over time. The manner in which states evolve is driven by a complex interaction between the political processes that determine the political settlement, which underpins the state at any given time, the changing requirements of state legitimacy and the relations between the state and society. What elites and ordinary people expect and demand of the state also changes over time. Donor action or inaction can affect all of these dimensions of statebuilding, often in unintended ways. This requires donors to constantly undertake context-specific analysis and to make difficult choices between action and inaction with uncertain outcomes.

Security

A state that cannot achieve a legitimate monopoly over the means of, at least, large-scale violence will not be able to preside over almost anything else. In a minimal sense, this involves two dimensions. First, the "monopoly" dimension means that in the absence of ceding the responsibility for its security to a foreign military force (something most would argue would be an abdication of sovereignty), a state needs to establish a national force that is effective enough to deter and contain any, at least internally generated, armed challenge to its authority. This is crucial to ensure that powerful groups in society buy in to the state project and to deter them from pursuing their interests through armed action. Second, exercising a legitimate monopoly means that the state's armed force promotes and works to guarantee the protection of the inhabitants of the state's territory from violence, and especially that state forces themselves do not unleash violence on society. This is necessary to popular loyalty, basic to state legitimacy, and is the most important guarantee

that ordinary people will not enlist in armed challenges to the state. Without establishing security in this sense, a state cannot protect property rights, nor enforce basic taxation, nor command the loyalty of either elites or ordinary people, and this is why security is so important.

Donor countries intervene in the security sector of fragile states both through direct programmes of military assistance, in which donor agencies are usually not involved, and through development-assistance programmes that support SSR and DDR programmes, where donors play a bigger role. Discussion of the consolidation of the basic security functions of the state usually takes place only in post-conflict countries, but there is a need to examine the impact of military-assistance programmes in all fragile states, particularly those that may be in processes of accelerated decline or gradual improvement. To the extent that donor agencies have been involved in support for SSR, it has usually been from the perspective of supporting the development of accountability mechanisms over military organisations within the state. However, as the experience of the DRC illustrates in sharp relief, when there is no unified chain of command or organisational consolidation in the armed forces, programmes to increase the accountability of the security sector are futile. Based on the case-study countries four problems that donors face in relation to their impact on state's consolidation of security can be identified: *(1)* the strategic trade-offs between geopolitical goals and individual state security; *(2)* trade-offs between peacebuilding and statebuilding and the role of problematic political settlements; *(3)* the lack of coherence and co-ordination in security policies both within and between donor countries; and *(4)* the need for flexible forms of intervention in the security sector.

Strategic dilemmas

Donor countries face strategic dilemmas where donor countries may have geopolitical goals not conducive to the consolidation of the security function of a given state. These sorts of tensions have characterised donor impact on security functions of the state in both Afghanistan and Rwanda.

In Afghanistan, the objectives in the "war on terror" have often trumped objectives to consolidate security functions in the state. In the past, the United States has hesitated to fully reconstruct a national army for fear of antagonising Pakistan, seen as an essential player in the "war on terror"; to ensure short-term stability and gain immediate advantage in the fight against the Taliban, donor countries funded local strongmen and tribal leaders and in their anti-narcotics campaign they targeted the producers of opium rather than the traders who held positions of power.

In Rwanda, donor countries have hesitated to provide expanded support for the modernisation and professionalisation of the RDF, for fear that this

might empower it to invade Eastern DRC. Concern over regional security issues can cut both ways, however, and in Nepal there was a sentiment expressed that past assistance to Nepali security for regional strategic reasons may have been more in the form of traditional security sector assistance to the state, rather than security sector reform, which may have inadvertently contributed to the conflict.

Some of the problems in donor interventions in security are related to tactics and could be corrected, as in Afghanistan where the decision to reduce support to areas already secured has led to later resurgence of violence. This is a tactical error that could be remedied. This problem may also be manifest in the global allocation of support for security, as the understandable impulse in the international community is to reduce support to a country once security has been achieved. This was reflected in concerns in the otherwise successful experience of donor intervention in SSR in Sierra Leone. Also, donor countries have supported an extensive role for private security provision and relied on informal security providers in some cases. In Afghanistan, this proved to be economically efficient for the governments involved and their lack of accountability and discipline led to abusive behaviour and the alienation of the public with negative consequences for state legitimacy (Giustozzi, 2007). While security requirements are difficult to meet, donor countries can reduce their reliance on these private providers. The geopolitical dimensions of security are much more intractable. However, once donors understand the consequences of not ensuring the full consolidation of security within a state, they may alter their strategic judgement in relation to geopolitical concerns.

Peacebuilding versus statebuilding and problematic political settlements

Donor countries are faced with trade-offs between supporting short-term measures to secure peace and pursuing longer-term objectives of statebuilding.

In the DRC, the imperfect peace deal led to a transitional government under the authority of armed political organisations who had no commitment to fully integrating their combatants into a new national army. However, donor countries did not press for integration in the face of recalcitrance, but decided to focus on supporting the electoral process dictated by the peace agreement in the hope that a new elected government, endowed with the legitimacy of the electoral process, would somehow be more likely to pursue the project of an integrated national army. This has left in place a poorly integrated force, with no effective chain of command, whose soldiers are often not paid and increasingly seen as responsible for violence against communities in several parts of the country.

In Afghanistan, donors and the government of Afghanistan allowed the Ministry of the Interior, which controls the Afghanistan National Police, to be captured by a succession of warlords, in hope of achieving their immediate buy-in to the statebuilding project, leading to a situation where the Afghanistan National Police is seen as captive to local strongmen, redolent with political appointments and responsible for predatory activities, like the national army in the DRC.

In both countries, states that emerged in the wake of war were based on political settlements, which held within them the seeds for continued violence and insecurity. In Afghanistan, there was a failure to engage the key losing factions at the time of the Bonn Process, which gave them the incentive to pursue violence in an attempt to alter the political settlement. In the DRC, the fragile political settlement did not address the sources of conflict in Eastern DRC, and a move to formal democratic majority rule meant that those minorities, whose exclusion had been a source of conflict, would enjoy no protection in the new polity.

It is still unclear in Nepal how the political settlement will evolve, with 30 000 ex-combatants of the People's Liberation Army held in cantonments and an uncertain role for the highly mobilised Young Communist League. In Rwanda, the decisive victory of the RPF in the wake of the genocide allowed the state, based on a political settlement whose actors appear committed to development, to preside over the creation of a well-disciplined armed force with a unified chain of command.

While donors cannot themselves alter a political settlement, their actions, or their inaction, can influence whether intrinsic problems in a settlement are dealt with, and they must consider the impact of their actions in light of the particular parameters of a political settlement. Where a political settlement contains within it the incentives for continued violence and warfare, donor countries will be unable to pursue support for achieving security or other statebuilding objectives.

Piecemeal assistance to building security forces

Military assistance is often dealt with within donor countries by a combination of military, diplomatic and trade authorities often poorly connected with authorities in charge of providing development assistance, and there is no standard of military assistance or real co-ordination of it between donor countries. These problems have begun to be recognised with the introduction of "whole of government" approaches within donor countries and in connection with SSR processes and efforts of the OECD DAC to develop common approaches.

Among the cases studied, good practice could be observed in Sierra Leone's SSR implemented after large-scale violence was brought to an end. Success may have been due to the fact that one donor country employing a holistic approach to the security sector (involving army, prisons and border control by community-level organisations) played an overwhelmingly dominant role in the process.

This has yet to be achieved in Nepal, largely because of the uncertain political situation. In spite of initiatives by bilateral and multilateral agencies, donor work in the security sector has previously been marked by the overall absence of a co-ordinated, whole-of-government approach.

In Afghanistan, the decision in 2002 to assign different donor countries to take the lead in sub-sectors of security (army, counter-narcotics, justice and police) was tactically abandoned as ineffective in 2006.

Problems of competing objectives and practices within and between donor governments in this sphere persist. Bad practice in this regard was represented by the disjointed interventions of a variety of external actors, both DAC member countries and non-DAC countries, in the aborted project of creating a national army in the DRC. Different donor agencies provide support to different units within the dysfunctional national army, where there is no unified chain of command, and they neither co-ordinate these activities nor do they insist on the establishment of such a command structure as a condition for assistance. The Congolese army itself is divided both within the brigades and between political and technical branches, making it easier for bilateral donors to directly deliver their training and assistance to different army units without having to co-ordinate with the political leaders of army factions. Army officers pointed to a number of training programmes being delivered by bilateral actors, both DAC and non-DAC, with no Congolese-owned curriculum.* This army is now widely recognised as being itself one of the worst perpetrators of violence and continued insecurity in the country.

The aspect of SSR in which donor countries' development agencies have been the most active is in the area of DDR. Here there has been a major gap

* In the police, donors have begun to co-ordinate their support through the *Comité de Suivi de la Réforme de la Police* (CSRP), which is composed of army and police officers, donor representatives and civil society members who are tasked with designing the police reform process. While this initiative is particularly positive in terms of government ownership of the reforms and of donor co-ordination, a number of government officials and donors pointed out that some bilateral donors continue to sideline the co-ordination platform and to deliver aid directly to the police. Recent human rights violations and allegations of oppression by the police and the Presidential Guard raise important concerns on the impact of uncoordinated trainings and lack of external monitoring, particularly in how they teach human rights (Human Rights Watch, 2009).

between donors' specific efforts to support DDR and their work within the sphere of economic development. There is a tension between promoting demobilisation and decommissioning of men under arms and the lack of viable economic opportunities for decommissioned officers and soldiers. This is another problem that has bedevilled attempts at building a functional national army in the DRC. Not only has the state proved incapable of ensuring salaries and livelihoods for the forces nominally part of the national army, despite some propitious efforts of the donor community in that regard, but a lack of progress in promoting economic production means that demobilised soldiers and officers have few opportunities to survive without resort to violent activities.

In DDR, problems in assistance from the donor community are not a matter of lack of co-ordination, but rather co-ordination around a rigid template that is poorly informed by wider economic analysis. In Rwanda, DDR was designed as both a military and economic programme, which was probably at the root of its success (see Box 3.1).

Particular demands of context and flexible intervention in the security sector

Finally, donor interventions to support the consolidation of the security functions of a state are perhaps even more subject to context specific issues than other realms of intervention. Donors are particularly ill-equipped to offer the flexible interventions required.

Box 3.1. **Demobilisation in Rwanda**

In Rwanda, the very successful demobilisation programme was carried out by the Rwanda Defence Force itself, whose own businesses provide opportunities for employment for ex-combatants. What is more, the RDF maintains a larger army than it ideally would like to have, or than could be supported by other sources of revenue, so its involvement in establishing companies that can build and repair roads, for instance, is strategic to maintaining the livelihoods (and thus the loyalty) of its soldiers.

The RDF also early on devised a payments system within its organisation that ensures soldiers' salaries are deposited in accounts, rather than delivered in cash. This had enormously positive effects on promoting discipline and loyalty in the forces and allowed the evolution of further programmes (compulsory contributions to collective funds) that bolstered the livelihoods of soldiers and their families.

There is much in this experience that donors could promote elsewhere, but the limitation of their engagement with security to supporting Rwanda's role in international peacekeeping may prevent them from fully learning from Rwanda in this regard.

Good practice in this regard in the case-study countries was perhaps the role of the European Commission in its admittedly small involvement in security matters. Its decision to deal with security interventions under its "Rapid Reaction Mechanism" allowed it to design timely and flexible interventions that have played a positive strategic role in the security sector. In Bolivia, it was able to provide assistance through the Organization of American States (OAS) to improve the conflict-prevention and management capacities of the Ministry of Labour, trade unions and employers' organisations. Subsequently, in 2005-2006, it provided assistance to support political and constitutional transition in the country. In the DRC, the European Union security-sector mission established a programme to ensure soldiers' salaries reached the units of newly integrated brigades of the national army, demonstrating that a well thought-out, relatively inexpensive intervention tailored to the particular circumstances can have an enormous impact.

To intervene successfully in security sectors, donor countries need to be willing to shape their programmes to the very specific local understandings of national sovereignty and security. Rwandan state officials interviewed in the case study found the process of security-sector review, championed by the OECD and the UK's Security Sector Development Advisory Team (SSDAT) overly intrusive. This may be an indication of how difficult it is for donors to intervene in a security sector where a country may be facing what it perceives as an immediate threat to its national security, as Rwanda assesses the situation in Eastern DRC. The lack of trust in the security-sector review process expressed among state officials may also be related to a perception that the international community has not done all that is possible to remove the threat of the FDLR still operating in Eastern DRC. Bolivia was perhaps much more welcoming to the UK's SSDAT as state officials do not perceive any immediate threat to national security.

The demand for deep knowledge of context is particularly important in the area of security. For instance, the reasons for the failure to form an effective national army in Afghanistan and in the DRC are different, though the failure to do so is equally important to the prospects of statebuilding in both countries. The drive for aid effectiveness, focused as it is on how donor agencies relate to developing-country partners, hardly touches on the problem of interventions in security.

Rule of law and access to justice

At the root of the definition of a modern state is that it is a set of organisations and institutions that ensure the rule of law within a given society. For a state to survive in a territory it must ensure that its own rules trump rival rules (whether they be the rules of neighbouring states or sub-national groups

within its territory) and that it can guarantee the protection of property rights and the resolution of conflict according to its rules. Whether the state's rules trump those of rivals cannot be assessed purely on the basis of the adoption of a new constitution or set of legal reforms, but needs to be seen in the implementation of the law. That state rules trump the rules of rivals is crucial to the legitimacy of the state in the eyes of elites and the creation of a context conducive to their peaceful competition within the state and their investment in economically productive activities.

Nowhere is there more struggle within a state than over the evolution of its legal system and efforts to extend rights usually first enjoyed by elites to the wider population. Struggles for access to justice run through the history of every state; and the very rise of civil society occurs as a result of efforts by people from all social strata to deepen the realm of rights within a society and to extend the rule of law.

Donors face trade-offs over supporting programmes that consolidate or restore basic dimensions of the rule of law and those that aspire to widen access to justice throughout society. Donor support for legal reform programmes, to the extent that they affect the allocation of property rights, can have a deep impact on the political processes underpinning statebuilding. An important choice facing donors is the trade-off between supporting the restoration of various indigenous legal traditions and practices and introducing modern legal institutions and constitutional principles. Donors are also in danger of raising social expectations far beyond what the state can deliver in the legal sphere.

Formulating and implementing the law

In supporting efforts to establish or re-establish a "law of the land" in states emerging from exacerbated conflict, donors have been torn between support for drafting formal constitutions based on modern democratic models and legal principles, and indigenous practices born of tradition or organisational forms that emerged during periods of conflict. Almost by definition a constitution embodies an ideal set of rules, which may contrast sharply to realities on the ground. Donors have been more involved with supporting constitutional reform in recent years, as a result of wars and peace settlements in the developing world, than at any time since the period of decolonisation. The value of promoting an ideal set of rules and rights in a constitution is that these establish at least a formal institutional framework for the long term. They act as an instrument for social groups as they struggle for rights over time. Donors face two challenges in relation to the establishment of ideal-type constitutions. First, these may fail to recognise realities on the ground and provide the constitutional measures necessary to deal with competing rule systems. A constitution too far detached from reality may be a source of disillusionment within society about the legitimacy of a state. Second, the

adoption of a new constitution or set of laws often does not lead to systematic implementation in ways that actually change how government is run, business is done, conflict is managed or criminal activity is curbed.

In Afghanistan, a new constitution was drafted that recognises universal human rights and guarantees equal rights, but also declares Islam as the foundation of the republic and proclaims that no law shall contravene the tenets of the "holy religion of Islam". The result has been a disconnect between the constitution and its interpretation by the Supreme Court – for example, in cases surrounding freedom of expression and Islamic principles forbidding blasphemy.

In the DRC, donors supported the drafting of a constitution that embodies in great detail a highly representative system, separates power between the branches of the government and mandates a decentralised political framework. The formal constitution stands in stark contrast to the way government works, founded as it is on a precarious political settlement composed of factions based around personalities. Applications of its principles in organic laws have met long delays in the legislature as a result. Donors have been very active in supporting efforts to roll out a legal architecture from the constitutional starting point, but it remains to be seen what impact this will have in the everyday management of conflict.

In Rwanda, the RPF government made swift progress after coming to power in the wake of the genocide to restore the basic rule of law in the country. Since the end of the Congo war, donors have provided a great deal of support to legal reform efforts, even though there are aspects of the 2003 constitution with which they do not feel comfortable, particularly in the limitations placed on competitive party politics and the media. While they appreciate the government's commitment to enforce property rights and its achievements in fighting corruption, there are aspects of what might be seen as rough justice that worry donor representatives. The Rwandan government has a non-legalistic approach to measures to combat corruption. Irrespective of position and status, public officials, civilian and military, who are implicated in corruption, are shamed and locked up swiftly. Unlike in other African countries where the corrupt may survive incarceration through legal loopholes, in Rwanda legal procedures and rules of evidence do not stand in the way of taking action against people accused of corruption and misuse of power and position. These measures, state officials contend, are necessary to combat practices that, if left to grow, would undermine the government's legitimacy.

In the past two years public debate in Bolivia has been central in the formulation and approval of a new constitutional pact that emphasises pluralism in the political, social, institutional and legal areas. It will be a big challenge to implement a "re-engineering" of the legal and an institutional framework proposed by the new constitution (put to referendum in early 2009). At the same time, there are still fears among the elites in relation to property rights.

In Sierra Leone, donor support for the reconstitution of the rule of law after the war is widely recognised. But in Nepal, it was felt that donors need to conduct a more root-and-branch examination of the legal sector.

Judicial infrastructure

Donor contributions have perhaps been most important in providing support for infrastructure and training in the judicial sectors of fragile states. In Rwanda, the RPF government inherited a totally collapsed judicial structure with most lawyers and judges either killed or in exile. Donors played an important role in the government's efforts to recruit and professionalise the judiciary, bring up to date archaic laws and form a new bar association.

Donors have faced, and not yet resolved, important trade-offs in Afghanistan between supporting the organisations and infrastructure of the formal judiciary and dealing with the reality that most Afghans have no confidence in it and turn to informal legal institutions. The capacity of the formal justice system to administer the rule of law is drastically curtailed and distorted by low capacity and widespread corruption. The court system is notoriously weak. The UNDP estimates that only 20% of civil or criminal disputes are brought to the state justice system (UNDP, 2007). Of all the government institutions, the courts were identified as the most corrupt in a recent survey (Delesgues and Torabi, 2007; see also UNDP, 2007, pp. 91-100).

In the DRC, a number of donors have provided five-year funding to the *Comité Mixte de Justice*, a small group of local consultants who assist the Minister of Justice in developing an action plan for the reform process. The *Comité Mixte de Justice* also plays a co-ordination role between donor representatives and judicial officials. Since its inception, stakeholders have noted an increased partnership in the justice sector, as evidenced by the justice sector's budgeted action plan. This framework has given the ministry a clear leadership role in justice reform and aid programmes. For example, support to non-state providers of justice, such as NGOs, is now co-ordinated through the ministry, which gives government an opportunity to participate in these programmes.

In Nepal, there are a number of programmes ongoing (UNDP programmes on reform of the judiciary and enhancing access to justice), but as a branch of government the judiciary is relatively weak (witness the flourishing of Maoist "people's courts" in rural areas during the conflict) and corrupt. The legal sector overall is not uniformly supported by donors. There is much obsolete legislation in Nepal – whether it be promoting discrimination or setting forth out-of-date policies for local self-government – which is in sore need of review. It was felt by most that donors could do much more to support the consolidation of the judiciary.

Expanding access to justice

Beyond the state's role in instituting the basic rule of law, societies come to expect the state to provide increasing access to justice for ordinary people in their everyday lives. Donors again are faced with important choices related to channelling support to traditional and existing networks that adjudicate disputes and resolve conflicts, which are often tied up in ethnic or gender exclusions, or channelling support to justice programmes more closely integrated within the national and local state. By supporting the latter donors could have a negative impact on state-society relations and state legitimacy, but supporting the former may equally fall short of societal expectations. In several country studies civil society actors suggested that the donor community should play a more active role in raising awareness of individual rights and duties, laws and access to justice.

In Sierra Leone, a large scale justice development project run by UNDP and focusing on access to justice was mentioned favourably several times, although concerns were raised to what extent the agency was fully committed, in this context, to long-term capacity building within the ministry and its sub-national entities. Advances highlighted during the country study also included the strengthening of the Human Rights Commission and the Child Protection Act, with informants pointing out that women's rights and their participation in legal matters had increased, constituting progress for which donors should be credited. Conversely, the legal area that drew most criticism in Sierra Leone was donors' approach to transitional justice and especially their alleged adherence to blueprint solutions.

In Bolivia, in recent decades, donors have prioritised the reform of the legal framework (code of penal procedure and others) and processes of institutionalisation in the area of formal justice, whereas they have dedicated little attention to the subject of the access to justice. The new constitutional framework gives more importance to legal pluralism and to the extension of the reach of "communitarian justice". There are no programmes known of that have been designed to especially support the overall implementation of a new constitutional framework.

In Rwanda, despite the major achievements it has made, the law-and-order sector continues to face enormous challenges – not least of which include a huge backlog of cases, limited access to legal representation particularly by the rural poor, and absence of legal aid, as well as continued shortage of human and financial resources. Donors, though, remain engaged and supportive of the efforts the country is making towards building a strong and credible judicial system, an indispensable element of a strong state.

Taxation

The establishment of a capacity to raise revenues, particularly through taxation, is central to the existence of a state. While the capacity to effectively implement taxation differs between states and over time within a state, this function is crucial to statebuilding in two respects. First, the state needs to have the pre-eminent role in taxation over any potential armed challengers to state authority. While a state's taxation capacity may be weak, it needs to be greater than that of any rival forces within its territory (who may have the potential to raise armed challenges, or attract the loyalty that this implies). This political dimension of taxation has often been ignored by international donors who in the past tended to treat taxation as a technical issue. Second, unless entirely bankrolled by external powers, without a minimal capacity to raise revenues the state obviously cannot finance any of its other basic functions.

Taxation systems are, in a sense, a mirror of state-society relations and depend on other state functions: the provision of security and the rule of law. Taxation systems are run at the intersection between coercion and persuasion; and to be robust the state must be legitimate enough in the eyes of societal actors (elites and non-elites) that they see the state as both capable of enforcing the law (all must pay taxes) and of deploying the resources obtained through taxation in ways that contribute to social and economic advancement.

Donors can have influence over the evolution of taxation capacities within the state in at least two ways: by the macro impact of their aid on patterns of incentives within the state to expand revenue raising; and by the prescriptions and direct support they extend to build the architecture for taxation. The first is wound up with the aid dependency issue, while the second involves particularly various forms of technical assistance and project and programme aid. While both of these dimensions of taxation are the subject of concern within the general approach to aid effectiveness, a statebuilding lens focuses attention on how the development of taxation capacity can be a life or death issue for a state.

Establishing the state's control over taxation

From a statebuilding vantage point, the first-order question that needs to be addressed is the extent to which state authorities have been able to develop a monopoly over tax collection. Important here is whether the power to tax within a state's territory or at its borders has been appropriated by non-state actors, as when regional warlords or armed insurgents control customs or collect taxes on the movement of goods or on property in sub-national regions. In a sense this is a security question, but it is seldom examined systematically in discussions of international intervention in either the realms of security or taxation.

In two of the case studies (DRC and Afghanistan) non-state actors still play an important role in taxing both external and internal trade, or movement of goods, and property (to varying degrees this has also been a challenge to state authorities in Bolivia, in terms of cocaine production and trade). In the DRC, armed groups tax the movement of minerals within and across the country's borders; and in Afghanistan, non-state actors secure much of the revenue of the illegal poppy trade. Businesses and communities are subjected to various forms of taxation by the same forces in both countries.

While the international military presence in the DRC through MONUC is the largest mission of its kind anywhere in the world, it has proven incapable of dealing with basic threats to security let alone stopping non-state armed groups engaging in this sort of taxation. In Afghanistan, international actors have targeted anti-narcotics operations on producers rather than the more powerful traders. There are strong suggestions that individuals linked to various state organisations may be personally profiting from the opium trade and even the eradication campaign, as official seizures have fallen (Pain, 2006, p. 21; Ward *et al*., 2008, pp. 1, 1.5; Costa, 2008). In Sierra Leone, donor-sponsored SSR seems to have allowed the government to implement the basic security required to ensure its control over customs and most internal trade. In Rwanda, the state, with little assistance from donors, has established a virtual monopoly over all taxation functions and appears to be presiding over efficient implementation. The political settlement in Nepal also seems to have left the state, for now, without rivals in taxation.

Donor countries' development agencies can do little to ensure a state's monopoly over taxation, but well designed military-assistance programmes could make an important contribution in this sphere. An important contribution that the international community could make in terms of removing the rents and "taxes" derived from the international drugs trade would be to legalise and regulate the trade. While political sentiments in the developed world clearly will not allow this to happen soon, such a step has long been understood as the most effective route to transform the negative impacts of this trade in the developing world (Tullis, 1991). This could provide an incentive for the diversification of production to other crops and would with a single stroke remove huge sources of revenues that finance non-state armed groups and other criminal activities. In the DRC, however, recent calls to ban the trade in minerals controlled by armed groups appear to be misguided given the difficulty in differentiating the impact of such a ban on the armed groups and on the hundreds of thousands of artisanal miners who earn their income from extracting these minerals (Garrett and Harrison, 2009).

Aid dependency and impact on revenue generation

Donors can have a major impact on patterns of taxation through the role that overall development assistance plays in creating situations of aid dependency. In four of the countries studied, aid dependency remains significant. As can be seen from Table 3.1, net ODA disbursements are still almost 40% of the level of gross national income (GNI) in Afghanistan, closer to 50% in the DRC and 25% or more in Rwanda and Sierra Leone. Aid dependency has been greatest in the DRC, where in 2003, due to major action to deal with its debt, aid amounted to 220% of GNI. This has dropped in subsequent years but was still at 48% in 2005, the last year for which data is available. Only in Bolivia and Nepal is aid dependency hardly an issue with ODA amounting to less than 6% of GNI. In Rwanda, dependency increased through 2005 and since has started to decline. While aid made up some 45% of GNI in Sierra Leone in 2001 when it received a major debt restructuring loan, since the year 2000, aid to Sierra Leone has averaged at around 28% of GNI. In the DRC and Afghanistan, the level of aid dependency remains very high. Donors appear to have paid very little attention to overall levels of aid dependency, concentrating instead, especially since the Paris Declaration, on attempting to increase the effectiveness of aid that is disbursed.

At issue here is the extent to which aid dependency reduces incentives among individuals and organisations within the state to improve and increase revenue collection. Evidence in the literature is not clear-cut on this (Gupta *et al.*, 2006; Carnahan, 2007). In the country studies, revenue collection as a percentage of GDP is still terribly low in all countries except Bolivia.

Table 3.1. **Aid dependency (1997-2006). ODA total net disbursements* as percentage of gross national income (USD)**

Recipient	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Afghanistan								38.66	39.33	37.07
Bolivia	9.25	7.85	7.05	5.70	8.98	8.48	11.49	8.89	6.77	5.64
DRC	9.32	7.35	8.85	10.02	12.04	52.06	221.94	62.27	48.01	n.a.
Nepal	8.19	8.27	6.92	7.16	6.72	6.14	7.24	5.93	5.30	5.85
Rwanda	13.59	18.91	18.40	16.06	15.85	19.14	18.96	26.02	27.40	24.98
Sierra Leone	15.06	15.15	11.43	28.61	45.17	37.95	29.44	32.01	28.53	26.90

Sources: Aid: OECD Total Net Disbursements Current USD millions; Gross National Income: World Development Indicators Current (accessed 28 July 2008).

* Net disbursements are the sum of grants, capital subscriptions and net loans (loans extended minus repayments of loan principal and offsetting entries for debt relief).

Table 3.2 reports the comparable data available from IMF sources for 2000 to 2006. Outside of Bolivia the domestic revenue collection is less than 14% of GDP, with Afghanistan recording the lowest level of 5.3% of GDP in 2005. Interviews in-country reported some slight improvement through 2007, with Rwanda stable at 13.5% of GDP, Nepal at 13% and Afghanistan at 8.2%. Even Bolivia's much improved performance, based as it has been on a boom in natural gas and a commodity boom, is likely to be difficult to sustain.

The DRC has slowly been rebuilding its tax base which was eroded after years of despotic rule and violent conflict. Tax administration and revenue collection continue to be an important challenge for the Congolese government, but recent reports show that revenue is rising more than forecasted, partly because of general improvements in tax collection and partly due to the establishment of a system to identify and target large taxpayers (World Bank, 2008). Its relative performance in comparison, for instance, to Rwanda, is based largely on taxes from the mineral sector, which in fact still remain far below what they could be if the state developed a stronger monopoly over taxation. Analysts, however, note that the tax system remains highly complicated and the tax burden is excessively high, which reduces the competitiveness of the DRC by international standards (Isern *et al.*, 2007). The government plans to implement a value added tax, which many analysts see as an improvement that would help streamline the tax system.

Rwanda has high rates of taxation and an impressive record of implementation and is most concerned to ensure that its tax policies promote economic growth, and on that basis it can expand both revenue collection and the tax base. But the country remains very poor and its ability to earn revenues from mineral resources is not comparable to that of the DRC. Its only possibility for increasing revenues is through the expansion of production.

Table 3.2. **Revenue (excluding grants) as percentage of GDP (2000-2006)**

	2000	2001	2002	2003	2004	2005	2006
DRC	4.5	5.9	7.9	7.9	9.5	11.6	
Sierra Leone	. . .	13	12.1	12.4	12.3	11.9	
Afghanistan				4.5	4.5	5.3	
Bolivia		16.4	16.1	16.2	18.7	23.8	27
Nepal	11.4	11.5	12	11.3	11.7	10.9	
Rwanda		11.4	12.9	12.8	12.9	13.6	13.2

Sources: DRC and Sierra Leone, IMF (2007b); Afghanistan, IMF (2006a; 2006c); Bolivia, IMF (2007a); Nepal, IMF (2006b; 2008b; 2008d); Rwanda, IMF (2008c; 2008e).

In Afghanistan, what the IMF suggests as minimum targets for revenue increases are regarded as maximum targets by the Ministry of Finance, and the motivation for reaching them seen as entirely to meet IMF requirements. The targeted payrolls planned for the police and the army are far higher than what can be financed through domestic revenue collection.

In Nepal, any attempt to significantly increase tax collection is seen as contingent on the new government demonstrating political capacity and is complicated by at least the public programmatic stance of the Maoist government. While the inflow of aid resources may have diminished incentives for revenue increases in Afghanistan, there is little evidence that this is the case in the other countries studied.

Effective tax administration

In all the case-study countries, IMF assistance to ministries of finance in designing and reforming tax administrations seems to have made at least some contribution to improving efficiency. The introduction of targeting and integrated tax collection through the model of Large Taxpayers Offices (LTOs) has contributed to important improvements in revenue collection in the best performers, like Rwanda, as well as in the worst like Afghanistan and the DRC. In Rwanda, the LTO was responsible for collecting 47% of the overall tax take in 2007, while in Afghanistan the LTO collected one-third of total revenues and has now been rolled out to five provincial offices.

From proposing the model of LTOs, which at least ensured rapid improvement in the tax take from the highly visible large domestic and foreign companies, a number of which in many countries are the privatised companies once owned by the state (telecommunications, utilities, etc.), the IMF proposed a move to medium taxpayer offices. While Rwandan officials appreciated the models of the IMF, they argued the organisation arrived with one new suggestion after another calling for constant reorganisation of the tax administration. Their big success came, they said, when they devised their own revenue strategy (see Box 3.2).

In Nepal, donor interventions particularly on the part of GTZ and the Danish International Development Agency (DANIDA), which worked jointly on the Revenue Administration Support programme from 1996 until 2006, have overall been felt to have beneficial effects in revenue reform. While significant improvements in the overall revenue as a percentage of GDP are not reflected in IMF data reported in Table 3.2, officials noted that tax administration became more efficient and effective (for example, the Nepali Inland Revenue Department acts as a pilot department for e-governance), the number of inaccurate tax returns has dropped, and tax payers have accepted the newly introduced tax system.

Box 3.2. **The experience of the Rwanda Revenue Authority (RRA)**

There were four important elements to the RRA strategy, which has underpinned its relative success to date. First, RRA officials suggested that the principle objective of revenue policy is to promote economic growth, rather than simply maximising revenue collection. Second they have followed the general trend advocated by the IMF of moving from models of collection based on tax type to models based on types of taxpayers; therefore after studying tax collection in Tanzania, they organised tax collection in the cities on a geographical basis. Third, they sought to widen the ownership of the tax effort beyond the revenue authority, establishing Tax Advisory Councils at the provincial and district levels involving parliamentarians and chaired by a governor, mayor or security institution. In the same vein, they organised a national Tax Appreciation Day where the RRA accounts publicly for what it has done and hears from people what they would like to see done. The "best taxpayers" are given an award by the head of state. Fourth, they gradually phased out technical assistance from line positions within the authority and took control of technical-assistance contracting and management, moving from long-term technical assistance to short-term contracts around very specific needs.

In assessing donor intervention, tax officials said central to the positive role played by the major bilateral donor was its flexibility and willingness to support the RRA's own plans, once clearly spelled out. The biggest worry expressed by donors was that the tax administration had become too efficient and that the high rates of taxation (30% corporate income tax) could dampen investment. The Rwandan authorities are conscious of this danger and plan to lower the corporate rate to 25% as they expand the tax base. They hold regular consultations with the Private Sector Federation, and these have led to reforms in the administration making it easier for businesses to comply. Reforms have all gone in the direction of simplifying and streamlining taxation.

In Bolivia, the World Bank and a range of bilateral donors have supported a Programme for Institutional Reform (PRI), which aims to professionalise the civil service through "agreements for institutional reform". These have been drawn up with several core ministries, but customs and the income tax office were given priority because of the high level of corruption in these state organisations and the consequent low tax yield. Civil service reforms in customs have yet to impact on the tax yield, arguably because newly recruited staff members are still unfamiliar with the legal complexities of the customs administration. Donors are keen to extend the PRI to the public administration at departmental and municipal level. At both levels inefficiencies in state organisations are a major factor explaining the slow disbursement of aid and the slow advance towards meeting poverty reduction targets.

In all the countries studied, donors have played an important role in stimulating reform efforts in the domain of taxation. The role of DFID was crucial in every stage of the development of the Rwanda Revenue Authority.

In both Sierra Leone and Bolivia, there were suggestions that more should be done to promote citizens' understanding of taxation. The Rwandan example could be instructive in this respect. In Bolivia, several donors have advocated the necessity for the Bolivian actors to construct a fiscal "(com) pact", putting at the disposal of interested actors the possibility of accessing knowledge of relevant experiences abroad. In situations like the DRC, where tax take falls far below what is possible given its mineral sector, donors might make a major contribution to improving tax take by linking aid, especially any future budget support, to improvements in tax collection. This, as Carnahan (2007) has noted, would require long-term commitment of aid funds from donors.

Expatriate taxation and statebuilding

In his studies on the role of international financial institutions in post-war reconstruction processes, Amherst economist James Boyce (2007) has suggested that the foreign aid community could play a more effective role in contributing to the establishment of sound fiscal systems if it endorsed proposals for the expatriate community working in the aid establishment to pay local taxes. The argument has two main planks. First, those belonging to this community are usually among the richest in a fragile state and its members are major beneficiaries of all services and infrastructure. Their purchasing power often has a major impact on the prices of goods and services locally (Pires and Francino, 2007). To exclude them from taxation is to exclude a major proportion of the wealthiest earners. Given the narrow tax base in most fragile states their inclusion could make a significant contribution to revenue collection. Second, the international development expatriate community could set an example through tax compliance.

When the issue was raised in the course of the case studies it was found that it had been a significant subject of debate in several countries; examples are Afghanistan, Rwanda and Sierra Leone (see Box 3.3).

In Rwanda, RRA officials have had a long-running debate with foreign embassies and the international organisations present in the country over taxation. Donor agencies claim exemption from taxation for their expatriate employees on the grounds of the Vienna Conventions on Diplomatic and Consular Relations (Vienna 1961 and 1963). The RRA claims that only diplomatic personnel should be covered by the Vienna Conventions. The argument centres on the extent to which contracted employees and (long- and short-term) consultants should be covered by the Vienna Conventions and on the likelihood that, if they were to implement taxation on consultants, there would be a commensurate deduction from overall aid resources flowing into the country. Rwandan authorities appear to be inclined to proceed in this direction, much as the Afghan Ministry of Finance agreed with the

World Bank and for the same reasons (see Box 3.3). RRA officials said that, aside from debates over the payment of taxes by expatriates, they also had difficulty in the early years in getting foreign embassies to ensure their local employees were all paying income taxes through contributions via their employer, but now most are co-operating.

In Sierra Leone, the debate has occurred with international NGOs. Tax officials explained the rationale for looking more closely at reforming the taxation framework for foreign operations in the country, and especially international NGOs. They suggested that like foreign businesses, foreign NGOs should be subject to taxation. Currently NGOs only pay a flat service fee on shipments of goods they bring into the country and the officials feel the same taxes that apply to locals on imports should be applied to foreign organisations. They do not appear to have engaged seriously in discussions of income tax.

Given the important position of the expatriate community as a potential tax base in many fragile states, and the positive example they could play, contributing not only to increasing the revenue take in a way that reflects economic realities but also to bolstering a tax compliance ethos, the OECD countries would be well advised to review their policies in this area and their claims based on the Vienna Conventions in order to ensure that the tax exemptions of these Conventions are not unduly extended to cover expatriates employed on long-term contracts in partner countries and nationals of the partner countries who may be working for foreign organisations. Donor agencies are divided over how the Conventions should be applied particularly

Box 3.3. **Expatriate taxation: Experience in Afghanistan**

In Afghanistan, three approaches to the problem of expatriate taxation were identified. The United Nations, in accordance with its treaty-based exemption, is not taxed at any level. With the bilateral donors, each agreement was negotiated separately, with a view to ensuring consistency across tax regimes. The Afghan government's starting point in these negotiations has been to argue that foreigners working in Afghanistan should be taxed locally as a matter of principle, but in practice bilateral donor agencies and international NGOs have generally claimed exemptions on the grounds that their employees and foreign contractors pay taxes in their countries of origin. The third approach has been adopted by the World Bank, which offered the Ministry of Finance a choice in SY 1385 (2006): on the same pot of money available, the government of Afghanistan could agree to tax contractors or not. The Ministry of Finance chose to tax, thus ensuring that while the funds available to development would be less to that extent, the remainder would be channelled through its own budget and effectively expand the tax base. Progress has therefore been made, with strong attempts to harmonise, but again internal constraints on donor behaviour prevent a fully harmonised system.

when it comes to income taxes on contracted expatriate consultants, but more open to the idea that there should be a review of existing claims for exemptions on goods and services imported into partner countries. Efforts along these lines could significantly increase capacity within revenue administrations, while also bringing a greater proportion of aid resources on budget. There could be positive spin-offs, as well, in the effort by partner countries to assume the direction of technical assistants (see Chapter 2) when experts are increasingly subjected to state authority in domains such as taxation rather than the authority of the donors.

State capacity to manage economic development and the environment

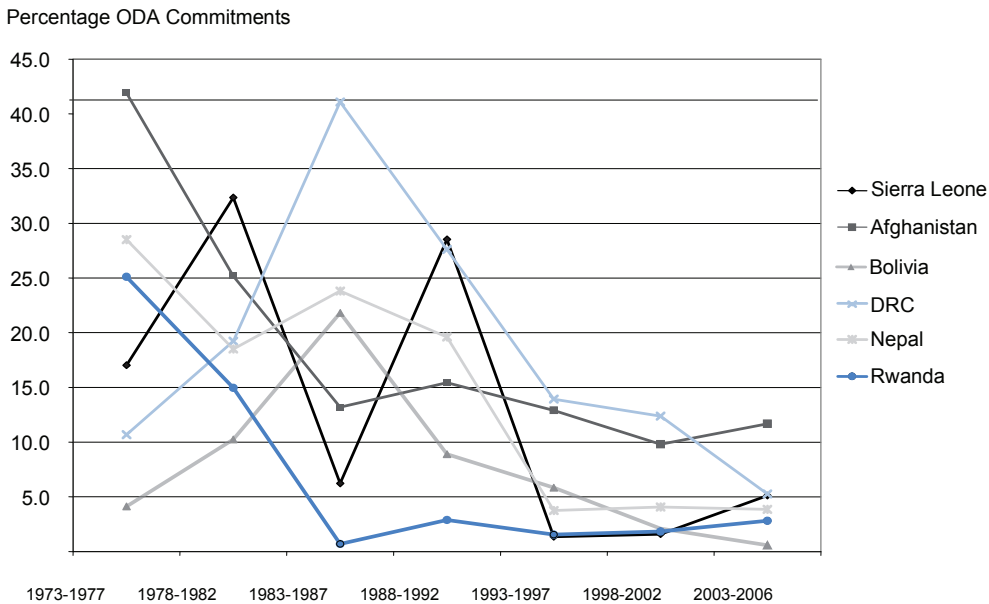
At the root of state fragility lie low levels of economic production, usually characterised by particularly low levels of agricultural productivity and little investment in manufacturing. The extent to which states are able to foster growth in these basic productive sectors can become crucial to legitimacy in the eyes of elites (the creation of opportunities for profit making) and in the eyes of non-elites (opportunities for jobs and incomes). The state requires basic growth in productive activities as a condition to developing a tax base, thus this issue is central to processes of statebuilding. Donor assistance that ignores the condition of the basic productive sectors – needs for inventive credit programmes, infrastructure, extension services, etc. – risks doing harm to basic statebuilding processes. Yet discussions of the condition of the production sectors have not figured prominently in donor policies on fragile states. This reflects a general current in international development policy where concern with productive activities has been left to the private sector.

Donor neglect of the productive sectors in fragile states

Over the long term, bilateral aid to the six case-study countries has seen a marked drop in assistance to the productive sectors of the economy, mirroring a trend in foreign assistance more generally.

Figure 3.1 traces the decline in bilateral assistance in terms of aid commitments between 1973 and 2006. Data on commitments needs to be treated carefully but it does illustrate the intentions of donors. In fact, there was an inverse relationship between ODA allocated to social infrastructure and services on the one hand, and on the other, the steady, and sometimes dramatic, decrease of loans and grants support for both economic infrastructure and services and economic production. Only aid to economic infrastructure and services in Afghanistan forms an exception to this pattern.

Figure 3.1. **Aid to production sectors**



Donor discussion of assistance to fragile states has been devoid of any significant attention to assisting the state in direct interventions to improve investments in the productive sectors. This is left as the terrain for private enterprise. However, the Rwandan experience illustrates that left alone, precisely because of the conditions of fragility, businesses are not likely to invest. When initial privatisation initiatives carried out according to World Bank formulas failed, the state intervened to promote Rwandan investments in former state-owned enterprises and so far this strategy has paid dividends. The state, while promoting an overall liberal model of economic development, has actively intervened to stimulate and steer private investment. The donors have expressed discomfiture with the interventionist posture, but so far they have not addressed this openly but have left it to fester.

Donors are also understandably uncomfortable with new moves by the state in Bolivia to get more directly involved in economic production issues, due to the prevalence of patronage relationships and the predictable inefficiencies likely to result. Overall, donors need to adopt a more pragmatic attitude toward state involvement in the productive sectors of the economy and be prepared to support approaches that diverge with their own, adapting a stance of support for "what works", when evidence on the ground is available.

UNCTAD (2006) has stressed that investment in electricity provision, along with infrastructure more generally, is decisive for boosting light manufacturing exports. While there has been an overall trend of decline of bilateral assistance to economic infrastructure, as noted above, donors have not entirely neglected the energy sector. In Sierra Leone, donors were seen to have made positive contributions to energy (mini-electrical power projects by the Japan International Cooperation Agency) and physical infrastructure, with the latter being a national priority.

One issue that emerged powerfully in Rwanda was a strong sentiment that post-HIPC conditionality imposed unreasonable restraints on a country that has performed well. Prevailing methods of assessing debt sustainability do not allow a country to embark on new public investments needed to promote modernisation and growth. Donors are rightly worried about HIPC countries falling into new debt traps, but should remember that the responsibility for previous indebtedness rests at least as much with commercial banks as it does with state officials.

Agricultural production and the challenge of statebuilding

In all of the countries studied, the majority of people still reside in rural areas and depend heavily on agriculturally related incomes. Supporting growth in agriculture is crucial to promoting overall economic growth. However, bilateral commitments to agriculture have sharply declined over the same period, except in the DRC where there was never much bilateral assistance to agriculture. As can be seen in Table 3.3, across the case-study countries, assistance to agriculture in the most recent period has amounted to less than 5% of total ODA, except in Bolivia where it has steadily accounted for about 10% of aid since the late 1970s.

Table 3.3. **Aid to agriculture over time: percentage of bilateral commitments (1973-2006)**

	1973-1977	1978-1982	1983-1987	1988-1992	1993-1997	1998-2002	2003-2006
Afghanistan	13.1	30.4	3.3	17.0	0.9	1.6	4.5
Bolivia	29.8	9.5	9.1	12.8	10.4	7.6	10.2
DRC	2.8	7.8	17.4	6.2	4.2	1.8	0.5
Nepal	8.5	18.4	17.0	24.4	11.8	11.5	4.5
Rwanda	25.8	11.1	21.9	16.2	3.0	3.2	3.7
Sierra Leone	25.1	5.9	0.7	2.9	1.5	1.7	0.7

Source: OECD online statistics.

In Afghanistan, spending on agriculture is very low, despite the importance of agriculture to the Afghan economy. In a survey conducted in 2008, only 15.9% of respondents believed the Government of Afghanistan had contributed to the delivery of agricultural services, while only 6.1% thought international organisations were contributing (Zuercher and Koehler, 2008, p. 11). Electrification and agriculture were highlighted in the Paris Conference as the two key sectoral priorities for the government (along with generating growth), which indicates a focus in prioritisation of aid delivery from the longer list of the ANDS, although the same declaration also reaffirms commitment to the wider ANDS. It remains to be seen if there will be any alteration in priorities in response to the Paris Conference.

In Rwanda, only the relatively small Dutch bilateral programme has placed an accent on assistance to agriculture in recent years. Under the EDPRS, the government has focused considerable attention on modernising the agricultural sector and new land laws are designed to promote growth in the sector. The government has developed a programme of incentives to get Rwandan businesses investing in the sector, but without significant support from donors.

In Bolivia, donors have engaged only in very dispersed localised initiatives to promote growth in the basic productive sectors and these have had very little impact.

State capacity to manage the environment

In many fragile states with low productive capacities, the environment and natural resources are mined with little attention to their sustainability, both by elites whose extractive processes, often linked to foreign interests, are centred on quick and large profits, and by non-elites whose survival strategies can take little account of long-term sustainability. Both groups can come to expect the state to provide the rules governing these activities and the support necessary to make them more sustainable.

Here donors are faced with a myriad of problems and trade-offs: support for better management of natural resources that increase their sustainability and provide expanded possibilities for state-revenue collection and support for the livelihood activities of those who depend on often rapacious methods of resource extraction (whether through farming inappropriate lands or engaging in destructive artisanal mining). The choices are made more difficult as often there is a link between the latter and the illegal exploitation of resources that can provide the means for elites who oppose statebuilding to mount violent challenges.

Bolivia has elaborated a modern formal framework of environmental regulations. However, because of serious weaknesses within state organisations, it is not being applied (European Commission, 2007). Achieving objective

7 of the Millennium Development Goals, ensuring environmental sustainability, remains a major challenge in the country. Donors have prioritised the strengthening of a wide normative and legal framework for sustainable exploitation of natural resources, and the strengthening of institutions related to the application of this normative frame (protected areas, forest regime). Several of these institutions are now questioned by the present government who tends to prioritise access and use of natural resources on the part of the communities and small producers.

In Rwanda, donors have intervened with programmes to promote sustainable sources of energy. The state's priority at this time is in major country-wide electrification. While they have worked with donors to deploy assistance based on small, localised power initiatives, the state is promoting massive investment in hydroelectric power and the transformation of methane gas from Lake Kivu. For Rwanda, the capacity to better manage its scarce natural resource base is strategic, and there is a strong view shared among state officials that this can only be achieved through the promotion of high value-added productive activities throughout the economy.

Assistance to service delivery

At the heart of social expectations of the state, particularly among non-elites, is the state's provision of, or its guarantee that others provide, the basic services that allow for a modicum of "human development": access to health care, education, clean water and sanitation. Donors are faced with trade-offs in choosing the means to support such activities. Donor programmes here risk raising expectations beyond the capacity of the state to meet them. The impact of donor interventions in service delivery can have a major effect on state-society relations and the legitimacy of the state, especially in the eyes of the poor (OECD, 2008a; 2008b). The need of donors to demonstrate the success of their programmes (to their own governments and citizens), through overt attribution, can undermine the legitimacy gains of a state from donor-supported service delivery successes.

Aid to non-state entities to support service delivery is perhaps one of the most contentious and sensitive points of this research across all six country studies. Here, commentators largely define non-state entities as NGOs, both local and international, including faith-based groups, women's groups, community groups and other civic organisations. Although aid to NGOs is seen by some as an essential channel to reach marginalised populations where the state has little capacity, a majority of stakeholders across the case-study countries felt that donors' current approach could do harm to statebuilding, unless more attention is given to state provision of essential services, like education and health care.

One of the most problematic aspects of aid to NGOs is the potential impact it has on how citizens view the state in terms of service delivery (see Box 3.4). This was an issue even for programming that is managed by the government but delivered by local organisations. In Afghanistan, for example, the Ministry of Rural Rehabilitation and Development and the Ministry of Public Health have adopted in their key programmes – such as the National Solidarity Programme and the Basic Package of Health Services – a model whereby the ministry contracts out to either NGO or private-sector facilitating partners. These programmes are funded by both budget support and programme aid.

The danger is that the implementing agency rather than the government is credited with service delivery. A recent study carried out in Kunduz Province noted that of six basic services (drinking water, agriculture, roads, jobs, electricity and schooling), only in schooling did more than 7% of respondents indicate that the government had contributed to service delivery (Zuercher and Koehler, 2008, p. 11). The impact of service delivery by NGOs has also been very important in Bolivia, where state institutions have organised boycott programmes because NGOs funded by donors conducted service delivery outside the government policy and framework, therefore creating a parallel system.

In Sierra Leone, the call for a government that is more visible in service provision was clearly audible, which also serves to highlight the political risk embedded in service delivery policies and practices in the country.

Box 3.4. **Service delivery in the DRC, a dual public sector**

In the DRC, a majority of basic services, according to most stakeholders interviewed, continues to be administered by non-state entities rather than through government channels. The dual public sector therefore has a particularly important impact on the state's ability to deliver on its expected functions. Donors have begun helping the state to provide basic services in health and education. In health, donors have made efforts in aligning aid to the government priorities. The Thematic Groups in the PAP on health and on HIV/AIDS are in place and have begun to develop their strategies and action plans. Donors created the *Groupe Inter-Bailleurs Santé*, which has been discussing ways to co-fund specific initiatives, to align salary supplements paid to health professionals and to align reporting mechanisms to reduce the transaction costs and burdens. The Global Alliance for Vaccines and Immunization (GAVI) is also seen as an example of good donor practice by directly aligning aid to government priorities and disbursing funds to dedicated bank accounts at the national and provincial levels. GAVI provides the government with flexible cash to help meet its immunisation target, with the World Health Organisation and Director of Planning and Research in the Ministry of Health being co-signatories on the national account. According to a recent evaluation, the DRC has been among the strongest in Africa in terms of partner co-ordination and technical support (Chee, 2007).

Government officials spoke of the high dependence the population has on the state. They argued that it is critical to manage social expectations and put a premium on the state's own responsibility to disseminate information. This challenge was related immediately to the duality of local governance structures, which persists despite the recent donor-promoted processes of decentralisation. The experience of people in countries like Sierra Leone, officials argued, is experience with local chiefs. People still regard themselves as "subjects".

In Bolivia, the constituent assembly and present government have put a special emphasis on the fact that the provision of social public services is the obligation of the state, rejecting in principle the participation of the private sector in the provision of such services. The government has designed several programmes to extend access to social services, especially in rural areas, with significant results in some areas such as eradication of illiteracy, health, bonds (*bonos escolares*) and malnutrition. The government has preferred direct, unconditional income transfers, such as the bond "*Juancito Pinto*" for all children in state primary schools (USD 26 per year), and a benefit called "*Dignidad*", or dignity, of USD 26 per month for people over 60.

There is no strong evidence in Bolivia that provision of resources by non-state providers is affecting the legitimacy of the state. Nevertheless, in some sectors of society, the perception exists that financial resources do not reach the poorest parts of the population but remain with consultants and NGOs. In addition, it was reported that there are instances where support by donors to NGOs led to a boycott of the state institutions (*e.g.* in the health sector) because the NGOs doing the service delivery were not working within the government policy and framework, and were thus working as a parallel system.

In the DRC, the thematic group on education in the PAP has also made quick progress in developing a strategy and co-ordinating aid. DFID and the World Bank are finalising a large programme to reduce the school fees for parents. This will include rehabilitating schools, supplementing teachers' salaries and strengthening the capacity of the *Service de Contrôle et de la Paie des Enseignants*, which is responsible for the management of teachers. The *Agence Française de Développement* (AFD) is providing training and support in financial management to school directors and is working with the ministry to develop a clear policy. Other donors have provided technical assistance to public administrators to help them review the curriculum and develop new teaching modules.

In Rwanda, the debate has taken a different turn as the state has actively promoted the delivery of services through non-state providers and the deployment of user fees with the strong belief that state-provided programmes would promote a "handout culture" unfriendly to the promotion of

modernisation and growth. There donors have engaged a debate with state officials over the impact user fees have on the poorest sections of the population. Nevertheless, the state has promoted universal health insurance and universal primary education in the context of very low capacity in terms of human skills. One reason why non-state delivery of essential services may present less of a problem in Rwanda than in other countries studied is the extensive presence of the state in all areas of the country.

The impact of donor interventions in service delivery can have a major effect on state-society relations and the legitimacy of the state. While aid to non-state service providers was recognised as essential where states lack the capacity to perform, the study found widespread concerns that donor-funded programmes are leaving a perception that states are not fulfilling their responsibilities in relation to service delivery, with negative impacts on their legitimacy. Even where the states preside over non-state actors, they receive little credit for ensuring service delivery. There was some evidence here that in fragile states, where state organisations are hardly visible to the population, channelling resources mainly to non-state service providers increased the danger of creating a dual public authority.

Box 3.5. **Service provision in Nepal**

In Nepal, particularly during the prolonged conflict, the country witnessed a declining ability of the central government to provide basic services to many of its citizens. This was particularly acute outside of the Kathmandu valley. The implication of this was that donors and international and Nepali NGOs performed a significant role in discharging the state's "expected" functions towards its citizens. The issue for discussion here was the impact of large-scale donor aid on the social contract between the people and the government in Nepal. By assuming responsibility for the role of government through a myriad of development activities, it was felt by some that donors and NGOs were weakening the chain of accountability between citizens and the state and not providing the incentives for government to act. Further recent examination has revealed that in allocating service provision there was a very uneven distribution of donors and NGOs (DFID, 2007, p. 6). Thus there is a tension emerging between the need to deliver – undoubtedly a very strong one – and the need not to further undermine a weak government system.

This question came up in the context of donors bypassing the state, particularly at local level. Local governance has become the proxy for building up state-society interaction in Nepal. The issue was phrased thus: do existing community development programmes sufficiently make an effort to connect citizens with the state (bottom-up statebuilding)? A recurrent theme in interviews was that in the light of extensive donor and NGO service delivery there has been a raising of citizens' expectations without the state then having sufficient capacity to deliver in their wake.

Key findings: Donor impact on capacity building to carry out basic state functions

1. Donors may do harm to statebuilding by failing to prioritise the consolidation of state security and to engage with state officials to transform political settlements when they embody incentives for violence and warfare.

Where political settlements have left in place incentive structures that promote continued and significant armed challenges to the state, assistance to ensure the state achieves a legitimate monopoly of violence needs to be prioritised. Often the compromises made in peace agreements mean that political actors within the state are themselves not committed to demobilising pre-existing armed forces and militias or building a unified national security force or functional police forces under civilian command. Donors cannot themselves change the shape of reigning political settlements, but they need to engage with state officials in addressing such fissures in the political settlement. Significant security challenges to the state will undermine everything else that donors and state officials may wish to accomplish in terms of statebuilding.

2. Donors can do harm to statebuilding by providing piecemeal military assistance to fragile states where there is no functioning national army or police.

Donor countries continue to provide military assistance to fragile states in an uncoordinated and piecemeal fashion. Where a state has not succeeded in establishing a generally effective national security force that operates through a unified chain of command that is capable of putting down major armed challenges to its authority and protecting its population, piecemeal military-assistance programmes offered by a variety of donor countries can retard and damage statebuilding. Support for security sector reforms needs to be informed by integrated military, political and economic analysis and needs to be flexible enough to adapt to the specific conditions of individual states. Donor governments need to be concerned with how their military assistance programmes assist in, or detract from, the consolidation of functioning armed forces and police forces in fragile states.

There is no other area where donors can do as much harm to statebuilding as they can do here and since policies determining military assistance are beyond the purview of most development agencies, action needs to be co-ordinated between donor countries at the highest political level.

3. Donors need to bolster what have generally been positive contributions to establishing legal institutions and infrastructure by supporting the creation of capacity to implement law in ways that deal with local dispute resolution mechanisms and contradictions between formal legal institutions and the informal institutions that often reign in communities.

Donor support for the creation of infrastructure and training in the legal sector has made positive contributions to statebuilding. However, in assistance to the drafting of new constitutions donors have tended to focus on only the formal expression of political settlements, often supporting the promotion of liberal democratic ideals without engaging with the thorny issue of developing constitutional measures and enforcement capacities to deal with the competing rule systems that continue to characterise societies and the political settlement in most fragile states.

Donor support to programmes to expand access to justice must still grapple with trade-offs between providing support for traditional and existing networks (both formal and informal) that manage conflict and resolve disputes, often through unpalatable ethnic, gender or other exclusionary processes, with support for justice programmes more closely integrated with the national and local state and based on international legal standards. Donor support to informal mechanisms of justice provision, however, do not lessen the need for the establishment of the basic institutions and organisations to establish the rule of law at the level of the state.

4. Donor programmes to support the creation and consolidation of taxation systems have made a positive contribution to statebuilding, but where revenue collection remains significantly below what is possible donors should consider linking increases in aid to revenue-performance targets.

Donor interventions through the provision of technical assistance and other forms of support to reform revenue authorities have played a positive role in increasing state capacities to design and implement taxation policies. Positive and rapid advances have been made in revenue collection with the establishment of LTOs, but further gains can only be made through the elaboration of appropriate national revenue plans in the context of national development strategies.

While the countries studied are still characterised by a high degree of aid dependence, there is no uniform evidence that foreign assistance has acted as a disincentive to the expansion of revenue-raising efforts. Donors could potentially contribute further to revenue collection in countries where the tax effort on the existing basis of economic production is inordinately low, by introducing incentives that link increases in aid, especially budget support, with expanded revenue collection.

5. Donors could make a singular contribution to the expansion of revenue collection in fragile states by subjecting their own nationals to local taxation.

Until now, most bilateral and multilateral donor agencies have relied on the Vienna Conventions to exempt their nationals from local taxation. However, given that the expatriate community constitutes a large percentage of the wealthiest residents in many fragile states, donors could increase the local tax base, expand capacity in revenue authorities and set a positive example within the societies of fragile states by reconsidering this exemption.

As most donors argue that this could only be done at the expense of reducing their overall aid budget, state officials should be given the choice to stick to the status quo or subject expatriates to local taxation. The evidence in this study suggests that state officials would prefer to tax expatriates as it would expand resources available within their national budgets and create a more constructive relationship between the state and the local experts working in their countries.

There are divergent views in the donor community over proposals to move in this direction.

6. The biggest source of revenue available to armed groups challenging state power is usually informal trade in often illicit goods and the international community needs to build on positive experiences in creating incentives for the formalisation of these activities to assist states in establishing a monopoly over taxation within their territory.

Where states still have not established a monopoly over taxation within their territories, this is largely an issue related to failures to establish control over security. However, the international community could boost state efforts to eliminate rival forces by undermining the revenue basis provided by illicit trade through the legalisation and regulation of international trade in such products.

While the political alliances necessary to take such measures do not presently exist in the developed countries, evidence on the ground suggests that there is a sound basis to move international public opinion in this direction.

7. Donors risk doing harm to statebuilding by failing to provide support for the creation of capacity within fragile states to expand productive activities.

Reflecting a long-standing decline in international aid to the productive sectors of developing country economies, donors have paid little attention to creating capacity within states to manage the expansion of agricultural and

manufacturing activities. Given the low productive base in most fragile states and the need for state intervention to promote economic expansion, donors need to consider whether the need to kick-start economic development in fragile states should provoke a departure from general trends that reduce aid to the productive sectors. There is a pressing need, particularly in the agricultural sector, for states to play a more proactive role in designing development plans and fostering the conditions for investment, technological improvement and environmental sustainability. The international food and financial crises that have struck the global economy in 2008 and 2009 provide the climate for donors to launch new initiatives in this sphere.

8. Donors risk doing harm to state legitimacy unless more attention is devoted to associating the support they provide for service delivery with the state.

The impact of donor interventions in service delivery can have a major effect on state-society relations and the legitimacy of the state. While aid to non-state service providers was recognised as essential where states simply lack the capacity to perform, the study found widespread concerns that the failure to support direct state delivery of essential services can negatively affect state legitimacy. Even where the states co-ordinate delivery by non-state actors they receive little credit for ensuring service delivery. There was some evidence that, fragile states, where state organisations are hardly visible to the population, channelling resources mainly to non-state service providers increased the danger of creating a dual public authority.

Chapter 4

Conclusions and recommendations

The final chapter reviews the ways that donor intervention can have an impact on statebuilding. It highlights the most important issues and findings and identifies propositions and recommendations that can steer donor policy.

Fragile states in the developing world present a set of difficult challenges to the international development community because processes of statebuilding remain at the top of the agenda. Statebuilding occurs over the long term and involves a complex interaction of historical legacies, the constraints of geography and the interaction of deeply rooted cultural, institutional and social phenomena, making it difficult to come up with sound, replicable approaches that donors can take in programmes of development assistance.

This study has explored the trade-offs donors face by examining how important areas of donor intervention affect five dimensions of statebuilding: political processes, state-society relations, state legitimacy, social expectations of the state and building capacities of states to perform their most important functions. Areas have been highlighted where donors risk doing harm to statebuilding and where they have made their most positive contributions.

Doing no harm

"Doing no harm" in statebuilding means ensuring that donor interventions do not affect the five dimensions discussed here in ways that retard or undermine consolidating the organisations and institutions that form a state. Adopting a "do no harm" position is particularly important when dealing with complex systems. As has been seen in this report, the five dimensions of statebuilding are interconnected, making it much more likely that interventions in one area may have consequences for another, often in ways that are entirely unintended.

Doing no harm may mean refraining from action, as when donors tolerated Rwanda's departure from standard democratic models limiting political competition. Donors did not endorse the stance of the Rwandan government, but they refrained from pushing for the introduction of competitive party politics. However, generally, doing no harm does not mean doing nothing. In the DRC, in the face of inaction by the government to make significant progress in forming an integrated and accountable national army functioning with a unified chain of command, donor countries' inaction probably has done harm to statebuilding. While donor countries could not build a national army for the state, they could have made further aid conditional on progress in this most difficult and yet most strategic area.

In almost all cases, the biggest risks of doing harm to statebuilding emerge from a lack of deep and detailed historical and local knowledge of the political processes, political settlements, patterns of state-society relations and sources of legitimacy in the countries where donors are operating. To do no harm, donors need to invest in the difficult and time-consuming task of understanding what underpins the legitimacy of leaders in a place or how power among elites is configured at the national and local levels. While in

many countries where donors are operating the costs of gaining this type of knowledge may be too high to be justified, in fragile states the costs of not having such in-depth knowledge are far too high.

Donors also risk doing harm by failing to think about sequencing aid interventions in ways that take account of necessary foundational steps involved with consolidating states. Some aspects of statebuilding appear to be prerequisites for others. For instance, promoting electoral exercises in conditions where security has not yet been consolidated can in some cases lead to extreme problems of instability and violent conflict. Pushing for administrative deconcentration or political devolution without understanding local patterns of political power and how they relate to political processes underpinning the state can make for less inclusive and more divided polities, and inhibit the long-term development of capacity within a state. Sequencing interventions appears to be strategic in fragile states. While some programmes may be normatively desirable they may simply have to wait until other foundational tasks are achieved.

Doing harm is often related to pursuing short-term goals without an eye for long-term impact on statebuilding. The problem of creating a dual public sector emerges from the justified concern with getting aid resources to those who need them in an efficient, timely and accountable way by channelling them through non-state agents. But by doing so, there is not only a failure to develop capacity within the state, but donors contribute to creating alternative sites of decision making, lobbying and power brokerage, thus affecting the political processes that underpin the state. Providing assistance to NGOs without looking at how they fit into civil society or how they may be linked with political organisations also is related to the pursuit of short-term goals without an eye on the long-term impact such support may have on statebuilding. Providing technical assistance to get immediate jobs done, which may be necessary for state survival, without looking at ways in which state officials can at least eventually identify their own needs for technical assistance and manage the process themselves, is another instance of pursuing the short-term without an eye to long-term impact.

There are some persistent problems in donor country actions in fragile states that risk doing harm to statebuilding. The failure to develop integrated approaches to military assistance is one such area; so too, is the failure to provide comprehensive, detailed and timely information on aid flows to state officials managing public finances. The continued move away from providing aid directly to developing the productive base in agriculture and manufacturing sectors and fostering expertise within the state to manage this, also risks dong harm to statebuilding.

Positively contributing to statebuilding

Of course, donors have done much to contribute positively to statebuilding. The very fact that aid has been channelled to fragile states, where the financing gap is so great (as evidenced by the high percentage of aid to GDP and low levels of revenue collection), has in many cases been crucial for state survival. The decision of the donor community to depart from practices of the 1990s where aid was channelled mainly to the best performers has been crucial to making a positive contribution to state consolidation in fragile states. To make positive contributions to statebuilding, the planning of major interventions must consider what impact such programmes are likely to have on the five dimensions of statebuilding. Sometimes, this involves using well-tested existing approaches to aid delivery in new ways and sometimes it means breaking from standard approaches altogether. Good practice has almost always been linked to situations where donors have paid close attention to the historically and culturally specific characteristics of the countries where they are operating. The European Commission's security mission to the DRC developed a small programme to ensure that salaries were delivered to soldiers, thus making a positive contribution to what has otherwise been a dismal record of failure to create an integrated national army.

Good practice has almost always involved innovation, like the contributions donors have made in creating a virtual public sector, using sector-wide approaches, or dual signature trust funds as in Afghanistan, or joint assessments of progress as in Rwanda, to ensure that state officials are not only involved with decisions on how aid is spent, but increasingly assume control over the dispensation of aid resources. SWAps were not designed with statebuilding in mind, but rather were a means to promote donor co-ordination. This is an example where trusted approaches to aid delivery can be deployed in a new way. Where SWAps can be introduced with extensive co-operation with government departments, they can make an important contribution to building state capacity, keeping management of aid resources within the purview of public authorities, with positive implications for political processes, and promoting consultative and participatory mechanisms that contribute positively to state-society relations.

The five dimensions of statebuilding

Examining how interventions affect *political processes* means identifying where and how decisions about matters of the public good are made and how any given programme affects these processes. In terms of the *political settlement*, donors need to consider how their action may affect the relative position of factions that compete for power and authority within the state. It involves understanding the relation between local and central power and looking at the patterns of incentives that exist for actors to exit from the organisations and rule systems of the state, or conversely to buy in to the state and play by its rules.

Donors have long channelled resources through non-governmental organisations and promoted participatory approaches to development, but by looking at how interventions affect *state-society relations*, donors need to consider where NGOs sit in what is often only an emergent civil society in a fragile state. Civil society develops only as a state is consolidated and the rule of law is expanded. NGOs often emerge as a response to the availability of foreign aid funds, but donors need to have an eye to the extent to which the non-state organisations they support sink local roots and the ways in which they are connected to political processes. While donor support to this sector is often based on getting resources where they are needed in efficient ways and developing a check on abuses of state power, a statebuilding lens suggests that donors need to be aware of the impact this support has on patterns of co-operation and polarisation between the state and society, and on incentives to buy in to the state.

Commonly, donors view *state legitimacy* in terms of good governance, but there are multiple sources of legitimacy and their importance changes over time. In fragile states emerging from extensive violence or warfare, security is almost always the most important source of legitimacy. Where the state does not provide it, non-state armed challengers can often win legitimacy if they protect communities. While in more stable fragile states state performance in terms of economic management and the guarantee of livelihoods is a crucial source of legitimacy, at times states, or challengers to state authority, claim legitimacy by protecting one ethnicity, region or religion over another. Understanding these patterns of legitimacy is crucial for donors in determining the shape and sequence of their interventions.

Another crucial area where donor action may directly affect political processes is in support for programmes of administrative decentralisation and political devolution. Statebuilding needs to take place from the local to the national level, and how local elites and communities "see the state" can be crucial to its legitimacy.

A statebuilding lens allows donors to examine how their programmes may affect *social expectations* about what the state should do. However, these expectations differ between income or class groups and by political affiliation, and they change over time. Generally, donors' support to NGOs has enhanced their capacity to exercise voice, or express their demands, to the state, but this has not always been coupled with donor activity to ensure that the state has the capacity to respond to these demands. There is a need for donors to support states in developing a regulatory framework in which NGOs operate. Beyond this, donors need to develop a concern with how their activities intersect with various contests between opposing normative views of what the state should do, because this is where donor action can influence political processes in unintended ways.

Much of foreign aid has always been directed towards improving the *capacity of states to perform their basic functions*, but a statebuilding lens helps donors to prioritise which capacities may be most strategic at any given point of time. Donors can pre-empt the development of capacities within the state if short-term goals lead them to create what is in effect a dual public sector, or if technical assistance is provided without an eye to seeking out existing capacity and examining how assistance can cultivate and expand it.

Taken together, examining how donor programmes may have an impact on these dimensions of statebuilding should help them determine priorities, be more aware of potential unintended consequences, and sequence interventions in ways that do no harm to long-term processes of state formation.

Overall recommendations

Strategic issues

Donor countries operating in fragile states where statebuilding is on the agenda need to undertake "dilemma analyses" in order to identify: (a) *where strategic objectives contradict statebuilding objectives; and* (b) *where statebuilding objectives are themselves at odds with one another.*

The objectives of donor governments – whether related to international security, global warming, human rights or other strategic issues – may not always sit easily with objectives to support statebuilding in any given country. Often these issues are dealt with in an isolated fashion as events necessitate action without consideration of the extent to which these objectives are complimentary or contradictory. It may well be that donors cannot reconcile objectives across these strategic areas and may not be able to extend support – for instance, to strengthening the security forces in a country – even if from a strictly statebuilding perspective such support would be called for, if this would jeopardise strategic objectives in regional security. This is one way in which donors face a dilemma for which there is no solution and it is best that such dilemmas are recognised.

One of the important insights is that statebuilding may, in fact, present donors with irreconcilable dilemmas. This is where competing goals simply cannot be resolved and this challenges traditional donor practices, which are often implicitly based on an idea that "all good things go together". It may simply be impossible to support state consolidation through the promotion of democratic organisations and institutions in the near term since the basic security prerequisites to establish democratic rules are not present. These dilemmas will not go away, but rather need to be recognised and managed. Undertaking "dilemma analysis" seems to offer a first step for framing programmes of donor intervention in contexts where statebuilding is very much an on-going process.

Dilemma analysis should also reveal when one donor country's objectives are at odds with those of another. This type of analysis could also help donors identify when two objectives may only be temporarily contradictory – that is, involving trade-offs in terms of prioritisation – and thus this could contribute to helping donors sequence their interventions. By seeing where the dilemmas are, donors may alter their priorities or sequencing of action or decide on a course of action that may not positively contribute to statebuilding, but at least does no harm. Of course, recognising that there are true dilemmas in this area means that there may be occasions when donors cannot help but do harm to statebuilding in a given country because another objective takes precedence.

Donor countries should undertake a statebuilding impact assessment based on an analysis of how their programmes may affect the key dimensions of statebuilding, the major objective of which would be to establish a better understanding of how interventions and reforms should be sequenced and when action or inaction risks doing harm to statebuilding processes.

A template summarising a strategy for undertaking such an assessment is offered in Annex A. Such an impact assessment could: *(a)* encourage donor organisations to consider how programmes that may be tried and proven in various contexts may have an impact on statebuilding in ways that are unexpected; *(b)* help donors to identify the order of priority and sequencing of interventions (understanding when and where one intervention may necessarily be a prerequisite for another); and *(c)* help donors identify when action or inaction may actually do harm to statebuilding processes.

Donors need to pay greater attention to how the combination of their interventions – the mix of aid instruments, advocacy of systemic reforms in governance and programmes to build capacity across state functions – affect the capacity and processes involved in the articulation and implementation of policy in the states where donors are working.

Donors need to focus more on the processes of policy making within the state and on structuring interventions in such a way as to support both the technical capacity and the political processes necessary for the evolution of sound policy making and implementation. Paying attention to policy-making processes brings together work with executive, legislative and judicial bodies within the central and local state and work with societal organisations. This can inform choices about technical assistance and the balance between programme and project aid. While donors have put great effort into advocating particular policies and policy reforms, attention to the processes of policy making have largely been limited to pushing for certain forms of consultation and participation, as in the elaboration of poverty-reduction strategy papers.

Aid allocation, aid instruments and donor practices

Donor countries and multilateral agencies must provide partner countries with complete, accurate, detailed and timely information on their aid disbursements, with special attention to data on off-budget support (project, programme and technical assistance) and assist state officials in developing centralised tools for accurately monitoring overall aid flows and their sectoral and regional distribution.

While donors have committed themselves to improving the provision of complete and timely information on aid flows through the Paris Declaration and programmes to increase aid effectiveness, progress on this front remains slow, with particularly important consequences for capacity creation and state legitimacy in fragile states. Those charged with developing the public financial management systems in fragile states are still frustrated by the persistent practice of donor agencies to fail to report complete, accurate, detailed and timely information on their aid disbursements. Although most donors publish lists of their technical assistance contracts, more could be done to provide better consolidated information on the distribution of technical assistance in each partner country.

Failure to get timely information on aid flows to local budget managers and to develop the systems to process and manage this information weakens the creation of accountability mechanisms within the state, since aid delivered in opaque ways to a large extent absolves state officials from responsibility for how it is spent. Donor practices of distributing aid directly to line ministries without central co-ordination can have an impact on political processes that are at the heart of statebuilding. Of course major weaknesses remain in most partner countries in terms of their own capacities for monitoring aid flows, and there are often incentives for individual ministries or departments of government not to improve centralised information on aid flows, so donor effort in this area must be as much about improving their own reporting as it is about assisting states in developing systems for processing and analysing information and data on aid. This requires a long-term approach to capacity development within the state and an incremental process of increasing the proportion of foreign inflows captured by the information systems of budget managers.

Donor agencies should channel an increasing amount of their support to programmes that avoid creating a "dual public sector" and instead promote a "virtual public sector", that is, programmes that can: (a) *be reported on the budget;* (b) *involve state officials and systems in their management;* (c) *retain decision making in the executive, legislative and judicial organisations of the state;* (d) *involve open public consultations, scrutiny and monitoring; and* (e) *ensure the fiduciary standards that both states and donors require in the spending of their resources.*

One of the most potent insights to emerge from the country-cases and the literature is the dangers posed to statebuilding by the delivery of aid through non-state agencies. The challenge of getting aid reported on the budget and increasingly ensuring state involvement with the management of these external resources is particularly difficult in fragile states, but also particularly strategic to processes of state consolidation. A central part of statebuilding is developing within the state the capacity to manage public finances and this has a strategic impact on the political processes, state legitimacy and state-society relations. Although it requires the development of detailed technical skills and systems, this is not primarily a technical issue but a highly political one. Decisions about public spending are at the heart of political processes underpinning the state. If large parts of the resources spent on public goods are channelled outside the systems of the state and decisions are made about their disposition outside of the decision-making structures of the state, then harm is done to statebuilding with the creation of what can be understood as a dual public sector. It becomes imperative for donors to assist states in increasing the percentage of aid that is recorded on the national budget or reflected in its annexes. The goal is for those who are planning budgetary expenditure to increasingly have an overview of the disposition of major financial resources as between sectors and geographical areas of the country to assist both in implementing a strategy for national development and to develop the political processes involved in deciding on and monitoring development priorities. Aid that is not reported on budget in this way can distort priorities in government spending and limit the creation of capacity within the state to determine priorities, including the political processes involved in what is a key site of decision making and bargaining in any state – the public finances. It is impossible to even begin imagining building up parliamentary and public oversight over public spending when important portions of public finance are not even reported in the national budget.

Donors need to promote programmes that contribute not to creating a dual public sector, but instead to creating a "virtual public sector". Direct and indirect budget support go the furthest in this direction but weaknesses in administrative capacity and continuing fiduciary risk make a major shift of resources to budget support unrealistic. However, the growing practice by donors of channelling resources through sector-wide approaches has proven to be an important intermediate instrument for improving state capacity and developing decision-making processes within the state. This has increased state capacity for sectoral development planning, mechanisms for consultation between central and local state agencies and, by pooling donor resources, has reduced the transaction costs within the state in managing foreign assistance. It has also provided considerable room for dialogue between state officials and interest groups within society, thus having a positive impact on both the political processes and state-society relations that underpin statebuilding.

Donors also have engaged in innovative methods of joint management of aid funds and the evaluation of government spending. Jointly managed trust funds, which act not as a dual public sector but as a virtual public sector, and jointly organised assessments of government spending have contributed to building government ownership of aid programming and strengthening financial management capacity. Such forms of dual-control oversight can increase accountability and limit possibilities for corruption, thus positively affecting state legitimacy, while contributing to positive developmental outcomes. As negotiations over public expenditure are a crucial objective of political bargaining within the state and between the central and local state, such initiatives institutionalise positive statebuilding political processes.

Donors could consider providing long-term technical assistance as part of the effort to support a virtual public sector, since judgements about increasing budget support, or efforts to design SWAps that build state capacity or to establish trust funds, require detailed knowledge and long-term engagement with state officials.

Donor agencies should make a specific effort to assist state officials in analysing capacity deficits within state organisations and in securing technical assistance through market mechanisms, where state officials and organisations: (a) *identify the specific needs for technical assistance in terms of training, "gap-filling" and long-term assistance;* (b) *control hiring;* (c) *monitor and evaluate performance; and* (d) *control payment and taxation of salaries.*

There is still a large percentage of development aid being spent on technical assistance. While there is a huge variation in practice amongst donors and partners, in many countries such assistance remains primarily identified, selected, evaluated and managed by donors themselves. Long-term technical assistance has been crucial in fragile states recovering from serious violence and the breakdown of state systems. Donors face important trade-offs between providing technical assistance that can achieve preliminary results in terms of service delivery and other functions any state must perform, and providing assistance to create capacity within a state. How the choice is made as to the disposition of these resources and whether it involves state actors in the decision-making process (and in monitoring and managing technical assistance) is crucial to building capacities within the state.

The starting point for developing a new practice in this regard is for donors to resist the impulse to conclude "there is no capacity" available locally; they should engage with state officials in detailed analyses of existing capacity, which could be mobilised in new ways. The challenges of creating capacity within partner country states to manage technical assistance themselves are enormous, given prevailing weaknesses in civil service sectors. However, continued practices of uncoordinated provision of technical assistance by bilateral donors, of hiring consultants based on donor assessments

of need rather than on those of state officials, and of managing technical assistance outside of state management structures all have limited the ability of such aid spending to positively contribute to building long-term sustainable capacity within states. Donors should introduce a more market-based recruitment of technical assistance with increasing involvement of state officials as the principals in contractual arrangements. Donors could make their registries of expertise available to partner-country state officials as part of this process.

Donor agencies operating in countries where foreign assistance represents an important proportion of GDP should work with state officials in monitoring the impact of hiring practices of international agencies (bilaterals, multilaterals and international NGOs) on the local market for skilled labour and explore adjusting hiring practices and training programmes accordingly.

Donors need to consider more carefully both the direct and indirect impact that their own hiring practices may have on creating sustainable capacity within fragile states. Not only can donor agencies and other international actors like NGOs create a brain drain away from state organisations, but they can influence wider hiring practices within the state that may be difficult to sustain over time, or to incorporate in sound programmes of civil service reform. Differential salaries paid to those working as consultants and those on civil service wages can create motivational problems within state organisations with negative impacts on performance and state legitimacy. There is little evidence that donors are actually monitoring these types of impact that their presence in fragile states may be having.

Donor agencies should consider implementing a greater "personnel-to-aid spending" ratio when working in fragile states, due to the need for specialist historical knowledge, detailed understanding of political settlements, local knowledge and long-term commitment in order to positively contribute to statebuilding.

The reigning trend across all bilateral aid agencies is to deliver increased development assistance while downsizing the personnel requirements within the agencies. This is being pursued in part by channelling a larger proportion of resources through partner country systems and organisations, and in part through contracting private agents to carry out aid delivery. However, considering the statebuilding dimensions of interventions in fragile states requires longer time horizons for donor programmes based on detailed local and historical knowledge, making action in these situations much more difficult to implement with reigning approaches to aid delivery. Understanding political processes in a place, or the way local networks of power may relate to those that operate at the centre, or the complex sources of legitimacy appealed to by political actors, or the capacity assets and deficits that may exist in country,

all require longer and more specialised commitment by donor agencies even as they mobilise external expertise to implement their programmes. In short, donor agencies need more detailed expertise working over longer time horizons if their interventions are to do no harm and positively contribute to statebuilding processes.

This is an argument for the selective deployment of more long-term technical assistance, or expert consultants in fragile states. In these conditions donors need to use their most experienced personnel, who understand politics and have some knowledge of the history of the country and the region and preferably some ability to speak local languages. Also needed are officials with some deep understanding of productive processes, who can identify and analyse the possibilities for stimulating agricultural production and processing. Donors and multilateral agencies (for instance at the IMF) have developed some particular expertise in areas of banking and currency reform and in assistance to the revenue sector, but have not developed this sort of expertise in other areas that are strategic for the prospects of fragile states.

Donor agencies (bilaterals, multilaterals and international NGOs) should review their application of the Vienna Conventions, which exempt their nationals from paying local taxes, and offer partner-country states the opportunity to tax the incomes of those expatriates who are not strictly diplomatic personnel as a means to increase the tax base, expand capacity within taxation administrations and set a positive example for responsible tax compliance. Donors could move more quickly towards the less controversial compliance with local tariffs on goods and services they import into partner countries.

Until now, most bilateral and multilateral donor agencies have relied on the Vienna Conventions to exempt their nationals, including non-diplomatic contracted expatriate personnel, from local taxation. However, given that the expatriate community constitutes a large percentage of the wealthiest residents in many fragile states, donors could increase the local tax base, expand capacity in revenue authorities and set a positive example within the societies of fragile states by reconsidering the application of these exemptions. As most donors argue that this could only be done at the expense of reducing their overall aid budget, state officials should be given the choice to stick to the status quo or subject a larger number of expatriates to local taxation. Moving towards taxation of more expatriates locally could bring more resources into the state budget and create a better environment for the state to take on the management of expatriate technical assistants. Some donors have endorsed this proposition while others argue vociferously against it, while most state officials appear to be willing to see a slight decline in overall levels of aid delivered in exchange for the advantages a change of policy would provide. Less controversial would be to remove tax and tariff exemptions on the goods and services imported by donor agencies into some countries.

Supporting key dimensions of statebuilding

Political settlements and processes

Donor-country decisions to support systemic governance reform (constitutional change, initiation of competitive elections, power-sharing arrangements or political devolution) must be based on an analysis of the existing political settlement and pattern of state-society relations, and how the specific reform is likely to affect patterns of inclusivity, exclusion, elite "buy in" and conflict in the future.

Whether a systemic political reform, like the introduction of competitive elections or devolution of political decision-making authority from the centre to the periphery, is likely to make the state more stable, inclusive or legitimate depends very much on the nature of an existing political settlement and particularly its affect on patterns of security and conflict. If the political settlement has excluded important political or elite actors, or has allowed significant armed challengers to the state to remain intact and active, competitive elections may only be a source for greater insecurity and conflict. Similarly, if violent conflict has been based on exclusion of a significant minority from the political settlement, then for purely demographic reasons competitive elections may only consolidate exclusion and perpetuate conflict. In such cases, "doing no harm" may mean that donors should tolerate limitations on competitive politics or endorse the introduction of power-sharing agreements as interim measures to allow for the transformation of the political settlement. It may be necessary to consider a range of preconditions required before a systemic governance reform can actually contribute constructively to statebuilding. For instance, if prevailing patterns in the informal economy provide important sources of wealth, which act as incentives for armed groups or powerful elites to exit or remain outside of competitive elections, then programmes to formalise such economic activities may well be necessary before supporting elections. There may be other types of preconditions necessary to ensure that electoral exercises are constructive, like the promotion of media organisations or training of new political party organisers, or the construction of electoral supervision organisations and the training of local observers and monitors.

Patterns within a political settlement may also affect judgements on how appropriate or inappropriate a move towards political devolution would be in terms of enhancing inclusivity, state legitimacy or state-society relations. When political power at the centre is highly fragmented, devolution of political authority to local communities may serve only to promote the interests of one elite faction at the centre against others through the extension of patronage networks, tending to consolidate a more exclusionary political settlement. Donor support for devolution reforms needs to be based on a sound

understanding of the balance of power between local elites, the character of ethnic and business networks at the periphery, and how they connect with sub-national power brokers or align with national players on the political scene

Donor agencies' support for administrative deconcentration needs to be coupled with support for the organisations of the central state that are required to provide assistance to local administration, especially departments of budget, revenue collection, health, education, agriculture, industry and environmental management.

In most fragile states, local capacity for administration is very low and there exist very few possibilities for revenue raising. In these contexts, administrative deconcentration programmes require considerable assistance from central state agencies in terms of administrative and planning skills, sectoral skills like in education, health or agriculture, as well as considerable revenue transfers from the centre. Donors therefore need to pay particular attention to providing continued support at the centre in order to ensure objectives in supporting administrative deconcentration are realised. Resources channelled to local areas may also affect local networks of political power and their relation to the centre in ways similar to those discussed in relation to political devolution. While donors should could consider sub-national sites as a direct entry point, this needs to be based on a sound understanding of local politics and the local economy, the relation between local networks of power and the centre and how such intervention may affect the political settlement more widely.

Donor countries should extend support to civil society organisations as part of their programmes to support statebuilding and this should be: (a) *coupled with support to states to develop a legal and regulatory framework that governs associational activities;* (b) *accompanied by regular reporting to the state on the quantity and sectoral and regional distribution of funding to civil society organisations; and* (c) *based on a mapping of civil society indicating the range of organisations present and how they interact with prevailing economic, political and social trends.*

Donors have played an important positive role in fragile states by channelling resources to NGOs and emergent civil society associations, particularly in assuring the delivery of essential services and stimulating poverty-alleviation or reduction programmes. However, the impact of assistance in this area on political processes, state legitimacy, social expectations of the state and state-society relations is seldom explicitly considered.

Consolidating the state involves the expansion of civil society in tandem with economic development. Developing civil society associations is the most important means to develop voice in civil society and organisational networks capable of placing demands on the state. Civil society is a crucial

site of formation of social expectations of the state. Therefore donor support to all sorts of civil society associations, from business associations to professional organisations of jurists or journalists, to trade union or farmer organisations can help to strengthen the state. However, recognising these political dimensions of support for emergent civil society organisations also requires recognition that these organisations are often linked with organised political forces with their own goals and objectives in relation to the state. Donors seldom have the understanding of how civil society associations or NGOs are connected to different actors within a reigning political settlement. This is why it becomes imperative to have a map of civil society as a basis for this type of intervention.

Donor support to non-governmental organisations, which has been largely devoted to service delivery, can be seen in this context and it has generally played a positive role. However, donors have done far less to help states develop a regulatory framework for the NGO or associational sector. This becomes increasingly necessary as more resources flow into this sector, which have the potential to polarise relations between the state and society if there is not an effort to encourage information flows, consultation and co-ordination. With the quantity of funds flowing to non-state organisations in some sectors, it becomes imperative for the state to have an overview for purposes of its own budgetary planning. Furthermore, NGOs and civil society are by no means immune from the misuse of resources. For all these reasons, donors need to provide support for the development of regulatory frameworks to govern these activities.

Donors have generally been wary about raising social expectations beyond what the state can deliver and have also increasingly been concerned with how resources for service delivery channelled through non-state agents affects the legitimacy of the state. There is considerable evidence that even where this is so, resources channelled through non-state agencies have a corrosive effect on social perceptions of state legitimacy. Donors need to increase their efforts to ensure the state's visible role in regulating and guaranteeing these activities to ensure that they contribute positively to public perceptions of the state.

Security and the rule of law

Where a partner country's state has not established a monopoly over the means of violence within its territory – as a condition and prerequisite for other forms of foreign assistance – donor countries should provide a combination of assistance and pressure for: (a) *the resolution of problems in the political settlement, which provide incentives for exit and violence; and* (b) *the design and implementation of a plan to construct accountable and effective military and/or police forces.*

While great advances have been made in the international development community in relation to understanding security in broad terms, the specific requirements for establishing military security – the legitimate monopoly over the means of large-scale violence, which is central to statebuilding – are still poorly understood. A state's control of security is essential to its legitimacy in the eyes of both elites and ordinary people because this dimension of security is so central to the conduct of their everyday lives. The state's capacity in security affects the decisions of elites to buy in to the state's rules and to invest in productive activities. It shapes the possibilities of ordinary people to produce on the land, to go to and from work or school, and generally to secure predictability in their lives.

Where political settlements have left in place incentive structures that promote continued and significant armed challenges to the state, assistance to ensure the state achieves a legitimate monopoly of violence needs to be prioritised. Often the compromises made in peace agreements mean that political actors within the state are themselves not committed to demobilising pre-existing armed forces and militias or to building a unified national security force or functional police forces under civilian command. Donors cannot themselves change the shape of reigning political settlements. But they need to engage with state officials in addressing such fissures in the political settlement. Significant security challenges to the state will undermine everything else that donors and state officials may wish to accomplish in terms of statebuilding. An assessment of the condition of security forces within a state must become a greater priority for donor countries and should affect overall plans for sequencing and prioritising foreign assistance.

Donor countries should stop providing military assistance in an uncoordinated and piecemeal fashion to countries that are still in the process of constructing an effective and accountable military force that functions through a unified chain of command, and instead should employ all instruments of diplomacy and pressure on state officials in partner countries and within the international community to achieve coordinated military assistance that operates according to common and unified doctrine, operational procedures, training and equipment provision, and pays attention to ensuring sustainable and reliable financing for and salaries of such forces, while providing for means of civilian oversight.

Donor countries continue to provide military assistance to fragile states in an uncoordinated and piecemeal fashion. Where a state has not succeeded in establishing a generally effective national security force that operates through a unified chain of command and that is capable of putting down major armed challenges to its authority and protecting its population, piecemeal military-assistance programmes offered by a variety of donor countries can retard and damage statebuilding. Relying on private and informal

security providers can also do more harm than good. When a state's security forces are not unified and soldiers are not paid, these forces themselves become a strategic threat to statebuilding as a source and cause of violence and instability. Piecemeal military assistance in these cases can lead to situations where the disaggregated units of the state's own forces fight among themselves and prey on the population.

In a stable state, where the basic foundations of the armed forces exist and they function with a modicum of discipline, piecemeal military assistance can be absorbed without undermining the integrity of security forces. But in a state where the challenge still exists to create a national force, functioning with a unified chain of command, such patterns of external military assistance can undermine the very possibility of establishing unified armed forces. This has been an area of considerable neglect among the governments of donor countries. While donor countries cannot establish such forces themselves, they can withhold aid if there is no effort by partner-country state officials to do this themselves.

There is no other area where donors can do as much harm to statebuilding as they can do here, and since policies determining military assistance are beyond the purview of most development agencies, action needs to be co-ordinated between donor countries at the highest political level.

Donor countries' support for disarmament, demobilisation and reintegration programmes needs to be based on an integrated military, economic, political and sustainability assessment and open to flexible approaches with a view towards long-term results and impact.

Donor agencies have been deeply involved in providing assistance to programmes for disarmament, demilitarisation and reintegration, but these have often been based on very shallow assessments of the economies in which demobilised soldiers are to reintegrate. The success of DDR programmes is contingent on progress in promoting productive economic activities. Opportunities for well-paid employment need to exist for former officers if they are to buy in to a transition to civilian life. Former soldiers need to be assured that they can earn an income large enough to ensure livelihoods for themselves and their families if they are not to return quickly to calls from former commanders to engage in violent activities, whether driven by political or criminal objectives. Where DDR has been designed as both a military and economic programme, it has enjoyed considerable success. It may well be that the best form of demilitarisation is to delay the decommissioning of combatants and instead mobilise their non-military productive activities.

Support for security-sector reforms, including DDR programmes, needs to be informed by integrated military, political and economic analysis and needs to be flexible enough to adapt to the specific conditions of individual states.

Donor countries' support for the creation of independent and accessible justice sectors needs to include the creation of capacities to implement the law and to take into account and where possible either incorporate non-formal systems of dispute resolution or support the development of capacity to challenge them on the ground.

Donors' support for the creation of infrastructure and training in the legal sector has made positive contributions to statebuilding, particularly in improving state-society relations and state legitimacy. However, in assistance to the drafting of new constitutions donors have tended to focus on only the formal expression of political settlements, often supporting the promotion of liberal democratic ideals without engaging with the thorny issue of developing constitutional and implementation measures to deal with the competing rule systems that continue to characterise societies and the political settlement in most fragile states.

Finding an appropriate mix of state and non-state mechanism to promote access to justice can be central to state legitimacy. Donor support to programmes to expand access to justice must grapple with trade-offs between providing support for traditional and existing networks (both formal and informal) that manage conflict and resolve disputes, often through unpalatable ethnic, gender or other exclusionary processes, with support for justice programmes more closely integrated with the national and local state and based on international legal standards. Donor support to informal mechanisms of justice provision do not lessen the need for creating basic legal institutions and organisations at the level of the state. Legal systems need to be established that are able to define and enforce property rights in order to provide both negative and positive incentives to would be spoilers to buy-in to statebuilding processes.

Taxation and service delivery

Donor agencies need to monitor the impact of aid dependency on revenue raising and especially taxation systems, and where tax efforts fall far below potential collection possibilities consider coupling increases in aid disbursements with improvements in tax efforts.

State capacity for revenue collection and especially taxation is linked closely to its capacities in security and the rule of law. Progress in expanding the tax base is a measure of success both in economic development and in building state legitimacy. A large number of fragile states still remain heavily dependent on foreign aid for their economic survival. Evidence suggests a mixed record in terms of whether and when dependence on aid may provide disincentives for domestic revenue-raising efforts by the state. Donor interventions through the provision of technical assistance and other forms of support to reform revenue authorities have played a positive role in increasing state capacities to design and implement taxation policies. Positive

and rapid advances have been made in revenue collection with the establishment of LTOs, but further gains can only be made through the elaboration of appropriate national revenue plans in the context of national development strategies. However, the principal problem in most fragile states remains a tax effort far less than even existing production capacities warrant.

Donors could contribute further to revenue collection in countries where the tax effort on the existing basis of economic production is inordinately low, by introducing incentives that link increases in aid, especially budget support, with expanded revenue collection. This must be done with a view towards ensuring that revenue collection measures act as incentives to expand production, rather than reduce it.

Donor agencies and international NGOs need to ensure that their programmes of support for service delivery are undertaken in such a way as to: (a) *encourage the development of state capacity to at least regulate and set standards for service delivery (whether through state or non-state providers) to the population over time;* (b) *ensure that service delivery systems and activities reinforce, rather than detract from, state legitimacy; and* (c) *build in sufficient transparency for public scrutiny to ensure against corruption and that services reach the most in need.*

The impact of donor interventions in service delivery can have a major effect on the evolution of state capacity, state-society relations and the legitimacy of the state. While aid to non-state service providers is recognised as essential where states lack the capacity to perform, there continue to be perceptions that donor aid channelled through non-state providers is negatively affecting state legitimacy. Donors need to balance their own need to demonstrate success (to their governments and citizens) with the impact their support may have on state legitimacy. Even where states co-ordinate delivery by non-state actors they receive little credit for ensuring service delivery. There is some evidence that in fragile states, where state organisations are hardly visible to the population, channelling resources mainly to non-state service providers increased the danger of creating a dual public authority.

Management of economic development

Donor countries' contributions to programmes aimed at eradicating illicit trade, or the economic activities of non-state armed organisations, should take fully into account the impact such programmes have on the informal economy – both livelihoods of the poor as well as profit-making activities of the better-off. Such programmes should be shaped so as to encourage the formalisation and legalisation of informal activities wherever possible, to ensure that livelihoods are protected and to create, where possible, new sites of revenue collection for the state. Donors should consider whether international measures to legalise

and regulate some commodities (especially drugs) could reduce the rents from such activities and transform incentives of producers and traders.

Donor programmes aimed at eliminating illicit economic activities, which are often the source of finance for armed challenges to the state, need to be considered in light of their overall impact on local economies and local livelihoods. This is central to both state legitimacy and state-society relations. After security, the most important source of state legitimacy among ordinary people is the state's capacity to protect access to livelihoods and employment. However, in all fragile states, but particularly those emerging from prolonged periods of conflict, livelihood opportunities are often secured in the informal economy and often in the illicit economy. Donor programmes must take care not to undermine livelihoods by advocating or supporting measures aimed at eliminating illicit informal activities, which in the process eliminate strategic sources of livelihood for large parts of a population. By examining ways that illicit informal activities can be brought under the rule of law, donors could also enhance the development of the revenue base of states while also securing the livelihoods of all those who depend for their survival on such activities. These efforts could be reinforced if the international community can examine the possibilities for legalisation and regulation of formerly illicit activities, which could eliminate incentives for both producers and traders to engage in their production. When it comes to the lucrative international trade in drugs, the political alliances necessary to take such measures do not presently exist in the developed countries, but evidence on the ground suggests that there is a sound basis to move international public opinion in this direction.

Donor agencies should significantly increase assistance to develop the management capacity within states to analyse, plan and implement the expansion of basic production activities in both the formal and informal agriculture and manufacturing sectors of their economies, and to actively intervene in and promote private sector investment in productivity- and infrastructure-enhancing activities that take account of long-term environmental impacts.

In every fragile state, low levels of economic production have underpinned state weakness. Encouraging the expansion of productive activities is necessary for elite buy-in to the state and for expanding the revenue basis of states. The most fragile states tend to be the poorest and historically statebuilding has progressed with the expansion of economic development. Reflecting a long-standing decline in international aid to the productive sectors of developing country economies, donors have paid little attention to creating capacity within states to manage the expansion of basic productive activities, especially in both formal and informal agricultural and manufacturing activities. The challenges of building sources of revenue or reintegrating former combatants into ordinary social and economic life do not seem to have provoked a discussion about the particular requirements of economic development under conditions

of statebuilding. By following general economic prescriptions in these states, donors may be doing harm to the prospects of statebuilding.

Given the low productive base in most fragile states and the need for state intervention to promote economic expansion, donors must reconsider long-standing practices of deferring entirely to the private sector when it comes to productive activities. There is a pressing need, particularly in the agricultural sector, for states to play a more proactive role in designing development plans and fostering the conditions for investment, technological improvement and environmental sustainability. This has to be developed not only for formal sector activities but also in relation to the informal economy, where large proportions of populations earn their living in fragile states. Donors need to revitalise their own capacities to provide assistance in this area, by rebuilding their own expertise in matters of productive activity. As the experience of developed economies demonstrates, markets left entirely to their own devices are unlikely to underpin new growth trajectories, particularly in the risky environments found in most fragile states. Measured state intervention appears to be necessary to provide the incentives to wealth holders to invest in new productive activities promote economic growth and provide expanding employment opportunities, and to do so in ways that at least eventually are environmentally sustainable. The international food and financial crises that have struck the global economy in 2008 and 2009 provide the climate for donors to launch new initiatives in this sphere.

Donor agencies need to support the capacity within states to elaborate national development strategies with a view towards expanding their productive base and increase productivity, in order to increase wealth creation and employment, the revenue basis of the state, and the state's legitimacy among elites and ordinary people.

In recent years much of donor activity in relation to economic development in the most fragile states has focused on governance reforms to create more efficient capacities for macroeconomic management and the promotion of processes for elaborating poverty-reduction strategies. A number of cross-cutting issues have emerged in examining donor intervention through a statebuilding lens that support the idea of creating better capacity within states for the elaboration of national development strategies. This involves developing knowledge of agricultural systems and processing of light manufacturing, as well as the capacity to assess international markets and determine how the state could transform a country's comparative advantage.

Where state officials have improved their capacity to outline a national development strategy, they appear to have created a stronger basis to manage aid resources and to develop their revenue-raising strategies. The process of drawing up poverty-reduction strategies can contribute to this, but cannot replace a more comprehensive capacity in states to engage in long-term strategic planning.

Annex A

Statebuilding impact assessment

Domain of statebuilding	Analytical questions	What impact, if any, is a programme likely to have on
Political Processes	How do existing state organisations relate to social groups and what are the organisational forms in which those who hold state power interact with social groups?	• Combination of consultation, coercion and persuasion that characterises state society relations • Organisational forms in which state-society relations are mediated (relative position and power of political parties, clans, traditional networks, etc.)
Political settlement	Who is included and excluded from reigning institutional and organisational arrangements in the state?	• Balance of power between groups that compete for control of the state • Inclusion or exclusion of elites or social groups in decision-making structures of the state • The relative importance of formal and informal rules that govern how the state works
State-society relations	What capacities exist within the state to assess, deliver and regulate the delivery of services to society and what capacities exist within social groups to exercise voice and put pressure on the state?	• Capacity of state to respond to society • Capacity of society to put demands on the state • Extent of polarisation or co-operation between state and society
State legitimacy	What are the different sources of state legitimacy and to what extent do other actors compete with the state for legitimacy?	• Legitimacy of state among elites • Legitimacy of state among diverse social groups • Relative importance of competing sources of legitimacy
Social expectations of the state	What are competing normative views on what the state should do among diverse political, regional, identity and religious organisations?	• Increasing expectations enough to put pressure on the state to perform • Increasing expectations beyond what states can deliver • Relative influence of competing normative programmes for state action
State capacity to perform its basic functions	Analysis of existing capacity and systems in security, law, taxation, management of economic development, and environment and service delivery	• Creation of capacity within state organisations • Creation of parallel structures outside state • Promotion of state organisation as sites of decision making on public sector goods • Promotion of non-state structures as sites of decision making on public sector goods

Annex B

Statebuilding and "doing no harm": a review of the literature

The first section of this literature review explores some of the conceptual issues central to an assessment of donor impact: reviewing the working definitions of the state and statebuilding that inform OECD policy work; tracing the evolution of thinking in the policy world about "state fragility"; and discussing why a "do no harm" approach is relevant to an examination of donor impact on statebuilding processes. Section 2 reviews the literature with the objective of exploring donor impact on "five dimensions of statebuilding" that are at the heart of the OECD's (2008d) current understanding of statebuilding challenges. Section 3 examines existing evidence on the ways in which donors deal with the trade-offs involved in aid-delivery mechanisms and their impact on statebuilding processes. Section 4 reviews the literature concerning the direct impact donors may have on the creation of capacities within the state to perform its basic functions.

Key concepts and definitions

The state, political settlements and statebuilding

In "Concepts and Dilemmas of Statebuilding in Fragile Situations" published by the OECD (2008b), there is a recognition that states are a product of often conflictual historical processes, rather than a matter of institutional design, and that the "underpinnings of the modern bureaucratic state are the result of a complex process of negotiation over ceding power in exchange for production and reconciling competing values and norms" (OECD, 2008b, p.37). The organisations and institutions (the formal and informal rules by which states function) that make up a state are not simply a product of choice, but instead emerge from historical processes of conflict – contests for power – and, as such, they embody and reflect power relations, or a certain balance of power between competing groups and interests.

Since political and economic elites historically play a determining role in processes of state formation, states are never "neutral actors", but rather embody within their institutions and organisations unequal power relations and sources of conflict. It is in this sense that any state, at a given moment in time, is based on a political settlement that represents a balance of power between distinct groups and interests within a society, or at least that part of society that contends for power within the organisations of the state. Most of the policy literature discusses "political settlements" only in terms of agreements reached after a period of conflict or warfare. This paper argues that every state is founded on what can best be conceptualised as a political settlement, or balance of power and interests, and understanding the parameters of the political settlement is crucial to understanding how external intervention may have an impact on processes of statebuilding.

Khan (1995, p.77), from the point of view of political economy, argued that it is only by understanding the political settlement that underpins a state that one can understand why a particular model of the state, whether it be formally a liberal democracy or a centralised authoritarian state, performs so differently in one setting than in another. A centralised interventionist state in Pakistan in the 1960s provoked civil war and the dismemberment of the country, while the state in South Korea, which looked surprisingly similar in the form of its organisations and institutions, during the same period presided over accelerated development. He suggested that the "net effect" of an institution does not depend only on its design, but critically on the "balance of power between the classes and groups affected by that institution, that is, on the *political settlement*". External actors who are concerned about their impact on statebuilding therefore need to understand the political settlement in a country at any given time and this is best accomplished through historical and sociological analysis.

In looking at how institutions affect trajectories of economic growth over time – that is, patterns of development – Zysman (1994) said that the shape of the "political settlement" is decisive. It is the political settlement that determines who wins and loses from growth (the allocation of the costs of change). The settlement also determines how losers are dealt with – whether they are ignored, compensated or repressed. In this sense the political settlement shapes the incentives for groups to "buy in" to the state and, in Hirschmann's (1970) terms, to express "voice" within it, or to exit from the state and, in the most extreme cases, even mount armed challenges to its authority.[1]

Whaites (2008), reviewing the literature on statebuilding, outlines a model of "responsive" and "unresponsive" "political settlements" as a way of grappling with the complexity of political processes. Settlements become "visible", he argues, through the organisational and institutional forms created to manage politics. These include the way in which executive, legislative and judicial functions are organised (parliamentary versus presidential systems, independent versus appointed judiciaries, etc.) and the manner in which power at the level of the state is secured (electoral processes, one party rule, etc.). But the substantive content of political settlements cannot be easily read through the formal rules and organisations of a political system. Most political systems, with the exception of military dictatorships and the few remaining one-party states, are formally organised as "democracies", but these differ radically in terms of the substantive workings of the political settlement.

In its *Initial Findings* paper, the OECD Fragile States Group (FSG) suggests that statebuilding is "founded on" or "intimately connected to" "*political processes* through which social/political relations and power relationships between holders of state power and organised groups in society are negotiated and managed" (OECD, 2008d). This conceptualisation of statebuilding makes it anything but a technical process. The FSG recognises that "statebuilding" is both a descriptive and normative concept, a "non-linear and non-symmetric" process and can be both a "positive" and "negative experience" for the population (see also Fritz and Menocal, 2007). This rightly takes into account the historical experience of statebuilding (Tilly, 1992) and it is central to an understanding of on-going statebuilding processes in the developing world. Importantly, statebuilding is an endogenous process, the course of which donors can affect by their interventions, but which they cannot determine.

Understanding "state fragility"

The attention of the international community to statebuilding is focused on what have come to be called "fragile states". Definitions of "state fragility" have been in continual evolution over the past few years reflecting both the elusive nature of the concept and continuing efforts to reach consensus in the international policy community over what constitutes a fragile state.[2]

While there is a growing consensus, development agencies still differ over what are the defining characteristics of fragility and tensions remain between understanding the qualitative dimensions of fragility and problems of measurement. In its Principles for Good International Engagement in Fragile States and Situations, the OECD (2007a) offered the following definition of state fragility:

> *States are fragile when state structures lack political will and/or capacity to provide the basic functions needed for poverty reduction, development and to safeguard the security and human rights of their populations.*

At the core of the consensus around the definition of state fragility is that fragility can be observed both in a lack of political commitment and capacity within the state to deliver key public goods.

In its exploration of concepts and definitions related to statebuilding, the OECD (2008b) suggested an alternative definition of state fragility, which seeks to place legitimacy and the condition of the social contract at the core of understanding the condition of any state on a "fragility to resilience" spectrum at any given point in time. There is clearly a tension between any definition of state fragility that requires a time-bound evaluation of legitimacy, or social expectations, and attempts to define state fragility by a *measurement* exercise, which is required by most donor agencies to determine priorities and monitor change and assess effectiveness of development assistance. The development banks, with the World Bank in the lead, use the CPIA methodology[3] to determine a measurable category of "fragile states".[4] A programmatic application of the Bank's methodology can be found in the 2007 report on the Meeting of the Heads of Multilateral Development Banks (MDBs) (World Bank, 2007b, p.2). While MDBs have different lists of "fragile states", they are commonly working with the CPIA as a key indicator.[5] Still, the report emanating from their meeting called for using additional indicators that capture levels of conflict and additionally the use of the concept of "fragile situations", which underlines that elements of fragility can arise at both the national and sub-national levels. For instance, USAID, never enthusiastic about using the CPIA as an indicator of fragility, has developed an alternative methodology for measuring fragility in terms of (in)effectiveness and (il) legitimacy (USAID, 2007). Indeed, enthusiasm of the donor community for employing the CPIA has waned with the realisation that fragility originates in, and is mediated through, state-societal relations.

It would seem that, at least in their most recent policy papers, the donor community over the past two years has made considerable progress in defining state fragility in common terms, with convergence around the DAC's qualitative interpretation of fragility in its latest iteration of the *Principles* and the World Bank's approach to measurement. Considerable consensus has

emerged around the typology of fragile states expressed in the "Preamble" of the *Principals*, where there is agreement "to recognise the different constraints of capacity, political will *and legitimacy,* and the differences between: *(i)* post-conflict/crisis or political transition situations; *(ii)* deteriorating governance environments, *(iii)* gradual improvement and *(iv)* prolonged crisis or impasse" (OECD, 2007a).

The *Principles* incorporate "legitimacy" as a key factor in determining fragility, but also reinforce the need for "sound political analysis" to ensure international responses take into consideration the specificity of each state "above and beyond quantitative indicators of conflict, governance or institutional strength", and cautioned that "blue-print approaches" should be avoided (OECD, 2007a). There appears to be a growing insight that even long stable states may "fall" into fragility and that in some otherwise relatively resilient states, there are "fragile situations" that may exist at the sub-national level (BMZ, 2006).[6]

Chandran *et al.* (2008, p.38) offer a counterpoint to this encouraging portrait of donor convergence and clarity around the basic parameters of state fragility and resilience, arguing that "few donors have effective, long-term, centralized clearing-houses for information, guidance and policy on fragile states issues". They suggest that while there is expanding programme funding in fragile states, staffing and policy resources are declining, commenting that, "donor funding remains neither flexible, nor predictable, nor timely" (Chandran *et al.*, 2008, p.43). These concerns need to be taken seriously as the conceptual convergence that can be observe through the major policy documents reviewed does not necessarily translate into cohesive and well coordinated approaches to statebuilding on the ground.

"Do no harm" approaches and "dilemma analysis"

Given that statebuilding involves endogenous processes that occur over long periods of time, where donors can potentially affect outcomes, but not determine them, it is not surprising that both academic work on the impact of donors on statebuilding and policy discussions have raised the proposition that donors should take care that their interventions "do no harm" to statebuilding (OECD, 2008d; Yanacopulos and Hanlon, 2006, p.319). In a similar vein, in important new work on the challenges the international community faces in situations of statebuilding, Paris and Sisk (2007) argue that statebuilding presents international actors with a series of dilemmas, for which there may be no decisive resolution.

The idea of premising international intervention on the edict "do no harm" originates with the pioneering humanitarian work of Mary Anderson and her organisation, Collaborative for Development Action (CDA), on how well-intentioned donor assistance to promote peace can result in either

achieving that objective or in fact contributing to the prolongation or exacerbation of war (Anderson, 1999; Anderson and Spelten, 2000; Anderson ed., 2000; Anderson and Olson, 2003; CDA, 2004). That international interventions can have perverse impacts on patterns of conflict and war and peace has been amply demonstrated (Uvin, 1998, 1999; Keen, 1998; Duffield, 2001). The relevance of this work for donor intervention in processes of statebuilding is both direct, in so far as statebuilding is a conflictual process and international intervention can either contribute to state capacities to manage conflicts peacefully or undermine these; and indirect, through the general principles that can be distilled about donor intervention in any situation.

Fundamentally, what is meant by "do no harm" is that donor interventions should not undermine "statebuilding processes". Following Anderson's methodology, this means examining carefully the impact of donor action on the political processes that are at the heart of statebuilding, and the ways in which donors contribute to or undermine the other central dimensions of statebuilding. The central message that comes out of Anderson's work is as applicable to statebuilding as it is to peacebuilding: donors must be sensitive to the specific context in which they are intervening; that is, universal templates seldom can make an effective contribution to statebuilding, and donors need to develop deeper knowledge of the history and diversity of the fragile states where statebuilding is on the agenda. Just as Anderson (1999) emphasises that "aid inevitably does have an impact on warfare", aid inevitably has an impact on statebuilding. Just as she asserts that aid does not determine conflict – "people fight wars for their own reasons" – so aid does not determine statebuilding, but it inevitably has an impact on how it unfolds.[7]

While Anderson and her colleagues were writing about "doing no harm" in conditions of war and peace, a number of their conclusions are directly applicable to statebuilding, First, international intervention must not undermine indigenous conflict-management efforts. Second, outsiders must work with local power brokers but avoid legitimising their control of violence (Anderson, 2000). International actors can do harm by operating in short time frames, adopting formulaic approaches, relying on monetary incentives to buy in support, promoting quotas of participation from groups in conflict, operating without direct contact with the communities they are funding and failing to communicate among themselves (Anderson and Olson, 2003). Call and Cousens (2008, chap. 15) say donors can do harm to statebuilding in four principal ways: the harm of neglect (what they do not do); the harm of excessive presence; the harm of blind interests; and the harm caused by how they operate.

Doing no harm means that donors recognise that statebuilding is a long-term process and requires detailed analysis since what is appropriate in one country will not be appropriate for another (GTZ, 2008). Secondly, doing no harm also implies that donors need to engage with political, economic, social

and cultural realities, which may at times challenge the normative agendas that inform contemporary statebuilding and international development strategies more generally. Most of the conclusions in the existing literature on "do no harm" turn around the need to take account of context, to undertake conflict analysis (Boyce and O'Donnell, 2007) and impact analysis of how programmes affect statebuilding, and in short to operate with more information.

Paris and Sisk (2007) argue that statebuilding presents donors with what often are irresolvable contradictions, or dilemmas, and suggest that international actors must put dilemma analysis at the centre of their work in statebuilding environments. For instance, while statebuilding requires long-term donor engagement with a country, Paris and Sisk point out that a prolonged presence of the international community in a state that is in the process of consolidation raises problems of sovereignty and can negatively affect the political processes involved in statebuilding or the legitimacy of domestic actors engaged in these processes. There is a basic contradiction between donors intervening to promote the consolidation of a state and the objective of promoting autonomous self-government. Often rebuilding the organisations of a state require a clean break with past practices, in terms of forging a more inclusive political settlement, though the state almost always needs to be legitimised in historical terms. Donors face "vexing policy dilemmas – that is, difficult choices that involve trade-offs between multiple imperatives where there are no obvious solutions".

They suggest that the best donors can do is to manage such dilemmas, since often these cannot be resolved. What is central is to recognise that there are dilemmas and to undertake an analysis of them. This should be at the centre of statebuilding policy: "the challenge for statebuilding practitioners is *(1)* to analyze and understand the dilemmas, *(2)* to make a series of informed policy choices that carefully balance competing imperatives, and *(3)* to do so in a way that not only serves short-term needs but also furthers the long-term goal of establishing sustainable, functioning and legitimate state institutions" (Paris and Sisk, 2007, p.2). Donors need to look for both intended and unintended consequences linked to their interventions. While they cannot avoid short-term actions these need to be looked at in terms of their long-term impact, which should lead to more realistic expectations of what can and cannot be done.

Central dimensions of statebuilding

The OECD has adopted a definition of "statebuilding" as a "process of strengthening the capacity, institutions and legitimacy of the state driven by state-society relations" (OECD, 2008d). The definition suggests that there are five central dimensions of statebuilding, which international actors may

influence or affect, either negatively or positively, in the process of intervening in fragile states. First are the *political processes* that mediate relations between the state and society through which bargains are struck and institutionalised. Those institutionalised bargains are the basis on which rests the political settlement that underpins the state. Secondly, is the evolution of *state-society relations*, which encompasses the extent of polarisation and co-operation between the state and society and the capacity of social groups to make claims on the state and the capacities of the state to respond to such claims. Third is *state legitimacy*, or the acceptance in society that the organisations and institutions that make up the state have the "right to rule". Fourth, and closely linked to legitimacy, are the *social expectations* that diverse groups within society come to have as to what functions the state should or should not perform and how the state should behave. By definition, social expectations of the state are neither homogenous nor unchanging – different social groups develop specific demands on the state and those demands change over time. Finally, the fifth dimension of statebuilding is the evolution of *state capacity* to perform the basic functions society comes to expect over time. This is the more familiar terrain around which donors have long based their interventions – providing technical assistance to train state officials and to design systems to improve the delivery of services.

As noted in the previous section, in its exploration of concepts and definitions related to statebuilding the OECD (2008b) suggested an alternative, and on the surface of things, more simple definition of a fragile state, "as one unable to meet its population's expectations or manage changes in expectations and capacity through the political process". This definition helps to identify core elements of statebuilding, as it seeks to place legitimacy and the condition of the social contract at the core of understanding the condition of any state on a "fragility to resilience" spectrum. It suggests that the expectations of society, where legitimacy originates, as to poverty reduction, economic growth, security and human rights are different in each specific historical context and change over time. The authors argue that fragility "is primarily a function of disequilibrium between state functions and capacity on the one hand and social expectations on the other" (OECD, 2008b, p.22), implying that statebuilding involves movements towards equilibrium between capacity and expectations. This alternative definition has several implications: *(1)* suggesting there is a spectrum from fragility to resilience means that state fragility is not an absolute category but rather a condition into which any state can fall into and climb out of; *(2)* judging how fragile or resilient a state is involves an assessment of the degree of disequilibrium between social expectations and state capacity; *(3)* fragility cannot be assessed simply by evaluating whether a state can and does perform some agreed upon core functions, but rather the focus must be on whether a state can and does perform the functions society expects of it; *(4)* this necessitates procedural and

time-bound assessments rather than snapshot measurements because social expectations can change; and most importantly, *(5)* the key to fragility or resilience is whether or not the state can meet and manage changes in social expectations through the political process – placing ultimate importance on the quality of the political process.[8] From this perspective statebuilding involves overcoming these characteristics of fragility.

Political processes and political settlements

Political processes drive the shape of state-society relations and determine the extent to which states develop the capacities to respond to societal expectations and to manage changes in those expectations. This section looks at donor impact on the political processes involved in the transition from peacebuilding to statebuilding, donor involvement in promoting accountability within the state through the promotion of elections and decentralisation, and how through these programmes external actors may affect – knowingly or unknowingly – the "political settlements" on which the state is built.

Peace agreements, political settlements and statebuilding

The transition from war to peace and the agreements that are struck to achieve peace often give rise to problematic political settlements with only tentative "buy-in" by former opponents to processes of statebuilding. The tensions involved between the imperatives of peacebuilding, which often involve incorporating former belligerents into the state, and establishing an effective state have been widely noted in the literature (Le Billon, 2005; Paris and Sisk, 2007; USAID, 2008). Political processes, or the way relations are mediated between social groups and the emerging state, in such conditions are unsettled and extremely fragile.

International actors seldom determine the shape of peace agreements, but the tendency to push for peace at all costs as soon as possible has contributed to reducing the likelihood that emergent political settlements form a sound basis for statebuilding (Nathan, 2007). Call and Cousens (2008) identify six tensions between the imperatives of peacebuilding and statebuilding. First, peace requires the establishment of a state authority, but the processes involved in statebuilding, in terms of attempting to establish a monopoly over coercive force and to allocate access to resources, can reignite conflict. Second, the external intervention that is often necessary to establish peace can undermine statebuilding when emergency programmes by-pass state organisations. Third, establishing a peace requires compromise and often power-sharing formulas, which right from the start can undermine any effort to build state organisations based on meritocracy. Fourth, an exclusive focus on strengthening security forces "if done without attention to inclusiveness, accountability, and political

processes," can result in human rights abuses, political exclusion, the loss of state legitimacy and even war. Fifth, when peace is established by appeasing spoilers this can privilege the place of "authoritarian forces" within the state and threaten both the sustainability of the state and the sustainability of peace. Sixth, the "transition paradox", where short-term measures are taken to win the peace and to establish state organisations, can result in undermining both peace and statebuilding. Call and Cousens, like Paris and Sisk (2007), do not think these tensions can be eliminated, but suggest that they can be "ameliorated" if they are clearly recognised, if the particularities of each transition situation are considered, if international actors sequence their actions carefully and, above all, if donors deal with these problems patiently.

As has been noted, "political settlements" are the very foundation upon which any state rests. Political settlements, which emerge from peace processes, or after periods of prolonged violence, need time to consolidate. Whaites (2008, p.21), like Call and Cousens, suggests that donors must sequence their interventions and not press for reforms all at once. When a political settlement is in its early days of consolidation, donors can support its consolidation in part by abstaining from pushing for too many reforms all at once. This is the "light footprint" that Paris and Saski (2007) say is required, which often contradicts the need for a heavy footprint in establishing security. On the other hand, Whaites (2008, p.23) also warns against betting on the "wrong elites" in the hope of gaining quick stability, suggesting that donors need to analyse elites' claims to legitimacy and their capacity for social mobilisation, though Paris and Sisk (2007) say it is often factional leaders who enter statebuilding processes, particularly when they follow periods of conflict. This will colour the character of political processes possibly for an extended period of time. However, peace agreements that do not forge a strong basis for re-establishing security can pre-empt meaningful movement towards statebuilding altogether (Hesselbein, 2008a and 2008b). Thus, while international actors need to exercise patience and not attempt reforms all at once, there may be imperatives involved that can guide external actors in setting priorities and perhaps even "bottom lines" for co-operation with those involved in a given political settlement.

In synthesising a multi-country case-study, GTZ (2008) has argued that even in situations with the most unfavourable political settlements in terms of the challenges of statebuilding, it is almost always better for donors to maintain engagement with state agencies than to cut off all links. They argue that if donors have a long-term commitment they can develop relationships with middle-level officials and maintain connections to key actors including elites who might promote reform in the future. This must be done with care as "spoilers" maintain networks within the state willing to play one donor off against another, thus pointing to the necessity for donors to exchange experiences. BMZ (2006) reinforced the call to stay engaged arguing that this can allow the promotion of reform minded actors.

The conditions of fractious political settlements that produce potentially conflictual political processes, which are often found in fragile states emerging from conflict, may also characterise situations where the state is deteriorating or in sharp decline. International actors need to take the same measured approach in such situations. Where a political settlement is fracturing or becomes less inclusive, external actors may need to establish clear priorities for intervention, based on an understanding of the costs of state breakdown.

Promoting accountability through elections

In recent years the donor community has put considerable support behind efforts to promote accountability in developing country states through electoral processes and the implementation of decentralisation reforms. In some cases, the terms of a peace agreement have given no choice but to move to elections as a means to consolidate a transition. But in other cases donor enthusiasm for elections and decentralisation has been driven by a rather narrow focus on selective positive experiences in politically stable developing countries and a prominent normative agenda to increase people's voice to foster state accountability. Barnett (2006) shows how the dominant perception that weak states pose a major threat to themselves and to international security has triggered increased global demand for peacebuilding, which in turn is underpinned fundamentally by liberal values, including the promotion of democracy. There is a hope, with little empirical foundation, that electoral processes will bestow legitimacy on newly crafted political settlements and unleash a virtuous cycle of "positive" statebuilding.

Putzel (2007) has criticised the "tendency in the international community to see the introduction of competitive politics – the holding of an election or the passage of a democratic constitution – as a means to ensuring the legitimacy of a state in reconstruction," which if done hastily and without capacitating necessary institutions may even incite civil war. Flores and Nooruddin (2006) argue that the key to successful post-conflict reconstruction "is the presence of a credible commitment to the peace. In turn, the ability of political actors, including ex-combatants, to create such a commitment depends crucially on the nature of political institutional transition a country must make." François and Sud (2006) urge the international community to focus more squarely on strengthening emerging states and increasing their domestic legitimacy, rather than on promoting democracy. Similarly, Paris (2002, 2004) warns against premature political liberalisation and advocates an "institutionalisation before liberalisation" approach. In a similar vein, Blanc *et al.* (2007) argue that deals struck by different national groups during peacebuilding processes may hamper legitimacies in the liberal sense. They therefore recommend the drafting of a new constitution as an important

component of creating legitimacy in post-war countries. Such agreed procedural rules are essential, but procedure rules are not enough. Elections where elites are prepared to mobilise their social constituencies on the basis of inflammatory regional or ethnic politics and hatred, can, and have often lead to renewed and aggravated violence (Snyder 2000).

Chauvet and Collier (2007) are more sanguine about the contribution of elections to development. They argue that elections have generally been accompanied by an improvement in "policy ratings" from the World Bank, proving that they tend to "discipline governments into good performance." They suggest that in relation to economic policy, elections lead to policy volatility and short-term policy action. Where governments become captive to dysfunctional makers of economic policy, they suggest that elections can be deployed to break the power structure. While this evidence is compelling, it does not counter Snyder's (2000) systematic demonstration that fragile states emerging out of violence can seldom consolidate peace through an immediate turn to the ballot box. Moreover, the rise in performance may be perceived partly because elections are considered "a positive step" and not necessarily because of substantive improvements.

Fritz and Menocal (2007) argue that "[d]emocratisation is difficult to combine with early phases of statebuilding". They urge the international community to plan support for a democratisation process over several election cycles and not count on one "founding" election. Greater effort needs to be put into shaping political settlements that enjoy legitimacy in society and are prepared to create a "public realm, with the aim of ensuring that the democratic system actually functions". Of course, as noted above, donors may have only limited influence over the shape of a political settlement. OECD (2008b) argues for the distinction between statebuilding and "nation building", and quite rightly; but in many fragile states the elite project of nation building is far from finished. Not only is territory contested but so too is citizenship (Mamdani, 2001). In these situations – like the DRC, Sudan or Somalia – elections are no guarantee for either peace or statebuilding. They may lead to quite the opposite.

Promoting accountability through decentralisation

Another crucial insight in the *Initial Findings* is that statebuilding needs to be understood as a set of processes that occur from the national to the local level. Statebuilding requires building administrative capacities and establishing political processes able to manage social expectations throughout the territory and manage legacies of conflict between regions or levels of government. In conditions of state fragility, how social and political groups far from the capital "see the state" (Scott, 1998) can be crucial to both its legitimacy and its effectiveness. In international development circles, as

with the delivery of services mentioned above, attention has been focused on effectiveness and accountability, often leading to the promotion of various programmes of decentralisation. With a statebuilding lens, such programmes need to be considered in light of their impact on territorial integration, state legitimacy, inclusiveness and security.

Decentralisation can involve programmes to "de-concentrate" administrative practices of the state; that is, programmes that allow local, district or regional units more control over the dispensation of resources to perform functions of the state, whether in health or education systems, agricultural extension or managing water or power delivery. Alternatively, decentralisation can involve programmes to devolve political decision making to subnational instances of the state. Both can affect political processes profoundly (Crook and Manor, 1998).

Decentralisation formulas have been enthusiastically endorsed by most donor agencies over the past fifteen years. Yet Schou and Haug (2005) find no consistent evidence to document that decentralisation has served as a conflict-management tool. A UNDP (2008) workshop report highlights the intensity and immediacy of needs of local governments in post-conflict settings, but negates major structural differences compared to local governments' needs in less volatile contexts.

Often the transfer of approaches from one post-war setting to the next – regularly executed by the same agencies and staff – is part of the problem and not the solution. In an analysis of transitional administration in newly independent East Timor, Hohe (2005, pp.68–70) shows that development policy aimed at "breaking through traditional systems of power and former corruptive top-down decision-making processes" caused more harm than creating tangible improvements for those subject to them. She concludes that "[s]ocial engineering seems very tempting in a post conflict scenario, yet without full knowledge of local dynamics, attempted empowerment of new leaders will fail as local realities are stronger." More generically, Ebnöther and Fluri (2005), writing on post-conflict approaches, warn against: "technocratic 'one-size-fits-all' recommendations about building capacity [locally]", suggesting it is difficult to know "precisely when to cede coordinating leadership authority to local counterparts":

> *Rather, it is the basic principles of* (i) *respecting local counterparts,* (ii) *investing seriously in their skills and institutions from the start of a mission (including professional education and long-term training),* (iii) *steadily transferring core responsibilities over time, and* (iv) *accepting (but helping to minimize the costs of) mistakes* […] *that must be upheld.*

This advice dovetails with Lockhart's (2005, pp.7–8) work, in which she discusses the challenge of sub-state security provision, looking both at problems of decentralisation and those related with supra-national dimensions. Lockhart argues that in order to:

> *restore the state's central functions of maintaining a monopoly of force, guaranteeing security and provision of rule of law, and provision of some public goods* […]*, it is clear that the state itself must provide these functions.* […] *But where sub-national fragility is involved* […] *or where cross-border issues are critical (*e.g. *external involvement in eastern Democratic Republic of Congo), analysis and engagement need to be sufficiently flexible to move to the sub-national or regional level. This can pose an organisational challenge for donors geared to working with single nation-states alone.*

Statebuilding needs to take place from the local to the national level. However, in many fragile states, neither the capacity nor the resources exist to ensure effective decentralisation reforms. Fritz and Menocal (2007) argue that "establishing a competent and effective centralised authority may be one of the most fundamental tasks in (successful) statebuilding; therefore, efforts on this front should take precedence over reforms intended to diffuse power". They argue that local government capacity also needs to be built, but it will not prosper without attention to building capacity of the central state (see also Lister, 2007). GTZ (2008), in summing up experience, argued that decentralisation presented an opportunity for bottom-up inclusion in statebuilding projects, but it can also aggravate conflict and "do harm" to the statebuilding process, so it needs to be approached with caution.

State-society relations

State-society relations are increasingly understood by the donor community to form the bedrock of statebuilding processes. However, donor policy statements do not always demonstrate a deep understanding of the difference between society and "civil society", which is essential to the idea of statebuilding. In most fragile states civil society by definition is weak or almost non-existent. It is a product of the emergence of the state and the evolution of economic development, as it is the associational sphere that lies between the state, family and private sector, formed of associations whose base is in groups and geographical spaces that are the product of economic change, and whose space and legal status are protected by the state (Chandhoke, 1995; 2009). Civil society emerges with statebuilding.

Too often there is a tendency to simply equate civil society with NGOs, but NGOs are perhaps the least important set of groups within civil society, as they are self-declared, often established where money is made available

from donors and usually are advocacy organisations or service providers rather than membership-based organisations. Civil society comprises business associations, trade unions, farmer organisations, women's organisations, youth organisations, community associations and professional associations among others: the organisations where individuals combine usually both to promote the common interests of members and to lay claims to rights within a polity. Donor support to NGOs at times creates an island of civil society that is entirely dependent on external resources and sources of protection. Thus it becomes important to analyse NGOs within emergent civil society and to assess how support to these organisations contributes or detracts from the expansion of civil society in relation to the state.

Donors have begun to recognise that society – even modelled as "civil society" – is heterogeneous and composed of elites as well as middle class and poor people. It is ridden with inequality and based in class, gender, regional and ethnic identities and circumstances. Groups within civil society "organise in response to incentives and opportunities, many of them created by state actors," as an Institute for Development Studies (IDS) (2005) study on *More Effective States* put it. Relations between civil society and the state are "highly iterative" and the borders between them often blurred. The study argues that donors have channelled considerable funds directly to NGOs who promote a "pro-poor agenda" encouraging the proliferation of such groups. They suggest a more promising approach would be to look for ways to support an "enabling environment for constructive engagement".

In fragile states engaged in statebuilding, civil society is generally weak, given the weakness of the private sector more generally. Le Billion (2005) warns against by-passing local governments to fund local and international NGOs for fear of corruption or to speed up delivery may be counterproductive. Following the lines of the IDS study, GTZ (2008) in a recent synthesis document suggested donors need to strengthen the structures of both the state and civil society and encourage engagement between them. In situations of repressive state authority donors can open up spaces for dialogue between the state and civil society, if they take care not to allow such processes to lead to the capture of associations by the state. Donors need to analyse civil society, as they do the state, as it can be the site of clientelist interests. Even in the most unsavoury states, GTZ says, it would be an error to shift all resources to civil society as this would create the danger of creating "parallel structures", which could impede progress in statebuilding.

State legitimacy

The idea that legitimacy is central to statebuilding emerges from a rich tradition of scholarship (Weber, 1968, Lipset, 1960, Rogowski, 1974, Held, 1984, Barker, 1990, Alagappa, 1995). The *Initial Findings* stress that legitimacy

facilitates the process of statebuilding and importantly underlines that there can be multiple sources of legitimacy (Hesselbein *et al.*, 2006; Putzel, 1997, 1999), not necessarily conforming to a particular model of democratic legitimacy and derived from: *(1)* state performance; *(2)* accepted beliefs about the rightful source of authority; *(3)* state processes; and *(4)* international recognition. There are important considerations around each of these not reflected in the *Initial Findings*, but central to understanding the role legitimacy plays in statebuilding.

Performance legitimacy

There are two dimensions of "performance legitimacy" beyond the effective and equitable delivery of services, not discussed in the *Initial Findings*, which need to be underlined. First, as is well-known, states and governments commonly win or lose legitimacy around the ebbs and flows of the performance of the economy, which is determined only partly by their own actions. In fragile states this is fundamentally related to issues of economic growth and the expansion of economic opportunities for both the poor and the middle classes and elites. Individuals and groups in society may tolerate all sorts of behaviour by those who manage the state during periods of expansion of economic growth and opportunities, but the test of the robustness of a state and its political processes comes in periods of economic decline and hardship, which may extend over a number of years or even decades. In fact, it is during periods of economic decline when state managers tend to rely on other sources of legitimacy to maintain the loyalty of their populations, especially if assets and revenues are concentrated in the hands of a few.

Second – and of fundamental importance in fragile states, often threatened by or emerging out of episodes of violent conflict – delivery of effective and inclusive security becomes a primary source of legitimacy. This is why the classic literature on the state places such importance on the state's "monopoly of legitimate coercive force" (Weber, 1968). Polanyi (1944) argues that people crave security before anything else and understanding this is central to understanding why populations at times can turn to unsavoury protectors. The OECD's (2008b) statebuilding discussion paper suggests that perhaps too much attention has been based on security in discussions of statebuilding, and points out that for many in society the state is often seen as the primary source of insecurity. While this is true, nevertheless, particularly in circumstances of insecurity, the organised force that provides security and protection – be it the state or a rival warlord – is well positioned to command legitimacy whatever their record in other aspects of state performance (Hesselbein *et al.*, 2006). Whaites (2008, pp.7-8) argues that security is one of three "survival functions" of the state and "political settlements" with a strong drive toward statebuilding will be likely to pursue security not only in terms of eliminating threats to their own authority but providing Polanyian "social protection".

Accepted beliefs about the rightful source of authority

The implications that legitimacy can be won through an appeal to beliefs about the rightful source of authority can be the basis of what the FSG would call both "positive" and "negative" trajectories of statebuilding. Just as leaders in control of the state can win legitimacy by promoting "popular sovereignty", they can win legitimacy by anchoring their claims to authority in traditional or religious mores, often exclusionary, elitist or patriarchal (Hesselbein *et al.*, 2006). In times of poor economic performance, or when under international pressure, state leaders can draw on such sources of legitimacy to maintain their position in power and justify exclusionary processes of statebuilding, for instance in defining who is and who is not a citizen and thus shaping both service provision and political access (Mamdani, 2001).

This perspective offers a cautionary tale to the donor community where there may be too much of an inclination to conclude that if institutions are rooted in society that means they are somehow impervious to elite capture. In its *Initial Findings*, the FSG states that "functioning institutions not only depend on formal design, but on the social context within which these institutions operate" and that "[f]ormal institutions need to be rooted in society otherwise they risk … being abused ("captured") for private or patrimonial interests", but in many fragile states and developing countries, societies and the grounds of legitimacy are deeply imbued with patrimonialism (Khan, 1995; DiJohn, 2008). However, a path-breaking piece of work on service delivery and statebuilding published by the OECD (2008f) recognises this more complex dimension of legitimacy.

Process legitimacy

Importantly, legitimacy is also based on how the state functions – the processes, rules and systems through which it carries out its business. Process legitimacy may be based not only on promoting the constitutional rule of law or effective accountability mechanisms; but, particularly when considering beliefs about the rightful source of authority, can be based on the promotion of religious laws (*e.g.* religiously inspired legal codes on women's roles in society, family planning or criminality), that by definition are exclusionary but can be an important source of legitimacy (Akbarzadeh, 2003).

International recognition

An important source of legitimacy can be recognition by the international community, but this can also cut in more than one direction. Where statebuilding involves nation building, leaders may achieve and maintain over long periods of time considerable legitimacy through opposing and being sanctioned by leading international powers (for many years, China, Vietnam, Cuba, North Korea, Iraq and today, Venezuela, Bolivia, etc.). GTZ (2008)

argues that the interests of third states need to be taken into account in donor interventions in statebuilding processes. Equally, states may lose legitimacy when it is foreigners who define legitimate leaders (Paris and Sisk, 2007), while social groups that receive assistance from the donor community may be targeted by states to delegitimise the groups in the eyes of a population stirred up by nationalist beliefs.

These alternative sources of legitimacy have to be considered together and they often overlap. A state can attempt to compensate for poor economic performance with an appeal to the defence of the rights of an ethnic majority against a privileged minority, or appeals that their authority is anchored in traditional practices, or defence of the population against a hostile international community.

Social expectations of the state

The discussion of what society comes to expect of the state is intimately related with the problems of legitimacy discussed above. The OECD's (2008b) study of statebuilding concepts placed central importance on understanding statebuilding as importantly about the evolution of society's expectations of the state and the state's expectations of its citizens. The idea that the state and its performance needs to be understood from the vantage point of social expectations is rooted in the work of Joel Migdal (2001). Expectations of the state are in part based on the state's "image" (as a coherent controlling organisation with sovereignty over a territory, etc.) and in part by its actual "practices", which are often carried out by "a heap of loosely connected parts or fragments, frequently with ill-defined boundaries between them and other groups inside and outside the official state borders and often promoting conflicting sets of rules with one another and with 'official' Law" (Migdal, 2001, p.22).

In attempting to analyse what popular expectations of the state are, it becomes necessary to distinguish between "realist expectations" and "normative expectations". Realist expectations are what people actually think the state *will* do, based on their previous experience. The OECD's (2008b) study underlined that in many fragile states social groups "have limited and cautious expectations of the state". The state is often seen as the site of repression and the source of instability, which is important for donor agencies to remember as they engage in contributing to statebuilding processes. In much of the "good governance" agenda that donors promote, there is a presumption that by reforming states to make them more transparent and accountable to society, society can exercise more supervision over the public authority and make demands on it.

The donor community's preoccupation with improving transparency and fighting corruption has also been promoted in fragile states and states emerging from conflict and this can have a major impact on social expectations of the state. The efforts of the international community to promote probity in government in fragile states challenge accounts of the historical experiences of statebuilding (Khan, 2000; Chang, 2002), where the fight against corruption generally followed the establishment of modern states presiding over developed economies. Le Billon (2005) argued that the transition to peace from war offered an important moment to root out corruption by arguing for new values in campaigns to end apathy and complicity around corruption in society. Initial measures could include paying adequate salaries to public employees, regulating party finance, reconstruction contracts and corporate practices. Transparency and accountability could be promoted through legal reforms forcing politicians to disclose assets and criminalising corruption, and include the aid agencies in that.

Mathisen (2007) put forward a general argument about what donors could do to fight corruption, but under the rubric of "do no harm". He called for a stop to attempting to "buy off" key people from corruption practices. O'Donnell (2006) directly addressed the problem of corruption in "post-conflict countries" and argued that anti-corruptions efforts should be targeted at major practices that could derail the transition to statebuilding.

Promoting tolerance of corruption in early statebuilding periods is clearly beyond the pale of acceptable policy, but it is important to interrogate what the impact of anti-corruption campaigns has been. Some have argued that enormous and untargeted attention on corruption can actually do harm to the legitimacy of state organisations contributing to a general distrust in, and cynicism towards, politics (Putzel and van der Zwan, 2006), radically lowering social expectations of the state. There appears to be little effort to systematically assess what impact anti-corruption programmes have had on statebuilding efforts and particularly the way society views the state.

Social expectations of the state are also "normative" – that is based on beliefs in what the state *should* do. These normative visions of the state are fundamentally tied up with politics and ideology. Very often political organisations are formed around agendas concerning what the state should and should not do. In this way, political processes can change social expectations of the state. The robustness of a state's organisations and institutions can, to a large degree, be tested by how well they are able to respond to the changing expectations of society. The tale of caution involved here concerns the importance of donors paying attention to the impact their own programmes have on social expectations. Raising society's expectations of the state, beyond what a fragile state can reasonably deliver, could affect a state's legitimacy or even its stability and in this way do harm to statebuilding.

State capacities to perform its functions

The last central dimension of statebuilding that derives from the OECD's (2008d) deliberations concerns the crucial question of developing state capacities to perform its functions, especially the capacity to carry out what society, at any point in time, expects the state to do. This is, in a sense, a traditional area of donor intervention – "capacity creation" – pursued in all development-assistance programmes. But from a statebuilding perspective a range of important new challenges are presented to the donor community. First is understanding which capacities are most important in consolidating states, and which can only reasonably be developed as the organisations and rules of the state become institutionalised and as an economy develops. Ha Joon Chang (2002) has provided a powerful argument criticising the donor community for demanding the creation of capacities for financial probity or the promotion of democratic decision making that were achieved in today's developed countries at only much higher levels of per capita income than exist in any fragile state.

Second, the manner in which donors generally deliver capacity creation, through technical assistance, needs to be adjusted to situations where the basic parameters of state organisation may be non-existent or entirely crippled by long episodes of economic decline or conflict. Assistance should be provided that meets immediate needs for delivery of essential services, but does not pre-empt the creation of capacity within the state.

Trade-offs in aid-delivery mechanisms and statebuilding

Two cross-cutting issues confronting donors in deciding how to deliver their assistance emerged in the review of the literature: establishing the balance between on-budget and off-budget aid, where donors face the danger of creating a "dual public sector"; and the challenges of providing technical assistance, which builds capacity in the state rather than pre-empting its creation.

While the challenge of ensuring that foreign assistance is line with partner country development plans and priorities is a general task taken up by the Paris Declaration (OECD, 2008a), the challenge of getting aid reported on the budget poses particular problems in fragile states, but also takes on particular urgency from a statebuilding perspective. Evidence suggests that the establishment of a "dual public sector" may be one area where donors can potentially do significant harm to statebuilding. Similarly, in the provision of technical assistance, donors working in fragile states face all the classic problems related to technical assistance that turn around the balance between delivering expertise to get a job done and transferring skills that can create sustainable capacity within the state. However, in light of statebuilding challenges, this trade-off takes on more dire and strategic dimensions.

Problem of the "dual public sector"

In the process of intervening in post-war states, where little capacity exists at the central state level, donors have attempted to channel assistance where it can be most effective. Quick results are needed in humanitarian efforts to aid people in the wake of the turmoil of war and crisis. As is evident from efforts to improve aid effectiveness (OECD, 2008a), the international community is now keenly aware that, from a statebuilding perspective, it is essential to channel as much assistance through government as possible. However, being aware of this problem is not the same as taking steps in practice to overcome it. There is sometimes a tendency in the policy community to believe a problem is solved once a policy is elaborated; however, the "stickiness" of donor practices on the ground as compared to the policy frameworks they adopt is notorious (Satterthwaite, 1999; Nicholls, 1998). What is more, there remains a real dilemma, even in terms of consolidating the state, between getting results quickly, to build legitimacy, and engaging in long-term processes to consolidate state organisations.

Ghani *et al.* (2007) and Boyce (2007, 2008) suggest that the most damaging impact of aid on processes of state building may well be the way in which foreign assistance gives rise to a "dual public sector". By this they mean that only part of the funds deployed in delivering public goods are channelled through the state, while an important part are channelled directly to sub-national or non-state actors (Boyce, 2008, p.14). For Ghani *et al.* (2007), statebuilding can be pursued around the process of establishing and managing the public financial system. As noted above, it is here where the interests of the state and society meet: where, in exchange for public goods, especially the delivery of essential services, society pays taxes. Ghani believes that an important exercise of statebuilding goes on in the process of designing a budget and determining priorities for spending. It is here that different interests are negotiated and where skills for such negotiation and identification of common ground are developed. Important for Ghani *et al.* is the location of decision-making authority. When a dual public sector develops as a result of donors channelling an important proportion of resources to non-state actors, the location of decision making about spending moves beyond the purview of the state.

When this occurs incentives both for tax raising and tax paying can become perverse. What is more, this reinforces the tendency for qualified people to be recruited to non-state organisations to which resources are being channelled (Boyce, 2007). The establishment of a dual public sector has important consequences far beyond the efficiency or effectiveness of public financial management. Most importantly, if power to decide on spending is located in NGOs or private contractors, those who wish to make a claim on these resources will look to and interact with those NGOs and contractors

and not the state. What is more, this leaves the central state weaker, giving much more room to organised rivals to emerge as more important actors than the state. As Ashraf Ghani and colleagues put it:

> *For resource flows to reinforce and sustain the legitimacy of governance, the locus of decisionmaking must reside in the government. If, instead, the government is merely one of multiple centers of autonomous decision rights in the allocation of resources, then stakeholders pursuing their immediate interests rather than long-term goals will seek patronage from these alternative centers. This will further fragment the authority of the new government and jeopardize its quest for legitimacy (Ghani* et al.*, 2007, pp.154-55).*

Boyce (2007) recognises that donors are often compelled to channel resources outside the state when states are weak and lack both the capacity and the financial probity to manage funds according to donors' own rules. He suggests that this problem can be overcome and a contribution to state-making achieved through setting up "dual-control oversight mechanisms" that can reduce corruption and still ensure resources flow through the state. He says such a mechanism was used in the Afghanistan Reconstruction Fund, which was World Bank-funded.[9] The fund is administered by the Bank and through it donors help to finance the Afghan government's recurrent expenditure:

> *The government allocates these external resources through its internal budgetary process, reinforcing the budget as the central instrument of policy. When the ministries spend the money – for example, paying teachers – an external monitoring agent appointed by the World Bank verifies that the accounting standards of the ARTF and government (which are the same) have been met, and releases the funds. The ARTF thus is like a bank account with a fiduciary screen. Approximately two-thirds of the Afghan government's non-security recurrent budget is now being funded by the ARTF, although this amount remains small relative to total external assistance (Boyce, 2007, p.31).*

This sort of process ensures that decision-making rights stay within the state, but also guarantees financial probity.

There are two tendencies within the wider donor community in recent years, which may have an impact on these patterns in the future. On the one hand, there is growing endorsement for channelling aid resources through budget-support instruments. This trend is a positive one and conducive to fighting against the evolution of a dual public sector. On the other hand, in other domains there is a trend to do exactly the opposite. In an effort to achieve both fast action in confronting the HIV/AIDS epidemic and to expand participation in anti-HIV/AIDS campaigns, the donor community moved to establish national AIDS commissions outside the state, sometimes with devastating

impacts on ministries of health and other public organisations in the health sector (Putzel, 2004). Those engaged in providing support to state-making efforts will have to confront such practices head-on if they are to "do no harm".

Technical assistance

Technical co-operation plays a crucial role in fragile states and donor assistance to statebuilding.[10] While all the general advantages and disadvantages of direct technical co-operation are manifest in fragile states, the requirements of statebuilding pose particular challenges to the deployment of technical assistance. Providing technical assistance in fragile states involves a number of the dilemmas, or trade-offs, that donors are confronted with in efforts to support statebuilding. First, there is an immediate need for capacity, which can be delivered with foreign consultants, but this need must be balanced with efforts to create capacity within the state. Second, there is a need to mobilise local knowledge and skill to understand the particularities of each fragile state; but by mobilising local experts, there is a danger of undermining recruitment by the state.

Technical assistance is an important instrument in fragile states "to help build human and institutional capacity," argue Leader and Colenso (2005). It can be usefully employed to build basic state functions, for instance in public financial management. Where state organisations need to be entirely rebuilt donors can deploy technical assistance to build capacity in non-state organisations with the view towards transferring it to the state.

There are particular risks in fragile countries that technical assistance undermines statebuilding efforts. A decade after the United Nations handed over power to the new government of Cambodia spending on technical assistance was still two to three times larger than the total wages of the civil service (Boyce, 2007; Leader and Colenso, 2005). In a recent literature review on technical cooperation HDRC (JICA, 2007) reported that in fragile states with little national capacity, outsiders tend to take over "setting a pattern of limited national participation that is difficult to change." This underlines the path-dependent nature of the problem.

Rachel Hayman's (2006) in-depth study on the impact of foreign assistance to Rwanda documented widespread reports that technical assistants were substituting for local staff while not contributing to building local capacity. After the genocide, technical assistance was essential to state reconstruction as there was a dire lack of skills in the country. State officials in Rwanda were particularly conscious of the need to build their own capacity. One of the more positive experiences was DFID's technical assistance to the Rwanda Revenue Authority. There, a large team was deployed on a long-term basis, but gradually reduced over time.

In general, the goal of the international community is to make technical assistance more responsible to developing country governments. Whatever the progress made in this regard, in fragile states technical assistance is much more likely to be managed by outsiders simply due to domestic weaknesses. A report from Belgium Technical Cooperation, based on a survey of those involved in delivering technical assistance, stated: "Obviously in countries without reliable state structures, technical cooperation will have a more 'gap-filling' character and it is not easy to call upon local management arrangements. The ultimate goal, however, should be to involve the partner country as much as possible but there is not yet a consolidated strategy to do so" (BTC, 2006, p.63). One way to move towards states assuming responsibility over technical assistance is for donors to pool technical assistance resources, so that state officials can then take charge of identifying and managing them (Leader and Colenso, 2005).

Expectations of what technical assistance can accomplish in conditions of state fragility, where statebuilding is in its early days, need to be modest. Chauvet and Collier (2004) report the results of regression analyses suggesting that technical assistance made no impact on performance until there was a clear political commitment demonstrated within the state. While this may be so in the aggregate, applied new thinking about statebuilding (OECD, 2007a) has cautioned against determining the deployment of aid on the basis of statistical averages. As Leader and Colenso (2005) argue, in fragile states "[technical assistance] is intrinsically a high risk investment, characterised by frequent failure, but occasional high returns".

A report from a joint World Bank-UNDP (2005) workshop summing up experience in post-conflict societies took up the problem of technical assistance. They argued that there needs to be particular efforts made to reduce the requirement for outside assistance. They warned that "Competition from international organizations can inhibit the development of a functioning civil service", so aid agencies need to keep this in mind in recruiting and managing local staff. But almost in the same breath, the report says it is important to "involve, as much as possible, local experts". Ashraf Ghani *et al.* (2007) argue that donor recruitment of scarce skilled employees posed particular problems to state-reconstruction efforts in Afghanistan.

Nancy Birdsall (2007), in a paper discussing "doing no harm" more generally in aid to Africa, drew on quantitative evidence from Knack and Rahman (2007) demonstrating a marked decline in bureaucratic quality with increases in aid, reinforcing arguments that aid agencies were drawing off the most skilled personnel from developing country states and perhaps creating perverse incentives for performance. Birdsall recommends that donors should limit the poaching of local expertise. This is much easier said than done, but what does seem worrying is Birdsall's observation that there has been little monitoring going on by the collective donor community as to the impact their programmes

may be having on these trends. Whaites (2008, p.23) reinforces the point when he argues that donors may work at cross purposes and they need to assess their net overall impact on statebuilding processes. The strongest conclusion from the point of view of the review on doing no harm in statebuilding is that donors should be regularly monitoring their own impact on the skilled labour market.

Functions of the state

Donor programmes in fragile states have a direct impact on the capacity of states to perform their basic functions. Reviewing the broad literature on the state and recent experience of donors in statebuilding suggests the centrality of five functions of the state: the provision of security; the establishment of the rule of law and access to justice; the ability to raise revenue, especially through taxation; the management of economic development; and the delivery of essential services. Donors face trade-offs when making decisions that affect the establishment and consolidation of these basic functions, and their action, or inaction, in these areas may do harm, or conversely, contribute positively to the central dimensions of statebuilding.

Historically, states have built their capacities over long periods of time and performance across different functional dimensions of state activity has varied over time. Just as no state emerged in history as a fully modern and capable set of organisations and institutions (Chang, 2002), the fragile states in the developing world emerging from crisis and warfare develop capacities unevenly and incrementally. What makes external intervention so difficult in relation to processes of statebuilding is that priorities differ radically between specific fragile states and they change over time. The manner in which states evolve is driven by a complex interaction between the political processes that determine the political settlement – which underpins the state at any given time – the changing requirements of state legitimacy and the relations between the state and society. What elites and ordinary people expect and demand of the state also changes over time. Donor action or inaction can affect all of these dimensions of statebuilding, often in unintended ways. This requires donors to constantly undertake context-specific analysis and to make difficult choices between action or inaction with uncertain outcomes.

Security

State fragility is both driven by, and manifested through, human insecurity and unravelling formal institutions of security provision by the state. Recently the OECD (2008b) has pointed out that "[i]f a modern state's core obligation under international law is the maintenance of security, then strengthening that state's capacity to perform this function constitutes a critical element of state building."

A policy brief prepared by the Crisis States Research Centre argued that rather than focusing so uniformly on election promotion, "[e]stablishing security is probably the single most important way to win legitimacy for a state after prolonged violence" (Putzel, 2007). In what is considered a standard guide to security sector reform, Nathan (2007) has argued that the central factor determining success of security sector reform is "domestic ownership". He also suggests donor-supported security-sector reforms have often failed to achieve this.

> *Mirroring the centrality of taxation for statebuilding, a crucial component in this regard is the approach taken by donors to illegal incomes, exemplified for instance by the disagreement among key donors over anti-narcotics and poppy-cultivation efforts in Afghanistan. The CSRC paper concludes that "*[*i*]*nstead of fighting these economies of violence, development and security policy should support local institutions which are seen as legitimate and can bring these illicit activities under social control." (Putzel, 2007, p.8)*

While responding to country-specific constellations and challenges, interventions in the security sector need to address several issues simultaneously in order to be effective not only in themselves but also in their contribution to and leverage over statebuilding. OECD (2007b) presents a multi-layered approach to justice and security, which proportions international assistance between and among: the state, at its various levels, as a minority provider of justice and security service delivery; the state, in its role of regulator, to establish the parameters for justice and security service delivery and ensure accountability of providers; non-state justice and security service providers, given their position as the primary purveyors of day-to-day service delivery; and the users and recipients of justice and security services to increase their voice and hold providers accountable. At the same time, the OECD's (2008b) concept paper points out that a:

> *focus primarily on strengthening state capacities is unlikely to be effective if the state has limited capacity, or is not viewed as legitimate by substantial sections of the population* […]. *In such circumstances and depending on the extent to which the state-society contract is articulated, extending state security 'services' may be tantamount to facilitating state oppression. Instead, the multi-layered approach acknowledges the capacity and legitimacy possessed by non-state security providers and attempts to integrate and bolster them where appropriate. Finding an appropriate combination between state and non-state provision of security should be the outcome of negotiation. Ultimately, social processes must determine what is 'effective' and appropriate.*

Most of the attention of the donor community in relation to the security dimensions of statebuilding has been devoted to establishing mechanisms of social and political control over the security sector. There are good reasons for this as underlined by the citation from the OECD above. However, in redressing the balance the pendulum may have swung too far away from a concern with challenges related to actually creating a functional security sector. The recent literature on security and state building has arguably paid little attention to the requirements of constructing an integrated national army that operates according to a unified chain of command in a socially responsible manner.

Donors may "do harm" to statebuilding by ignoring the trade-offs and challenges of establishing functional armed forces and by not coordinating military assistance programmes, usually provided by their ministries of national defence and ministries of trade, with strategies of development assistance. Establishing functional armed forces means ensuring salaries are paid and the families of soldiers are secure. It means ensuring military units have a minimum of equipment and training to function efficiently (Hesselbein, 2008a). All of this has implications for the way donors interact with states on processes of budget management and even on the allocation of resources for poverty reduction programmes (CSRC, 2008).

Patterns of military assistance to developing countries have always had a dysfunctional dimension to them due to the uncoordinated delivery of training and equipment by a variety of donor countries. While this poses problems for building security forces in developing countries more generally, in contexts of statebuilding and especially reconstruction after war this takes on strategic importance and is urgently in need of analysis. The problem poses itself equally in countries emerging from conflict and in fragile states experiencing sharp deterioration.

Rule of law and justice reform

Establishing the rule of law intersects closely with establishing security and its related challenges. The OECD (2007b, p.6), in its report on *Enhancing Security and Justice Service Delivery* underlines that the "vast majority [of justice institutions] are likely [dependent on] non-state organisations and systems. […] Non-state systems may often be more effective, accessible, fairer, quicker, cheaper and in tune with people's values." Still, progress in establishing the rule of law is central to statebuilding, not least because it makes clear "conditions under which enforcing security might be used and thereby engendering some predictability of state behaviour" (Whaites, 2008, pp.9, 20). It can play a central role in winning "confidence" in a reigning political settlement. Rakner *et al.* (2007) offer a comprehensive summary

of challenges confronting the strengthening of the rule of law. Among these factors are:

- Recognising the political aspect of judicial sector reform and going beyond technical approaches;
- The sheer complexity of justice systems, which make donor co-ordination an essential condition for successful justice sector reform in order to avoid duplication of efforts and to ensure that all relevant parts of the legal chain are targeted;
- Planning with long time horizons and avoiding blueprints;
- Involving non-state actors and informal institutions as a central component of "national ownership";
- Focusing on the most vulnerable and ensuring their access to justice.

The evidence on some recent donor actions in the context of post-conflict interventions is mixed. Stone et al (2005, pp.19, 24), in their review of cases from Jamaica, Malawi, Nigeria, India, Nepal, Afghanistan and Sierra Leone, laud the UK Government for "successfully implement[ing] programs designed to strengthen the long-term development of certain institutions while providing tangible, short-term benefits in security." At the same time the authors also point to the "frustrated ambitions and the gaps [reform attempts] have revealed between sound policy and ad hoc practice. In these conflict and post-conflict contexts, the guidance on the pursuit of sector-wide reform […] has been difficult to follow on the ground."

Stone et al (2005) distil three main obstacles to sector-wide reforms, which echo the challenges identified by Rakner *et al.* (2007): funding arrangements in post-conflict situations are even more frequently short-term and poorly integrated; leadership is seldom holistic and inclusive, and the capacity to use justice sector reform as a procedural vehicle to strengthen state-society relations is limited. Similarly critical remarks have also been raised by Ball, Biesheuvel and Olanisakin (2007, p.29), who attest UK-led efforts' "'partial effectiveness' within different programmes in the various transitional settings (with the possible exception of Sierra Leone) […] meaning that programmes generate some useful outcomes but cannot produce a multiplier effect given political blockages."

Taxation

The establishment of a capacity to raise revenues, particularly through taxation, is central to the existence of a state. While the capacity to effectively implement taxation differs between states and over time within a state, this function is crucial to statebuilding in two respects. First, the state needs

to have the pre-eminent role in taxation over any potential armed challengers to state authority. While a state's taxation capacity may be weak, it needs to be greater than that of any rival forces within its territory (who may have the potential to raise armed challenges, or attract the loyalty that this implies). This political dimension of taxation has often been ignored by international donors who in the past tended to treat taxation as a technical issue. Second, unless entirely bank-rolled by external powers, without a minimal capacity to raise revenues the state obviously cannot finance any of its other basic functions (Di John, 2008, p.30). Whaites (2008, p.8) underlines that taxation, one of what he calls three "survival functions" of the state, is central to creating the linkages between state and society, creating expectations of accountability but also confidence in financial sustainability (see also Fjeldstad and Moore, 2007).

At the heart of public financial management is the capacity to raise revenues, most importantly from taxation, and the capacity to spend revenues on the provision of public goods expected from society, in the form of infrastructure to support economic production and trade, services – most importantly health and education – to ensure human development, and security and the rule of law to ensure social protection and justice. Nowhere do state and society interact more centrally than within this system, which by definition is tied centrally to the problem of state legitimacy. To raise taxes requires securing compliance from society, and society has expectations of the state in terms of how revenue collected will be spent.

Donors influence the capacity of states to raise revenues in at least two ways: first by the impact aid has as a source of revenue for the state and on patterns of incentives for the state to develop its revenue raising capacity; and second, in the prescriptions donors offer for building revenue capacities within the state.

Boyce (2008, pp.14, 17–18) explains the centrality of domestic revenue generation to state building in fragile contexts: "The size of government revenue relative to gross domestic product in war torn societies typically is far below the average for other countries with similar per capita income. Yet the needs for government expenditure are, if anything, greater. Hence concerted efforts are needed to increase revenues". An IDS (2005) study argues that there is a lack of debate about taxation in many developing countries, and this is because both the advocacy organisations for the poor in society and donors tend to focus more attention on the state's spending patterns. The study states that the way tax is structured and the manner of its collection affects compliance and the incentives of social groups to organise. Simple and transparent tax systems that have a wide social base and are stripped of incentives can increase compliance with the state and promote a rule-based culture in society.

Sindzingre (2007, p.618) warns that:

> [*i*]*n the poorest countries, credibility and trust are constrained by the fact that spending is severely limited by the trade-off between policies oriented towards growth (for example, promoting investment and infrastructure), and the necessary social policies – and precisely because these countries are poor. This trade-off highlights the inherent distributional conflicts at the early stages of development. Vicious circles therefore develop easily.*

Judith Tendler (1998) has examined the role that taxation can play in fostering investments in particular productive sectors. This is a form of "industrial policy" that has generally fallen out of favour in the international development community, but may be crucial in contexts of state reconstruction.

Donors operating with a statebuilding lens could do more than they do to stimulate public debate about the sources of revenue and the patterns of government spending (IDS, 2005). Boyce (2007) argues that donors could, in fact, set a more positive example by endorsing proposals for expatriates, including their own employees, to pay local taxes, from which they are commonly exempt.

Chand and Coffman (2008) posit that the truly essential factor is "the time rather than the dollar value of support provided. An extended donor presence […] provides the space for the creation, sustenance, and maturation of institutions that are finally able to undergird the state from rolling back into state failure or donor exit." They also argue that "[s]uccessful exit [of donors from a post-war and/or fragile state] entails the creation of the necessary fiscal space to fund the recurrent budget from internally generated revenues" as a necessary condition.

Aid dependence has certainly had an impact on patterns of revenue collection and the prospects of statebuilding. A key indicator of the extent to which aid may determine outcomes in taxation is its relative size in relation to Gross Domestic Product. Boyce (2007) suggests that this is an indication of the "degree of sovereignty" of a country. Whaites (2008, p.24) warns against donors' suppressing incentives to build revenue by maintaining aid dependency.

Experience has shown that aid can "crowd out" domestic revenue mobilisation, reducing the incentive for the government to tax its own populace (Boyce, 2007, p.18). The pattern of donor aid can significantly affect incentives within the state to engage in revenue collection. Gupta *et al.* (2003) have argued that foreign aid grants negatively affect the incentives for revenue collection because they do not have to be repaid, whereas foreign loans must be repaid and provide incentives to increase revenue collection. Similarly, Carnahan (2007) has argued that donors who offer "matching funds" against

revenue collection provide incentives for leaders to increase tax collection, but for this to work states need reliable long-term commitments from donors, which are often lacking. But donor interventions in this realm can have complicated effects. When donors set revenue targets as a condition for foreign aid this can be damaging if it leads to coercive or arbitrary tax collection and undermines constructive engagement with society (IDS, 2005) – this may be a case for doing no harm.

Boyce (2007, p.18) calls for direct action by donors to contribute to developing the capacity of the state in tax collection:

> *If aid instead is to "crowd in" domestic revenue, conscious efforts are needed to this end. The international community can support government efforts to mobilize domestic revenue in four ways:* (a) *by providing technical assistance;* (b) *by linking some of its aid to progress in domestic revenue performance;* (c) *by helping to curb extra-legal revenue exactions; and* (d) *by reducing tax exemptions on post war aid.*

Donor agencies have intervened in statebuilding efforts often to promote the establishment of autonomous revenue authorities. But an OECD (2008c) paper argued that "[r]ather than advocating autonomous organisational models as a panacea, donors should examine each context on a case by case basis". Donors should encourage locally designed solutions and they need to consider, as in all statebuilding contexts, the country-specific environment. BMZ (2006) echoed this, recounting its own support for innovative financing systems.

The International Monetary Fund, supported by bilateral donors, has promoted the creation of Large Taxpayers Offices (LTOs) throughout the developing world. Sometimes these are developed as part of a wider move towards establishing "autonomous revenue authorities" and sometimes they are launched as offices within the government revenue department usually under the ministry of finance. Hesselbein *et al.* (2006) explored the role of LTOs in the DRC, Rwanda, Uganda and Tanzania, documenting their central contribution to revenue-raising efforts in those countries. While LTOs are now ubiquitous, there is little systematic evaluation of their performance and especially their impact on fostering wider fiscal capacity of the state. While in every case they appear to have maximised the use of scarce skilled personnel and target the most lucrative source of tax revenues, they may act as a disincentive to widening the tax base – a process central to creating a more legitimate state.

Economic development in the context of statebuilding

In recent discussions of statebuilding there is extraordinarily little attention given to the economic foundations of the modern state (Hesselbein, 2008a and 2008b). Historically, central to the process of statebuilding has been the establishment of processes of capital accumulation. Whaites (2008,

p.9), in discussing what he calls the survival functions of the state, recognises that the drive to build security and accumulate tax revenue leads the state to promote wealth creation, something to which the donor literature on statebuilding seldom refers. He also recognises that "growth and statebuilding have a mutually reinforcing relationship", though the extent to which economic growth can stabilise a political settlement depends on how its benefits are distributed in society (Whaites, 2008, p.17).

In economic policy, as in other areas, donors are faced with difficult trade-offs. Fritz and Menocal (2007) suggest that the grand objectives of international actors to promote statebuilding, the market economy and democratisation often pull in opposite directions. There is a need to balance short-term considerations to immediately deliver poverty-reduction strategies – sometimes to underpin debt reduction – with longer-term prospects for economic development. Donor contributions to economic policy in fragile states have generally focused on establishing sound macroeconomic management and engaging in poverty-reduction strategy processes. Economic assistance has been directed in part to these purposes and to the restoration or creation of much needed infrastructure. USAID (2007) points to the tensions involved in promoting economic growth through infrastructure investment where there is a trade-off between public and private involvement, between rapid and gradual provision, between the short-term and the long-term and between effectiveness and efficiency.

Attention to the productive sectors has mainly turned around the creation of sound climates for private sector investment. There has been little thinking to date to understand how patterns of growth in the agricultural or manufacturing sectors may affect possibilities for statebuilding. In fact, development assistance to fragile states has followed general trends with a marked decline in overall aid to agriculture and manufacturing. These patterns need to be investigated in the specific context of state fragility and statebuilding. Several recent contributions have criticised donors either for doing too little in this area or not approaching the challenge with effective measures, whether conceptually or in practice. For instance, Barbara (2008) proposes the East Asian developmental state model as a more appropriate grand approach to post-war reconstruction than the current neo-liberal practice, arguing that the former is better suited to overcoming the developmental challenges that face post-conflict states. Drawing on the East Asian experience, she argues that developmental statebuilding would seek to build state capacity to intervene in the economy to guide development, compensating for the failure of growth led by the private sector to materialise in many post-conflict states. Of course, given the weaknesses inherent in fragile states, it is difficult to imagine they could adopt wholesale models of the developmental state from East Asia, where sound bureaucracies underpinned state intervention in the economic sphere.[11] Focusing on Africa, Birdsall (2007) rejects the dominant discourse of "African

impasse" and maintains instead that aid has the power to harm already weak institutions of the state in Africa. Instead, she proposes aid measures that will increase indigenous incomes to support the formation of a stronger middle class. Birdsall's message is that "while doing good for the poor, do not do harm to the productive middle". The main issue here is whether the neglect of aid to the productive sectors is doing harm to statebuilding efforts.

MacDonald (2006) warns not to omit private sector strengthening measures in post-conflict reconstruction programmes. In discussing donor support for DDR processes, he argues that almost all attention has been accorded to disarmament and demobilisation, while few milestones have been set in regard to reintegration. This latter phase "is both a social and economic process with an open time frame" (MacDonald, 2006, p.8). He recommends making job creation and economic recovery strategies integral components of intervention planning:

> *Post-conflict reconstruction of social and economic infrastructure can create important short-term employment opportunities during the fragile transition to peace. Small-scale infrastructure programmes can be designed to accommodate pressing demands for employment during transition periods, promote local businesses, increase the credibility of government structures, and improve the local investment climate. Large-scale economic infrastructure programmes can, if properly coordinated, make significant contributions to the long-term productivity of businesses. (MacDonald, 2006, p.31)*

In a similar vein, Suhrke *et al.* (2007, p.6) argue that one of the "defining issue[s] in this debate [about post-war recovery] concern[s] the relationship between economic recovery and peacebuilding objectives." They structure the debate by identifying:

> [*o*]*ne set of arguments* [*which*] *conclude that structural economic reform and sound macro-economic policies are necessary to sustain peace in the long run. This view is reflected in the emphasis of donors and the IFIs* [*International Financial Institutions*] *on post-war strategies of liberalization and privatization and the importance of macroeconomic stabilisation to support private-sector led growth. Critics argue that rapid marketisation can undermine a fragile stability and that economic policies must also reflect the need to stabilize peace in the short run. Immediate peace requirements can include financing of key provisions of the peace agreement, employment creation (in order to create stability and to counter the legacy of the 'war economy' by providing alternative livelihoods) and distributive requirements (to hinder tension between groups). While such policies may conflict with principles of economic efficiency they will likely strengthen the 'peace dividend' and thus have a stabilizing*

> *effect. However, some argue that the peace promoting credentials of 'quick impact projects' are hitherto unproven and that they must be designed with regards to their likely impact on actual dynamics on the ground. (Suhrke* et al.*, 2007, p.9)*

All of this suggests the need for much greater attention to the particularities of economic development in fragile states. Whatever the advantages of liberal economic strategies for the developing world in general, there are sound reasons to question whether they are appropriate in countries involved in statebuilding. The impact of patterns of aid on economic prospects in these countries remains a crucial area for investigation in the context of understanding how donors may do no harm.

Service delivery

In international development practice, traditionally most attention has been placed on supporting effective service delivery through whatever means possible, thus often – particularly in conditions of state fragility – supporting private sector and NGO health, education and livelihood programmes, or even non-state revenue and security agencies. Looked at through a statebuilding lens what matters is not so much the balance between public and private delivery mechanisms, but the impact of these mechanisms on establishing the state's territorial reach, its legitimacy and its capability to meet, and be seen to be meeting, social expectations. Again, Whaites (2008) rightly emphasises that statebuilding is about increasing a state's ability to function, arguing that meeting public expectations about what a state should deliver is not optional but central to securing stability for even the most repressive state. The imperative to respond to expectations (of both the poor and wealthy in society) in delivering services tends to expand the responsiveness of states to various voices in society and expand the political settlement on which the state is based.

The delivery of public services represents the other side of the "social contract" in the public financial management system mirroring taxation on the expenditure side. In terms of statebuilding, the delivery of essential public services – including health, education, water, sanitation and environmental management – can form an important part of the expectations society may have of the state. Education and health are also at the centre of the debate between state and non-state forms of provision. As the OCED's *Initial findings* paper (2008d) pointed out: "State fragility and declining service delivery – in access and quality – exert a reciprocal influence on one another", thus illustrating the strategic nature of service delivery to statebuilding. They emphasised as well that privileging state responsibility over service delivery when possible was based on the understanding that there is considerable evidence that "service provision can strengthen technical capacities within government" providing an entry point for "improved governance".

At a policy level, the latest paper on service delivery published by the OECD (2008f) incorporates all the recent developments in donor thinking about state fragility and statebuilding. The problem of designing assistance to service delivery is squarely situated in the context of state fragility. There is a call for contextual analysis to understand the specificities of the state and a consideration of the differences involved in assisting service delivery in the four categories of state fragility (deteriorating governance, post-conflict, gradual improvement and impasse), where there is even a suggestion of which aid instrument to use in each (programme aid, projects, technical assistance, social funds or humanitarian aid). However, this latter exercise veers closely toward the application of a template, which may not properly account for the context specific requirements of statebuilding.

The policy statement clearly underlines that there is need for a "strategic choice" as to the provider of the service (contracting out, international NGO provision, co-production, community-based approach or market provision), and importantly it underlines that such a choice will have path dependent implications for future service-delivery arrangements. The assessment of what route to take in providing services is clearly set as one of the dilemmas or trade-offs related to statebuilding between short-term humanitarian goals and long-term delivery of essential services in a way that builds accountability and ensures the government takes responsibility. There is, again, a clear warning that external aid can dilute accountability and stall statebuilding.

There is also a clear objective laid out suggesting that in all but the most dire states every effort should be made to work at least in part with the central state on the provision, saying there is no question of "if" donors should work with the state, but rather "to what degree" they should;[12] and it is stated in unequivocal terms that the ultimate goal is to design service delivery over which eventually there will be a "resumption of public responsibility" (notwithstanding the earlier acknowledgement that choices of delivery involve strong path dependencies). There is also a reminder that fragile states are always in flux and a regular analysis of prevailing conditions needs to be made.

While the degree to which the latest ideas on state fragility and statebuilding are incorporated into this policy statement is impressive, it remains to be seen the extent to which this is applied to the design of delivery of services by donors on the ground. There is evidence that the policy movement to incorporate the latest thinking is not restricted to the OECD, but has influenced for instance USAID (2008).

Notes

1. The idea of "political settlement" is not limited to political economy and historical institutionalism, but finds a voice in liberal democratic political theory. Ronald Dworkin (2006, p.97) sees political settlements as fixing "the distribution of personal wealth and opportunity in the community" and embodied in laws and policies. The political settlement sets both the parameters and consequences of choice and as such is foundational to the political system.

2. For reviews of the relevant literature see Cammack *et al*. (2006) OECD (2008b), DiJohn (2008). Evidence of increasing convergence around the DAC's definition of state fragility can be seen within DFID (DFID, 2005; Leader and Colenso, 2005; Moreno-Torres and Anderson, 2004; DFID, 2007), BMZ (2007, p.13) and USAID (2005, 2005a, 2008).

3. The CPIA rates countries against a set of 16 criteria grouped in four clusters: economic management; structural policies; policies for social inclusion and equity; and public sector management and institutions. Fragile states, according to the Bank's website, "share a common fragility in two particular respects: particularly weak state policies and institutions, and a risk of conflict and political instability, scoring 3.2 or less on the CPIA. This involves around thirty countries. Three out of four fragile states are affected by on-going armed conflicts. Countries scoring >3.2 may manifest symptoms of fragility in specific sectors or even in sub-national areas."

4. The IMF (2008a, p.8) generally operates within the World Bank definition of fragility. It adds a descriptive element, which may not characterise all states considered as fragile by bilaterals and the World Bank: "Their economic performance and ability to deliver basic social services is weak, compounded by poor policies and institutions and political conflict. Revenue per capita in fragile states has been stagnant on average over the last 25 years. Income poverty is twice as high as in other low-income countries; infant mortality rate is a third higher; life expectancy is 12 years lower; and the maternal mortality rate is about 20 percent higher".

5. The Asian Development Bank (2007, p.1) works with the World Bank's definition of state fragility, as does the African Development Bank (ADB, 2007, p.1, fn.1), but the latter sets the threshold slightly lower, at a 3.0 score as opposed to the World Bank's 3.2 threshold on the CPIA index.

6. While there is growing clarity around the concept of state fragility, and the characteristics of statebuilding in fragile situations, the same is not so for its antonym, "state resilience". Given the discussion of fragility and resilience and of alternative sources of legitimacy above, it is evident that statebuilding can and does occur through processes that lead to greater resilience or episodes of fragility.

7. Anderson (2000) writes: "The DNH framework is a descriptive tool that: *(i)* identifies the categories of information that have been found through experience to be important for understanding how aid affects conflict; *(ii)* organizes these categories in a visual lay-out that highlights their actual and potential relationships; and *(iii)* helps predict the impacts of different programming decisions."

8. The proposed definition is closest to the discussion of state fragility in the European Union. The European Union (EU, 2007a, p.2) works with a generic classification of state fragility, which places accent on the rupture of the "social contract" between the state and society due to "[s]tate incapacity or unwillingness to deal with its basic functions".

9. A similar fund was established in Liberia to deal with the problem of the dual public sector. See UN Development Policy and Analysis Division (2008, chapter 4).

10. As is well-known, there is a vast literature on technical co-operation, much of which in recent years would be relevant to fragile states and statebuilding, but a comprehensive review of this is not possible in this study.

11. Mkandiwire (2001), however, discusses the continued relevance of the model for contemporary Africa.

12. The distance of the move from previous understandings of service delivery is evident when comparing this statement with that in a document on the same subject from BMZ in 2006, when the reigning wisdom was: "Political will in particular determines the extent to which donors can engage directly with the state and its institutions". Fragile states were then named "difficult partnerships", but the BMZ was right up to the mark on the thinking of the time suggesting that in supporting service delivery "parallel structures" should be avoided.

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Conflict and Fragility

Do No Harm

INTERNATIONAL SUPPORT FOR STATEBUILDING

Despite the best of intentions, donors can inadvertently undermine statebuilding processes. When the resources they deliver or the reforms they advocate weaken rather than strengthen the state's decision- and policy-making functions, their efforts can do more harm than good. Donors can also do harm by creating a brain drain away from state organisations – for instance, by hiring the most qualified civil servants. When aid is delivered in a way that actually acts as a disincentive to states to consolidate their own revenue base, this can retard the development of the state's own capacity. It is fundamental for donors to understand the history and power dynamics of the partner country; otherwise, their actions can disrupt the political settlement that underpins the state, or weaken its legitimacy.

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