

AID AND STATE BUILDING

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Three powerful constituencies, following distinct logics, have elevated fragile and failed states on the international agenda over the past decade. The first has defined the role of international actors as ending persistent civil wars and building peace. The states of concern are post-conflict states, and the impulse to intervene has been humanitarian. Over time, however, this constituency has redefined its role as longer term, and it has aimed to rebuild legitimate political institutions as a means of preventing further violence. The development lobby and aid agencies, long been active in many fragile states, represent a second constituency. The successful industrialization of China, India and other poor countries, has produced a new separation within the developing world between those achieving rapid economic growth and the “bottom one billion” that have diverged from the success stories.¹ A recent redefinition of the requirements for successful economic development led this second constituency to concentrate on governance and political institutions as a key to economic growth. The World Bank and other aid agencies defined fragile states by their

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¹ Collier 2007.

poverty and “weak policies, institutions, and governance.”² Finally, following the terrorist attacks of 11 September 2001, the defense lobby and national militaries, which had largely dismissed “nation-building” during the 1990s, rapidly accepted the security threats posed by political instability and governments that could not police their territories. The persistence of state failure had become an issue of international security.

Although the mobilization of these constituencies has produced international attention to societies plagued by internal conflict, weak governance, and economic stagnation, engagement has not meant successful state building. Even apart from the long shadow of continuing conflict in Afghanistan and Iraq, other recent state-building efforts have produced ambiguous results. Albanian Kosovars grew restive under a lengthy United Nations tutelage; resolution of the territory’s final status has been blocked by Russia in the Security Council. Despite UN trusteeship, early independence, and a large flow of resources, Timor-Leste erupted in violence in May 2006, threatening regress into state failure and producing renewed international military intervention. Fragile peace held in other cases, such as Liberia and Sierra Leone, but the consolidation of national government was hardly assured.

Uncertain success in state building was combined with a shortage of available international instrument for restoring political order after conflicts and

² The World Bank has recently replaced the term LICUS (Low-Income Countries Under Stress) with fragile states, following other aid agencies, such as the U.K. Department for International Development (DfID). Fragile states will be used in this paper. Within LICUS, “two criteria are used to define core and severe LICUS: per capita income within the threshold of International Development Association (IDA) eligibility and performance of 3.0 or less on both the overall World Bank Country Policy and Institutional Assessment (CPIA) rating and on the CPIA rating for Public Sector Management and Institutions.” (World Bank IEG 2006, 3-4). The CPIA and other governance indicators are described below.

improving governance in the interests of economic development. Military interventions, international trusteeship, or political engineering were part of a short-term toolkit that were not politically or financially sustainable as instruments of long-term engagement. Other instruments, such as trade or other economic incentives, are of doubtful utility when economic prospects are poor and political capacity is severely limited. By default, aid has become the chosen instrument for influencing the political and institutional development of these societies.

Aid is a controversial tool for state building, however. Heated political conflict surrounds aid strategies—aid's effectiveness and desirable levels have both been challenged. The left and its celebrity allies, such as Bono, press for more aid and few conditions for its use. Skeptics find little positive economic benefit from aid and argue for its perverse and even negative consequences. Aid conditionality is viewed as either coercive or useless or both.

This investigation will outline and evaluate aid as part of an international strategy for consolidating political order and improving governance. Three questions are central: Can aid promote the creation and strengthening of state institutions in fragile states? What are the shortcomings in contemporary deployment of bilateral and multilateral aid for purposes of state building? What alternative strategies are likely to be more successful? The questions will be addressed in the following four sections, beginning with a brief review of the effects of aid on economic growth and governance, a debate that has reinforced skepticism about aid effectiveness at a time of rising aid disbursements. The aid relationship between donors, their constituencies, and political actors in fragile

states will then be modeled as a special case of aid dependence. A review of the dilemmas that beset aid relationships in fragile states will employ four cases—Cambodia, Haiti, Sierra Leone, and Central African Republic—to demonstrate the shortcomings of an aid strategy under conditions of state fragility. In light of the preceding discussion, proposals for reforming aid relationships with fragile states are evaluated.

Aid as an instrument of state building

The design of strategies toward fragile states has intersected with a long-running and inconclusive debate on the effects of aid. That debate, which has undermined the intellectual case for aid in promoting economic growth, has, paradoxically, occurred during a decade in which aid flows have increased.³ Although different model specifications produce different results, most researchers have failed to find any systematic effects of aid on growth.⁴ This finding seems robust across types of aid. Since aid represents a resource transfer, the failure to find a positive effect on growth is a puzzle that has produced a second finding of much greater importance for fragile states: aid's effects are conditional on the quality of institutions and governance.

The association between economic performance and quality of institutions reinforced the finding that aid has a positive effect on economic growth in low-income countries with “good” policy regimes, at first defined by macroeconomic

³ World Bank (IDA) 2007. After post-Cold War decline, aid (measured as ODA) has increased since the late 1990s. The composition of aid has also shifted, toward general budget support and sectoral program.

⁴ Rajan and Subramanian 2005, also Easterly 2003.

policies and later expanded to include broader, institutional measures of policy (strength of property rights, absence of corruption, and quality of bureaucracy).⁵ The implication, quickly drawn by many development economists and practitioners, was that aid should be given more selectively, allocated to countries on the basis of institutional quality and commitment to poverty reduction. The new orientation was embodied in the Millennium Challenge Account, established by the United States government: nations that combated corruption, respected human rights, and adhered to the rule of law, among other estimable ends, would be rewarded with increased aid. Unfortunately, rewarding good governance in the interests of aid effectiveness meant that many of the poorest and worst governed countries—fragile states--faced a future as aid orphans. Their persistent insecurity and unstable political institutions had already produced disengagement by bilateral and multilateral aid donors. Alternative means of engagement were required. In particular, the third stage of the aid and development argument centered on aid's promise to improve governance in fragile states.

The most acerbic critics of contemporary development fashion have pointed out that emphasizing governance and institutions as critical to economic development and aid effectiveness has not produced a blueprint for institutional improvement.⁶ Worse, aid dependence—defined as an inability to perform core functions of government without external funding—may *undermine* institutional

⁵ Burnside and Dollar 2000a, 2000b. The effects of institutional quality also apply at the project level. Isham and Kaufman 2000 find that measures of public accountability improve project performance.

⁶ Stiglitz 2000, Easterly 2007.

quality and better governance.⁷ Since fragile states—often post-conflict states with shrunken economies—are likely candidates for aid dependence, the possible negative effects of aid on governance may further complicate international efforts at state building.

Donors, fragile states, and the aid relationship

A simple model of the aid relationship between donors and local actors in fragile states suggests that the perverse effects of aid on governance and political institutions may be intensified in the political conditions of fragile states. The overriding puzzle in the aid relationship concerns the inability of donors, despite their apparent bargaining power vis-à-vis aid-dependent clients, to obtain outcomes, such as improved governance, that are their declared goals. A secondary puzzle concerns local elites: why are political elites often unmotivated to build such institutions? From a self-interested point of view, the benefits of success seem clear, whether measured by long-run increases in elite power and security or by international recognition and influence.

Brautigam (2000) portrays interaction between local politicians intent on political survival and aid donors whose policies and practices, often responding to perceived incapacity on the part of the aid recipient, contribute to the failure of desired reforms. Barnett and Zuercher (2007) produce a game among international peacebuilders and local elites (both state elites and rural elites who

⁷ Brautigam 2000, Brautigam and Knack 2004. Aid at the level of 10% of GNP or more is used as a proxy for aid dependence. Brautigam and Knack demonstrate for African countries that higher aid levels are associated with larger declines in the quality of governance and in tax revenues as share of GDP. When they correct for potential endogeneity, an even strong relationship is obtained.

may challenge them) in order to explain why, given initial goals of social and economic change, so many peacebuilding ventures have produced conservative results: the consolidation of power by existing state and rural elites. These general models illuminate a critical feature of state building that is often ignored in evaluating the effectiveness of aid: Governance outcomes are the result of strategic interaction between (apparently) more powerful international actors on the one hand and governments and other influential local actors in fragile states on the other. Those intervening with aid become part of an intricate set of political calculations on the part of existing elites and their rivals. One must ask how the preferences, resources, and strategies of the key players on either side in the aid relationship vary to produce success or failure in state building. In the particular setting of fragile states, both the international players and local political agents are likely to further complicate strategies directed toward strengthening institutions and improving governance.

From the perspective of international aid agencies, conflict among the three state building constituencies—humanitarian, development, and security—are likely to undermine a coherent rendering of policy preferences and weaken the bargaining power of the international coalition. The dominance of security concerns—a strong preference for political stability in the model of Barnett and Zuercher—may overwhelm longer-run aims for better governance. A proliferation of donors and their agents, drawn from these constituencies, creates greater administrative burdens on a minimal state structure that is already overstretched. Given radically reduced means for implementing aid-supported

projects and programs, donor intervention in fragile states is more likely to construct alternatives to an imperfect state, relying on NGOs, project implementation units (PIUs) and other islands of relative competence that serve as substitutes for the state. Donors are also encouraged to maintain long-term relationships with fragile states in the interests of state building, yet long-term aid relationships are precisely those most at risk for aid dependence.

The stakes of political survival are even higher for local actors in fragile states than they are in most developing countries: not only the political future of elites may be at risk, but their physical security as well. As a result, any portion of a nascent or derelict state apparatus, particularly in the security sector, will represent a substantial asset for local elites, as well as a substantial bargaining chip in negotiations with aid donors. Reforms that seem closely aligned with elite interests in greater state capacity, may, on closer inspection, be seen to erode a crucial political support base. Since the ability of fragile states to implement aid programs is limited, what appears to be renegeing on aid bargains may simply be a lack of capacity.

The aid relationship in fragile states: building and undermining the state

Pessimistic conclusions regarding the effects of aid on governance and state capacity are based on empirical relationships between aid flows and governance indicators, as well as plausible models that explain possible negative effects of high levels of aid on institutional capacity. Aid that is targeted on state building may have more positive effects. Over the past decade, as the

relationship between governance, economic development, and aid effectiveness has become entrenched in aid agencies, more aid has been directed, at least nominally, toward institution building and governance.

One early donor strategy was demand-driven. The liberal strategy of state building attempts to shift elite incentives through increasing demands from the electorate for better state provision of collective goods and enhancing political accountability. Support for civil society organizations, another key element in liberal state building, also serves to increase demand for public services and a competent state, as well as providing additional independent monitors of state performance. In many fragile states, these strategies have failed to produce improved governance. Democratic accountability is imperfect or absent, even when formal institutions are in place and elections are held. Civil society organizations alone are not powerful enough to influence recalcitrant state elites.

Since changing political incentives could not remove all of the barriers to institutional improvement, aid agencies and multilateral organizations, which had carefully sidestepped the term “state-building” in favor of a vocabulary emphasizing democracy and civil society, moved to more direct, supply-side measures that promise capacity development in fragile states. The deployment of aid in support of these strategies is the subject of this section.

Quantitative analysis of the effects of aid targeted on state building requires aid data at the sectoral or project level as well as measures of institutional quality and state capacity. Although data on aid (ODA) flows are readily available, accurate sectoral data that reveals the proportion of aid

devoted to governance has not been compiled.⁸ The dependent variable-- success at state building--has been measured in two ways. From the perspective of peacebuilding, the absence of internal conflict over a period of years is the prime hallmark of success. Development agencies, including the World Bank, have used indicators of governance in tracking state capacity. Unfortunately, the World Bank released its CPIA scores (Country Policy and Institutional Assessments), the principal internal measure of a country's policy and institutional framework, only in 2006.⁹ Kaufmann, Kraay, and Mastruzzi have assembled a second set of indicators for the years 1996-2005, covering 213 countries and territories. Unlike the CPIA, these indicators are based on surveys of citizens and firms. They measure six dimensions of governance: voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption.¹⁰ Three of these—government effectiveness, regulatory quality, and rule of law—are reasonable proxies for state capacity and the success of state-building interventions.

The following cases summarize in preliminary fashion the micro-dynamics of relations between donors on the one hand and governments and other key actors in fragile states on the other. Cases have been chosen for variation in aid

⁸The Project Level Aid (PLAID) project, based at William and Mary College, promises a new level of accuracy based on project information from all bilateral and multilateral donors for the years 1970-2001. PLAID data will permit isolation of ODA directed toward increasing government capacity as well as tests of the effectiveness of that aid over time. Information on PLAID can be found at <http://mjtier.people.wm.edu/intlpolitics/aid/>

⁹ CPIA currently consists of sixteen criteria with equal weights. CPIA scoring has changed over time, with a substantial revision in 1998 and another in 2004.

¹⁰ Kaufmann, Daniel, Kraay, Aart and Mastruzzi, Massimo, "Governance Matters V: Governance Indicators for 1996-2005" (September 2006). Available at SSRN: <http://ssrn.com/abstract=929549>

patterns that might influence state building. Among the variables are overall levels of aid, volatility of aid flows, and coherence (number of major donors and whether a dominant aid patron exists). Multilateral agencies—the International Monetary Fund, World Bank, and the United Nations Development Program (UNDP)—will occupy a central place in the analysis of aid donors. The cases chosen for closer analysis in the larger study (of which this paper is a part)—Cambodia, Haiti, Sierra Leone, Central African Republic (CAR), Somalia, and Timor-Leste—are all poor developing countries. The World Bank currently lists all as fragile states (formerly LICUS).¹¹ The cases are drawn from different regions, in order to avoid an equation of state fragility with sub-Saharan Africa and to permit an examination of the effects of regional neighborhoods on state-building success.

A preliminary survey of three of these cases—Cambodia, Haiti, and Sierra Leone—is given in the remainder of this paper. (ODA and ODA per capita tables for these cases are provided in Appendix A.) Central African Republic (CAR) will also figure in the discussion. In addition to variation in aid characteristics, these cases present different outcomes for state building. Cambodia is a partial failure: internal peace has been maintained, but governance has hardly improved since internationally supervised elections and the departure of peacekeeping forces more than a decade ago. Haiti and the Central African Republic are state-building failures, but their failures have occurred in very different international and regional contexts. High levels of violence and persistent political instability

¹¹ Cambodia and Sierra Leone are listed as “marginal” LICUS or fragile states in fiscal year 2006; the other four are “core” or “severe.” (This tripartite distinction is based on the Bank’s CPIA score.)

have plagued both. Haiti, however, has received relatively high levels of aid; CAR is an aid orphan. Sierra Leone may be regarded, admittedly on early and incomplete evidence, as a successful example of peacebuilding. Civil war has not recurred since the withdrawal of British troops in 2002. Sierra Leone has also shown improvement on some governance indicators since the end of the civil war. Based on the same indicators, however, Sierra Leone has not yet recovered the level of governance that it had in 1996, before the final outbreak of civil war.

Four characteristics of the aid relationship are investigated in order to determine whether and under what conditions aid directed toward state building can escape the syndromes that have undermined aid effectiveness. High aid levels (aid dependence) is likely in fragile states, given the large quantities of aid that often flood these economies, at least in the short term. Conditionality is perhaps the most contested dimension of the aid relationship, and one that is viewed as both irreplaceable and ineffective. The proliferation of aid donors and the fragmentation of aid across different activities is particularly damaging for fragile states and their limited capacity for negotiation and implementation. Finally, the priority and sequencing of aid sectors has often meant that aid targeted on state building has not received a consistently early and prominent place in the portfolios of aid donors. If aid cannot improve governance in cases of this kind, then the value of aid for their future development is diminished, and a key instrument for influencing their political development may need to be demoted by international actors.

High aid levels and local ownership

For many in the development lobby, more aid is always desirable when aid to fragile states is debated. Aid donors, confronting the collapse of state capacity in the wake of conflict and demands from their own publics and legislatures for visible results, have also behaved as if pledging more aid was the key to rebuilding state authority. Donors (and their publics) typically want “quick, concrete and tangible results in respect of public-sector activities.”¹² This combination of demand for results, low state capacity, and (at least initially) high levels of aid has produced heavy reliance on imported expertise, in the form of technical assistance or direct delivery of needed government services. As a result, donor capabilities have often been substituted for nascent or existing state capacity.

A political dynamic in favor of substitution is reinforced by a suspicion of the legitimacy of governments in fragile state; calls for more local ownership are met with cautions that “local ownership risks being a code for working with the most powerful and most opportunistic sectors of society.”¹³ Local ownership has too often been defined as an alignment of interests between aid donors and recipient governments rather than the ability of governments to implement their own visions of political and economic development.¹⁴ Large initial aid flows (relative to existing economic and political capacity) will tend to overwhelm the modest extant ability to forge such autonomous strategies and programs.

¹² Boesen and Therkildsen 2004, 59.

¹³ Smith 2004, 27.

¹⁴ Brautigam 2000, 32.

As Fukuyama observes, state capacity is likely to be destroyed in the face of an overwhelming influx of aid “unless donors make a clear choice that capacity-building is their *primary* objective rather than the services that the capacity is meant to provide.”¹⁵

That decision has rarely been made. Success in building state capabilities is difficult to measure, and even when successful, it does not deliver “visible and photogenic results up front.”¹⁶ Too often, commitments to improving state capacity have been based on islands of donor-financed expertise, such as Project Implementation Units (PIUs). Donors have claimed that these entities would radiate best practices into existing state bureaucracies, but more often they served to circumvent those bureaucracies through a donor-controlled enclave strategy.

Cambodia is a prime example of the deleterious effects of generous aid policies on the rebuilding of local capacity. Bilateral donors and international agencies confronted a government that was ill-equipped to manage aid flows, particularly the large-scale flows that followed the 1991 Paris Agreement. Although the new government established mechanisms to coordinate aid in 1994 (Council for the Development of Cambodia and Cambodian Rehabilitation and Development Board—CDC/CRDB), attracting capable staff and monitoring aid flows proved difficult.¹⁷ Early on, as the UNDP observed, “the absence of a viable state structure and standard government structures and relations resulted in the need for an extraordinary level—by international standards—of direct

¹⁵ Fukuyama 2004, 41-42.

¹⁶ Boesen and Therkildsen 2004, 61

¹⁷ Peo and Yamada 2000, 87.

development industry control over all aspects of ODA programming and implementation in Cambodia.”¹⁸

Cambodia has continued to receive large amounts of aid: foreign aid has exceeded the government’s own budget and provides more than half the funds for several sectors, such as health, education, and rural development. In the face of the substitution effects that such expenditures implied, even large aid budgets devoted to capacity development (equivalent to 20-25% of total aid to Cambodia in recent years) produced remarkably little improvement in government capabilities.¹⁹ Between 1999 and 2003, CPIA scores for three of the five governance indicators remained largely the same or declined, with slight increases in two dimensions. Cambodia in 2003 scored worse than the average for IDA recipients in all five governance criteria, an outcome that reduced the World Bank’s IDA allocation for the country.²⁰

Accounts of donor activity in support of state building suggest that high aid levels have disguised practices that systematically undermine the purposes of the donors. Donor agents—the development industry representatives who served as consultants and advisors—had few incentives to improve government capacity, since improvement would mean their slow replacement. Worse, donors and their agents bid for the scarce pool of well-educated Cambodians or offered salary supplements to selected civil servants, increasing inequity and lowering morale within the government bureaucracy.²¹ Such competition for scarce

¹⁸ United Nations Development Program (UNDP) 2002, 15.

¹⁹ Godfrey 2000; Fitzgerald and Strange 2005.

²⁰ World Bank 2004, 122.

²¹ Fitzgerald and Strange 2005, 2

human capital also distorted the wider economy by driving up the price of educated labor.

Donor reliance on imported expertise in the face of high aid volumes and large incentives for disbursement is only a partial explanation for the weak effects of aid directed toward state building. Donors and their agents pushed capacity development into the future rather than placing it at the top of their short-term agenda. The Cambodian government collaborated in this strategy, however. The current Cambodian People's Party (CPP) government, rooted in the communist regime that overthrew the Khmer Rouge with Vietnamese support, has allowed very restricted pluralism and political competition, often under pressure from donors. Provision of services by donors has helped the government to solve its own political dilemmas. Aid dependence, in the absence of conditionality or clear donor pressure for capacity development, has released resources for defense and the security services that reinforce the government's hold on power. An ineffective and overstaffed state administration allowed the government to accommodate demands for power-sharing from its political opponents in Funcinpec by funding a competing patronage system within the bureaucracy.²² Development of the NGO sector in Cambodia has not provided adequate incentives for the regime and its dominant parties to compete on the issue of provision of public services. So long as the donors provide those services, the government is in any case able to claim credit.

The moral hazard that is embedded in large aid flows to fragile states offers one explanation for the poor record of state-building: neither party has had

²² On the recent development of the Cambodian regime, Gottesman 2003, 353-356.

a strong interest in building state institutions that will more effectively deliver public goods to the population at large. Donors and the political interests that drive aid programs have often found more political benefit in the direct provision of services. Governments in fragile states, through aid largesse, are able to maintain themselves in power by dispensing that largesse to key parts of their selectorates. Building effective state institutions, apart from the necessary security apparatus, appears unnecessary or even politically threatening.

Conditionality

Conditionality—the exchange of financial support for policy change—has been targeted by a diverse group of critics. For poor and fragile states, conditionality is viewed as costly to already deprived populations, in effect threatening them with punishment for the policy missteps of their political masters. Developing country governments have criticized the uniformity of conditionality, particularly on the part of the World Bank and the International Monetary Fund, as well as its implications for national autonomy.

Perhaps the most telling criticism of conditionality is that it simply does not work as intended.²³ A successful exchange of policy change for aid is rarely consummated. Policy conditionality requires that aid donors credibly commit to both providing financial resources and suspending those resources when policies fail to change.²⁴ Aid donors often find it difficult to fulfill promises of aid; at the same time, donors cannot credibly say “no” when conditions are not met.

²³ For recent views on the lack of effectiveness of policy conditionality, Gilbert, Powell and Vines 2000, 59-65; Hopkins, Powell, Roy, and Gilbert 2000, especially Table 11.1 on the forms of conditionality.

²⁴ Kahler 1992 offers bargaining model of conditionality (and a skeptical view of its effects on policy).

Therefore, neither the promise nor the threat required for effective conditionality is present in many aid relationships. Domestic political determinants of aid may erode those commitments: countries that lack domestic supporters or strategic importance may not receive the promised resources. Conditionality is often shaped by strategic and foreign policy goals, which soften conditionality for favored clients.²⁵ Aid agencies and multilateral organizations also have powerful internal incentives to continue lending. Donor bargaining leverage over policy may also be undermined by the availability of alternative financial resources, either from a natural resource boom or simple disagreement among donors on the content and application of conditionality. At the same time, the government of a fragile state is hardly a credible bargaining partner. Promises of policy performance may collapse from incapacity rather than calculated defection.

Cambodia's experience with aid conditionality demonstrates the weakness of conditionality as an instrument for improving governance. Cambodia has received large ODA flows since the Paris Agreement that ended its civil war; much of its aid was in the form of grants. The overall pattern for fifteen years has been a pattern of generous and relatively stable aid provision. The only sharp (and temporary) decline in aid came in response to the coup launched by Hun Sen and the CPP against their Funcinpec political rivals. Although aid conditionality was not completely harmonized following the coup (the United States suspended all new aid; the Japanese government simply stalled new projects in the pipelines while avoiding confrontation), external pressure brought both elections in July 1998 and a new political accommodation between the two

²⁵ An effect documented for IMF conditionality by Randall Stone (2002, 2004).

largest parties. Boyce cites this instance and other exercises of donor leverage in Cambodia as evidence for the value of aid conditionality in peacebuilding. In his view, aid conditionality can be deployed to tip the balance against spoilers in post-conflict societies and in favor of continued non-violence.²⁶ As described earlier, however, the effects of aid conditionality in Cambodia did not spill over into broader improvements in state capacity or governance.

In addition to its other shortcomings, aid conditionality can also introduce a destructive pro-cyclical dynamic into the limited aid that is directed to strengthening state institutions. Aid volatility of any kind undermines patient and persistent support for institution-building that is required in many fragile states. Conditionality is not the only culprit in these rapid swings in aid flows, however. In post-conflict settings, aid fatigue soon sets in after the internal conflict is resolved, and donors begin to pack their bags and leave.²⁷ In other cases, persistent political instability makes it difficult for aid agencies and NGOs to operate effectively, whether or not formal conditionality is applied.

Both Haiti and the Central African Republic (CAR) illustrate aid patterns in states characterized by shaky democracies, chronic conflict, and poor governance. Although Haiti's ODA flows and per capita ODA have not been low, they have been subject to more volatility than those of Cambodia, with even fewer positive results: a brief, sharp increase after the return of President Aristide to power in 1994; relative stability in the late 1990s, and then significant

²⁶ Boyce 2002, 33.

²⁷ Collier (2006) has argued that post-conflict economies can absorb higher levels of aid beginning about the fourth year after the end of the conflict—when donor departures often accelerate.

aid reductions after the disputed 2000 election. Aid to CAR displayed an increase after the overthrow of “Emperor” Jean-Bédél Bokassa in 1979, but after 1995, growing instability under President Ange-Félix Patassé and a reduction in the French presence in west and central Africa produced a further decline in levels of aid.

Whether the result of overt conditionality or political turmoil and uncertainty, aid in such cases follows a pro-cyclical path that undermines state-building. Aid increases when internal security improves or political progress is made (particularly movement toward democracy); aid is suspended or reduced when there is backsliding on these measures—at precisely the time when new and fragile state institutions are most vulnerable. Swings in aid flows may produce even wider swings in state-building outcomes.

The fate of the Haitian National Police (HNP), an unintended victim of aid conditionality, demonstrates the negative effects of macro-conditionality (directed toward democratization and regime development) on the micro-development of key state institutions. Although donor success in building a police force after 1994 is still open to debate, the HNP appeared to be a relative success after several years of ample funding: 6500 officers in a competent force by 1997. Aid was reduced by the late 1990s, however, and after the political conflicts that surrounded the 2000 election, most multilateral and bilateral programs were suspended and support for the police was phased out by 2001.²⁸ The political turn in Haiti coupled with the end of external support was disastrous for the police: infiltration by armed gangs, corruption, and links to criminal networks and

²⁸ Kumar 2000.

drug trafficking ensued. The termination of aid increased incentives for corruption since salaries were rarely paid; the Aristide government also used the deteriorating force against its political opponents.

Haiti's political deterioration after 2001, which produced renewed international intervention in 2004, has brought a reconsideration of aid conditionality as applied in the Haitian case. One of Haiti's bilateral donors, Canada, noted that "it is highly questionable how constructive this set of conditionality was given that the system did not reform and in February 2004 Haiti experienced another period of intense political instability."²⁹ The summary report of the new Interim Cooperation Framework, designed to establish a new relationship between Haiti and its aid donors, explicitly acknowledged the costs of past "boom and bust" aid policies and the importance of maintaining "the public sector's organizational and institutional capacity."³⁰

Overall, the conditionality bargain seems an unlikely and possibly undesirable instrument to deploy for building capacity in fragile states. Yet donors continue to rely on conditionality for both political and instrumental reasons. Haiti and CAR present the donor dilemma in starkest form: an aid cut-off would bring domestic and international criticism for abandonment of a poor population; unconditional aid is also politically unacceptable in conditions of dubious motivation on the part of elites, widespread corruption, and violence. Given the moral hazard embedded in the provision of large-scale aid to fragile

²⁹ CIDA 2004, 11.

³⁰ Republic of Haiti 2004.

states, aid conditionality seems to offer a politically palatable “tough love” alternative, even if it is ineffective.

Donor proliferation, aid fragmentation, and transaction costs

No dimension of donor behavior has received more criticism than the failure of donors to coordinate their aid policies toward fragile states. The aid architecture was recently described as “increasingly complex,” with ever more donors promoting a wider array of activities across projects whose average size had declined.³¹ As different sectors become fashionable among development agencies and the publics of rich countries, aid recipients suffer from a paradox of popularity: more proliferation of donors occurs, not simply an increase in the level of aid.³² This proliferation of aid donors imposes a particular burden of transaction costs on fragile states and their weak administrative capabilities. Aid fragmentation appears to increase in recipient countries with lower institutional capacity: donors finance a large number of relatively small-scale activities.³³ Competition among aid donors in these settings further erodes administrative capacity.³⁴

Prescriptions for aid policy reform are dominated by blueprints for better coordination, which has become a panacea for the shortcomings of contemporary aid policies. Although a nearly universal consensus exists for more and better coordination, surprisingly little attention has been paid to either

³¹ World Bank (IDA) 2007. The IDA report defines aid proliferation as growth in the number of aid channels and fragmentation as the number of activities funded as well as their average value. Bilateral donors have grown from 5-6 in the mid-1940s to at least 56 today; over 230 international organizations, funds, and programs are involved as aid donors (pp. 12, 19).

³² This proliferation is particularly apparent in the newly fashionable health sector, where more than 100 major organizations are involved as aid donors (*Ibid.*, 19).

³³ *Ibid.*, 22.

³⁴ Knack and Rahman 2007.

the past record of coordination or the purposes of closer coordination. Against this monolithic consensus, few have defended the value of competition among donors from the perspective of developing country governments.

Donors might coordinate their aid disbursements for reasons of efficiency: avoiding wasteful overlap and duplication of programs directed to state-building goals. Coordination would aim at a rough division of labor among donors, although the criteria for such a division—which donors would specialize and in what sectors—are seldom discussed. Particularly in states with a limited ability to manage aid inflows, donor coordination can also lower transaction costs for aid recipients. Competing programs and divergent demands by donors can overtax or overwhelm these governments. Although donors and recipients can unite to endorse coordination in order to reduce inefficiency and transaction costs, another aim of coordination—enhancing donor leverage by developing a common bargaining position toward a recipient government—is viewed with less enthusiasm by recipient governments. Competition among donors may empower recipient governments, enabling them to select programs that best suit their priorities. Unfortunately, the ability to profit from competition may require a level of state capacity greater than that of most fragile states.

The cases of Cambodia, Haiti, and Sierra Leone display a record of limited donor coordination. The frequent creation of coordination mechanisms has seldom produced effective coordination for any of the purposes described. In these cases, leadership among a smaller number of donors may be a better predictor of improved coordination than the presence of formal institutional

devices. The largest share of aid to Cambodia has come from a core group of seven donors--Japan (the largest), the Asian Development Bank, the United Nations, the World Bank, the United States, France, and the European Union. Donor coordination has been weak; different donor development strategies have prevented a common approach to state building.³⁵ Formal coordination mechanisms were established immediately after the Paris Agreement, but the International Committee on Reconstruction of Cambodia (ICORC) was limited to mobilizing aid during the first years of reconstruction. ICORC was replaced by a more familiar mechanism, a Consultative Group, chaired by the World Bank and the Cambodia government, which holds annual meetings to pledge aid and discuss strategies. The World Bank itself notes, however, that “overall coordination of programs and projects at sector level has been difficult.”³⁶ The lack of donor coordination has led to ineffective aid and, unintentionally, to “a culture of corruption and patronage in the use of public resources.”³⁷ Donor coordination has even failed to produce a single national strategy for aid management in Cambodia. Instead, donors funded, in parallel, several alternative projects aimed at creating a national strategy framework. These conflicting efforts only succeeded in imposing additional burdens on the Cambodian government.³⁸

The volatility of aid flows to Haiti, described in the previous section, resulted in part from lack of coordination among donors. Coordination might

³⁵ Peou and Yamada 2000.

³⁶ World Bank 2000, 9.

³⁷ World Bank 2004, 108; also World Bank 2005.

³⁸ World Bank 2004, 113.

have been easier than it was in Cambodia, given the small number of key aid donors, and the dominant position of the United States, which had provided 55% of Haiti's ODA since 1990. (Japan, the largest donor in Cambodia, contributed 21% of that country's ODA after 1992.) The global multilaterals also played a relatively minor role in Haiti; their coordinating role and their pressure for more efficient aid strategies was absent.³⁹ Unfortunately, donors were once again divided in their priorities and their strategies for improving governance. Those divisions produced unilateral and divergent responses to political developments after 2000. Donor coordination could hardly be said to exist by the time of President Aristide's departure in 2004.⁴⁰ The divide between France and the United States appears to have been particularly damaging. For example, the United States promoted justice sector reforms modeled on the American legal system after 1994; France deployed projects based on its own civil code. The reforms backed by the United States, which had no foundation in existing Haitian law, were later abandoned.⁴¹

Sierra Leone offers a more successful record of donor coordination. Donor learning from earlier failures may be a partial explanation; more important was the lead role taken by the United Kingdom and its development agency, the Department for International Development (DfID). The U.K. position as a donor in Sierra Leone was less dominant than Japan's in Cambodia (18% of total aid since 1998), but the other major donors in Sierra Leone agreed with the UK on a

³⁹ The Inter-American Development Bank was the only multilateral lending institution that played a significant role in Haiti. The World Bank had contributed only USD 162 million in Haiti as compared to USD 466 million in Cambodia.

⁴⁰ CIDA 2004.

⁴¹ IPA 2002.

strategy for peacebuilding and state building.⁴² A Consultative Group was quickly established with an early and credible commitment to coordination, in contrast to Haiti and Cambodia. By the time of the Sierra Leone intervention, the World Bank and DfID were strong supporters for higher levels of donor coordination in fragile states. The World Bank worked closely with United Nations agencies, DfID, the African Development Bank, and the EU in preparing the Country Assistance Strategy in Sierra Leone.

The role of DfID within the donor community illustrates another important dimension of coordination: developing a common strategy toward fragile states *within* national governments. A recent review of major aid donors and their peacebuilding programs reveals a high degree of conceptual confusion (and likely repackaging of projects to fit the peacebuilding label) as well as a large “strategic deficit” within most governments. For more than half of the projects surveyed, no link with a broader strategy for the country in question could be identified; in the rest of the projects, the supposed links to a country strategy were often tenuous.⁴³

Aid priorities and sequencing: state building last

Donor coordination has often failed because of disagreement on the appropriate priorities and sequencing in an aid strategy. Although the record in these cases is mixed, aid directed to state building appears to occupy a weak political position in donor governments. Its effects are often difficult to evaluate and may only be apparent in the long run. Service delivery projects are politically

⁴² The other major donors were the United States, the European Union, and the World Bank.

⁴³ Smith 2004, 43-44.

more popular (with the wider electorate and the aid “industry”) and less risky. Even when they intend to develop state capacity, donors often find it difficult to award priority to particular sectors and to sequence their programming for greater effectiveness. The combination of low priority for building state institutions immediately and the tide of aid early in a post-conflict setting often sets up the worst combination of disincentives for state building.

Three key state-building sectors illustrate these effects: establishing a trained and reliable police force within the security sector; increasing tax revenues; and reforming the civil service. Treatment of the security sector in Cambodia highlights the differences among failed and fragile states. With the fading the Khmer Rouge military threat, Cambodia, in contrast to Haiti and Sierra Leone, had too much state in certain respects. The security sector was the base of power for the CPP in its competition with political rivals during the 1990s; it was unlikely to countenance any measures that reduced the size of the sector or the party’s entrenched position within it. A World Bank Disarmament, Demobilization, and Reintegration (DDR) program, which aimed to trim the military’s size, was a failure, plagued by corruption. No other donor programs to reform the security sector have been attempted, presumably because of resistance from the Cambodian government.

Haiti did not have a successful DDR program after 1994, a priority that is now urged on the government as an immediate priority.⁴⁴ As described earlier, donors did fund an ambitious effort to create a professional Haitian National Police (HNP) as the centerpiece of its Rule of Law reform after 1994. Critics

⁴⁴ International Crisis Group 2005, 1.

have noted weaknesses in this program. Pressure to act quickly led to the elimination of key parts of the program, such as practical training and education of a supervisory force. Donors did not agree on all features of the new police force, such as community policing, which produced divergent donor projects. Perhaps most important, police reform was not included in an overall strategy toward the justice sector, in particular reform of the judiciary.⁴⁵ Nevertheless, by the late 1990s, Haiti was as close to having a professional police force as it had ever been in its history. Withdrawal of donor support after 2000 erased those gains.

Sierra Leone has benefited from a lead donor (the U.K.) that has emphasized security sector reform in its strategies toward fragile states. The DDR program in Sierra Leone, supported by a Multidonor Trust Fund under World Bank management is regarded as a success, both in the scale of demobilization and in the maintenance of peace since the end of conflict in 2002.⁴⁶ Reform of the police had been part of the Kabbah government's plans since the late 1990s; the government's return to this priority after the disruption of civil war confirmed a high level of local ownership. Consistent British funding for this priority was also unusual; U.K. and Sierra Leone agencies have also met criticisms of lack of coordination with institutional innovations.

Improved revenue collection is a critical element in any strategy of state building, but few donors have emphasized it. An exit strategy from direct provision of services by donors necessarily requires more revenue from domestic

⁴⁵ IPA 2002.

⁴⁶ But see micro-level results by Humphreys and Weinstein (2005) that question the importance of the DDR program.

sources. More important is the link between dependence on domestic tax revenues and quality of governance.⁴⁷ The exchange of taxes for public services forges a link between ruler and ruled that reinforces other institutions of accountability. Most fragile states have levels of government revenue that are well below other low-income and middle-income developing countries. The average among low-income countries is 18% of GDP; for Cambodia, government revenues are 11% of GDP; for Haiti, 7-9% (during the 1990s); for Sierra Leone, 12-13%. In Cambodia, the World Bank has cited “a vicious cycle of taxpayer non-compliance [that] feeds on poor and corrupt administration and inadequate service delivery.”⁴⁸ The IMF has argued that Haiti’s public sector is so small that it may constrain the country’s economic development. The Fund has urged both increased tax revenues and a larger public sector (with the implication of higher provision of public goods such as education and health).⁴⁹ Unfortunately, although the IMF in particular has provided technical assistance for reform of tax systems, the issue of increased government revenue has not been a priority on donors’ agenda.

Civil service and administrative reform—increasing salaries, instituting long-term training programs, improving accountability—have also occupied a relatively minor role in aid for state building. In Cambodia, where the bureaucracy is notoriously inefficient, corrupt, and lacking capacity, donors have devoted large aid expenditures to “capacity building” with little apparent effect on the national civil service. Transparent and meritocratic rules for hiring and

⁴⁷ For a review of these links with empirical evidence, see Hoffman and Gibson 2005.

⁴⁸ World Bank 2004, 37-38.

⁴⁹ IMF 2005, 16.

promotion were still not in place in 2004. Despite pressure from donors to reduce civil service size in order to improve skills and capacity, the World Bank estimated that public sector employment had increased by about 13% since 1994.⁵⁰ In Haiti the small size of the civil service (only 2.8% of all employment in 1998, compared to an average of 6.5-9% in African developing countries) and the deterioration in public sector salaries since 1995 has meant that the existence of a civil service rather than its reform is at issue. In Sierra Leone, as in Cambodia, post-conflict reconstruction has relied on institutional modalities—program implementation units (PIUs), commissions, and specialized agencies—that bypass weak and ineffective state bureaucracies. Any longer term reform of the civil service will depend on a reduction in reliance on these devices as local administrative capacity is built. The SLG and donors have launched several initiatives aimed at building local capacity. The government has chosen to start at the top with a Senior Executive Service (SES); DfID has supported reforms of administrative housekeeping. The SLG plans a comprehensive Public Service Reform Strategy that will link these parallel efforts.⁵¹

(Re)solutions: Can Aid Promote State Building?

Based on these cases, one can conclude that aid strategies to promote state building in fragile states have produced many of the same disappointing outcomes described in other political settings. Despite a rhetorical embrace of state-building, early emphasis on service delivery and reliance on expatriate

⁵⁰ World Bank 2004.

⁵¹ World Bank 2005.

expertise have often undermined local ownership and institutional improvement. Aid conditionality appears to have had little effect on quality of governance or local state capacity. In the case of Haiti, political conditionality contributed to a regression in a key sector, the police. Poor donor coordination has contributed to badly designed aid conditionality and further overburdened recipient governments. Although direct assistance to programs that build state capacity are less likely to produce substitution effects, several important state sectors, such as tax systems and civil service reform, have been relatively neglected in donor strategies.

The World Bank's Independent Evaluation Group, the U.K.'s DfID, and others within the peacebuilding and development communities have leveled pointed criticisms at this record and have argued for change in existing strategies. Donors have considered new approaches to increase local involvement in the formation and implementation of aid strategy (greater ownership). Innovations that will improve donor coordination in the interests of more coherence and lower transaction costs have also become popular, although separating change from rhetoric is difficult. Aid conditionality and its redesign remain more contentious. State-building priorities and sequencing also enjoy less consensus.

Creating local ownership of state-building programs

The dilemmas associated with increasing local ownership of aid programs are much sharper in fragile states than they are in developing countries with governments that are simply ineffectual or corrupt. In debates over the

fashionable concept of ownership, two competing views have emerged. One foresees an active and catalytic role for the donors in developing state capacity, helping “relevant stakeholders to assume ownership and leadership.” Given the risks of substitution for state efforts, a second orientation argues for a donor role that is more circumscribed: providing analysis necessary for deciding “whether or not to support what must essentially be domestic processes.”⁵² This debate replicates similar arguments over aid selectivity. Given their low starting point on any measure of state capacity, the success of this second, more disengaged approach in fragile states is open to question.

Several steps could reduce the moral hazard produced by large-scale aid flows, increasing incentives for the local authorities to build institutional capacity. In cases where programs and structures have operated parallel to public sector bureaucracies, clear exit strategies should be in place to eliminate such practices over time. Aid in support of service delivery should be tied to an increase over time in locally generated budget support for such projects, funds that would match and then surpass aid contributions. If the fragile state’s government refuses to commit to capacity development, aid funding can be limited to programs of essential services for the poorest.⁵³

Another recommendation for capacity building is more controversial: provision of more aid in the form of direct budget support to the national government and its agencies.⁵⁴ The U.K. has committed more than one-third of its ODA to Sierra Leone to direct budget support. As a means of transferring

⁵² Boesen and Therkildsen 2004, 55.

⁵³ These suggestions are made by Boesen and Therkildsen, 60.

⁵⁴ Fukuyama 2004, 88.

responsibility for service delivery and public goods provision to the national government, direct budget support seems an efficient solution. Dealing with the substitution effect in service delivery, however, increases moral hazard on another front: increasing tax revenues. In the case of Cambodia, donors have resisted direct budget support because of the high level of corruption in the Cambodian bureaucracy.⁵⁵ For political and other reasons, some donors do not accept the desirability of shifting aid provision in this direction.⁵⁶ One might combine these prescriptions into a sequence of measures: direct service delivery, if necessary, at the start of the aid intervention, with strict time limits and exit strategies; a shift to direct budget support as PIUs and other donor-created institutions are phased out; and finally, a reduction in direct budget support on a clear timetable as government revenues and public confidence in collective goods provision increase.⁵⁷ Such a disciplined and coherent strategy would require high levels of donor coordination, a part of the reform agenda that has, predictably, received the most attention.

Conditionality: replacement or reform?

Donors have adopted a uniform new rhetoric promising that local priorities will guide aid allocation. Long-running controversies over aid conditionality, on the other hand, are far from settled. The new emphasis on alignment and harmonization is not explicit regarding donor responses when governments do not fulfill their commitments. The experiences of Haiti and Cambodia are only two illustrations of the limitations of conventional conditionality. Donors and the

⁵⁵ DfID 2005, 22.

⁵⁶ UNDP 2002, 17.

⁵⁷ Brautigam cites the example of Taiwan for the value of such a clear timeline for ending aid.

governments of fragile states are searching for “trusteeship lite”: terms of engagement that will avoid costly cut-offs in aid and reduce ineffective policy conditions while maintaining donor review of government performance. A workable formula may resemble the IMF category of enhanced surveillance: a level of external scrutiny that is less intrusive than policy conditionality, but one that accepts the need for heightened supervision of fragile and post-conflict states.

One alternative to conditionality can be ruled out for fragile states: greater selectivity.⁵⁸ As critics have pointed out, selectivity is ex post conditionality by another name, a type of conditionality that would exclude many fragile states from external assistance. The prospective effects of selectivity spurred the fragile states initiative of the World Bank, as well as renewed engagement by bilateral aid donors. Rather than country-level selectivity, however, donors could implement “rapid response” to promising local developments at the level of projects and programs. Brautigam (2000) urges a demand-driven approach to aid that would resemble foundations responding to project proposals. Collier (2007) argues for donors that behave as venture capitalists, mobilizing resources, particularly technical assistance, to support promising indigenous reform initiatives. William Easterly’s Hayekian, bottom-up approach to aid reform also adopts a small-scale and experimental stance toward local initiatives.⁵⁹ Such a stance implies acceptance of a high level of risk—many such bets will

⁵⁸ Brautigam (2000), for example, argues for greater selectivity as a key

⁵⁹ Easterly 2006

fail—but the potential payoffs would be very large if a country leaves the status of a fragile state.

Matthew Spence (2006) describes the success of just such an intervention in favor of criminal justice reform in Russia. Aid donors engaged with policy entrepreneurs inside national bureaucracies, engagement that allowed the donors to play a catalytic role in reform. When political openings occur, openings that are difficult to predict and hard to influence from the outside, donors may play a critical role in reducing the costs of reform. In the case of strategically deployed technical assistance, the actual budgetary cost may be low. As Spence describes, such interventions require long-term engagement through both promising and discouraging times, an ability to move quickly (not a typical characteristic of aid bureaucracies), a willingness to accept locally generated reforms that may not represent “best practices,” and acceptance that local politicians and bureaucrats will take credit for success (a short definition of ownership).

Collier (2007) offers governance conditionality as a final alternative for policy conditionality: requirements that governments be accountable to their own citizens, a form of ownership writ large. Whether such conditionality—directed to such macro-characteristics as transparency, free and fair elections, and foreign investor rights—would be less onerous and less difficult to monitor and sanction (even if more legitimate) is far from clear. Long-term aid commitments, such as the U.K. ten-year commitment to Sierra Leone, permit both donors and governments to adopt a longer time horizon, while permitting reviews of

performance in specific sectors. The key issue in such commitments is political sustainability in the politics of donor societies: if governance worsens or political conditions deteriorate, can the longer view prevail?

Harmonization: the new coordination

Local ownership, under the rubric of alignment (“with local partners’ priorities, systems and procedures”) has also been linked to new proposals for closer donor coordination (“harmonization”).⁶⁰ New international forums, including the Fragile States Group at the Organization for Economic Cooperation and Development (OECD) and the United Nations Peacebuilding Commission, promise greater global consensus building and some peer pressure to achieve a change in aid practices. The IFIs, the OECD, and the United Nations agencies, have not developed a “strategic secretariat” for constructing peacebuilding and state-building strategies, however.⁶¹

Among the three cases considered here, the most elaborate of these exercises combining engagement with a fragile state government and coordination among donors has taken place in Haiti. The Interim Cooperation Framework (ICF) for Haiti was designed as both a short-term definition of urgent needs as well as a set of medium-term strategies for the period 2004-2006. Expert working groups, which included representatives of Haitian government ministries and agencies, international organizations, and Haitian civil society organizations, developed the ICF. Coordination of the ICF over two years was

⁶⁰ See the Paris Declaration on Aid Effectiveness: Ownership, Harmonisation, Alignment, Results and Mutual Accountability (OECD, 2005).

⁶¹ Cutillo 2006, 60-61. Cutillo describes the new Peacebuilding Commission as another “political forum,” and the Peacebuilding Support Office as “an additional member of the UN system dealing with some aspects of peacebuilding.”

delegated to an Inter-ministerial Committee, a Steering Committee (including both Haitian government and donor representatives), and ten thematic groups drawn from experts within and outside Haiti.⁶² The Cambodian government and donors have also endorsed an Action Plan on Harmonization and Alignment, following earlier sectoral initiatives that are meant to align aid behind ministerial strategies. A Government-Donors Coordinating Committee (GDCC) has been instituted to improve coordination in other sectors, supplemented by joint Technical Working Groups, chaired by a Cambodian government representative.

This proliferation of initiatives and mechanisms to install alignment and harmonization are too recent for complete evaluation. Set against schemes for donor coordination and pledges of local ownership is the pattern of increasing proliferation and fragmentation described earlier, which renders coordination more difficult and overwhelms the bureaucratic resources necessary for developing local priorities and strategies. Given the disappointing past record of coordination and the unfulfilled rhetoric of local ownership, skepticism is clearly in order. An efficient division of labor—a key aim of donor coordination—will be difficult, if it is attempted. The multitude of working groups and committees that combine government representatives and aid donors may not compensate for large asymmetries in expertise and bargaining power that have marked past efforts to foster local ownership and capabilities.

Priorities and sequencing: state building first

⁶² Haiti, Republic of, 2004.

The cases of Haiti, Cambodia, Sierra Leone, and CAR suggest that donors can never move too quickly to begin building or rebuilding state institutions. Of those institutions, those necessary for a secure environment must be established first if other state-building and development projects are likely to succeed. Security, however, is not limited to the prevention of high-intensity internal conflict. Attempted coups, political violence, and criminal gangs have all contributed to insecurity in Haiti and CAR. A security strategy must include layers that will eventually deal with all of these threats, from external military guarantees (Collier 2007) to the creation of reliable paramilitary and police forces. A third neglected sectoral reform should be more central in the state-building agenda: rebuilding tax systems that increase locally generated government revenue, reinforcing political accountability and setting the stage for a transition to reliance on local resources, even if that transition lies in the distant future. Finally, although administrative reform may take many forms, one simple measure would quickly transform morale and possibly performance in many circumstances: supporting the payment, on time, of full civil service salaries.

Conclusion: the significance of aid as an instrument of state-building

Although a vocal part of the public has embraced increased aid as a solution to the problems of development, the prevailing scholarly attitude toward aid has become increasingly skeptical. Nothing in the experience of fragile states radically undermines such skepticism. Proposals for reform of the aid relationship in order to increase aid effectiveness are directed almost entirely to

the donors and their missteps in bargaining and implementation. The perspective of local political actors in fragile states remains obscure, even though their preferences and strategies will play an equally, if not more important role in political and institutional outcomes. In its 2006 review of the LICUS Initiative, the World Bank's Independent Evaluation Group criticized an absence of political analysis in the design and implementation of country strategies in the LICUS (fragile) states.⁶³ That blind spot suggests that international aid donors who seek to support state building must develop both theoretical and practical understanding of "when and how governments improve and when they do not," based on local political actors and contexts.⁶⁴

What alternatives exist if efforts to restructure the aid architecture fail and aid effectiveness in improving political and bureaucratic institutions remains low? Collier suggests that both aid and good governance have been oversold as development remedies for poor countries. Aid requires complements in the form of military intervention, charters that will constrain donor and government behavior, and global trade liberalization that discriminates in favor of the poorest economies.⁶⁵ Each of those complements, however, imposes its own costs in negotiation and implementation. Aid also remains a familiar and trusted instrument for most donor and recipient governments; the entrenched aid relationship will not easily be reformed or demoted in the development firmament.

⁶³ For example, the overestimate by the Bank staff of the significance of formal institutions, which led to the failure of a forestry project in Cambodia. (World Bank IEG 2006, 20-21.)

⁶⁴ Boesen and Therkildsen 2004, 64.

⁶⁵ Collier 2007.

More plausible is a demotion of the significance of good governance for accelerated economic growth and domestic security in fragile states. A necessary turn toward institutions—however vaguely defined—need not mean institutional perfectionism. John McMillan has eloquently criticized the international trustees in East Timor for failing to see the significance of small-scale entrepreneurship for job creation and economic growth.⁶⁶ Although the full panoply of legal institutions and property rights protection may eventually be necessary for sustaining economic development, transitional economies such as Vietnam and China demonstrate that a great deal of development may take place with “good enough governance.”⁶⁷ The institutional landscape of contemporary sub-Saharan Africa is not vastly different from East and Southeast Asian economic success stories before their economic takeoffs. Overcoming those institutional shortcomings, if other impediments to export-oriented manufacturing can be removed, may not require an aid-supported “big push.” The final insurance against the failure of aid-supported state building may be an acceptance that states producing a minimum of security and essential public goods may be both a feasible and a desirable outcome in the universe of fragile states.

⁶⁶ McMillan 2006.

⁶⁷ Grindle 2004.

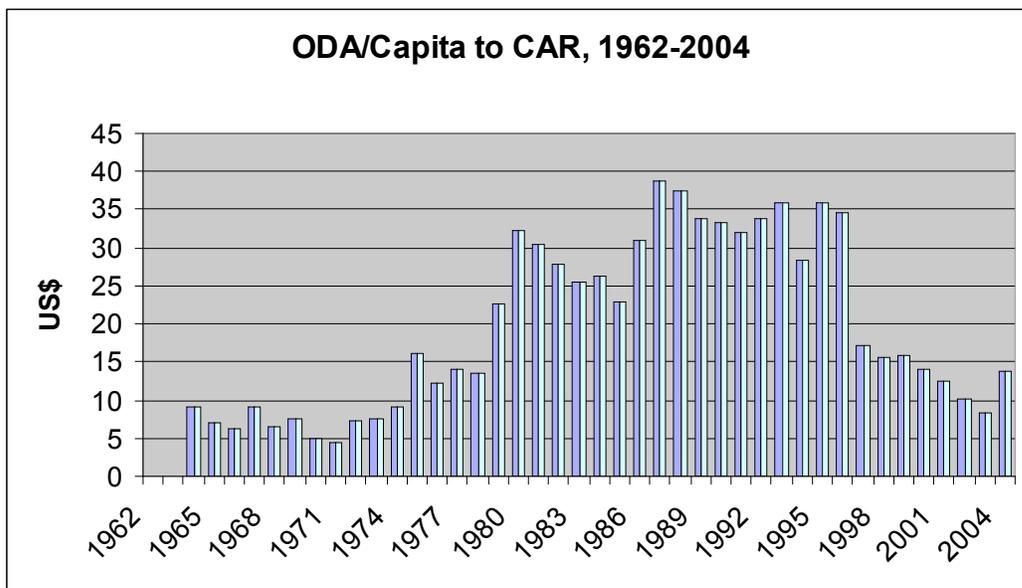
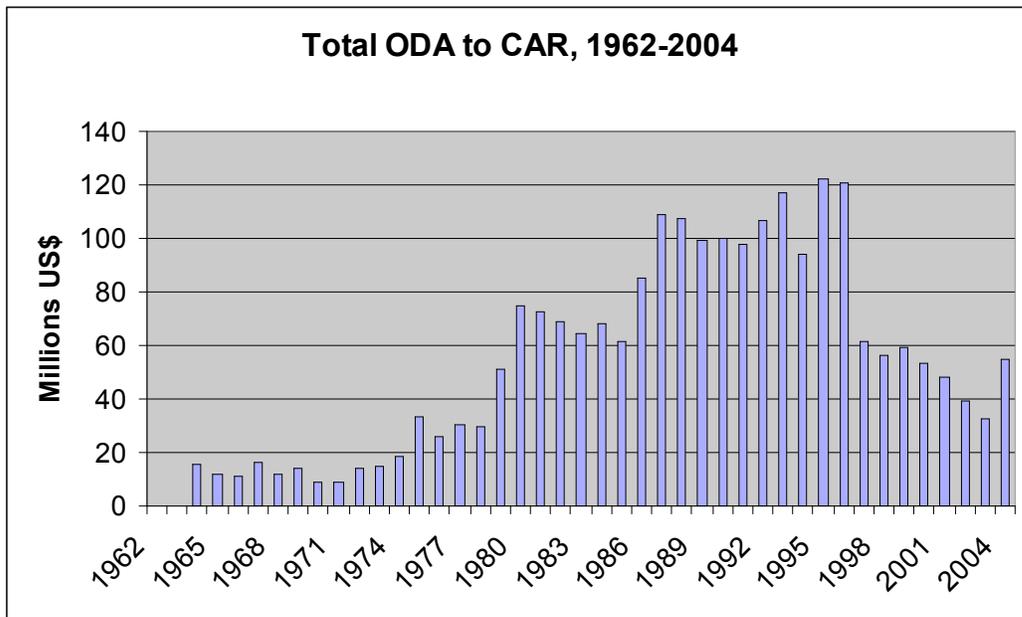
APPENDIX A.
TOTAL ODA AND ODA PER CAPITA

ODA Tables

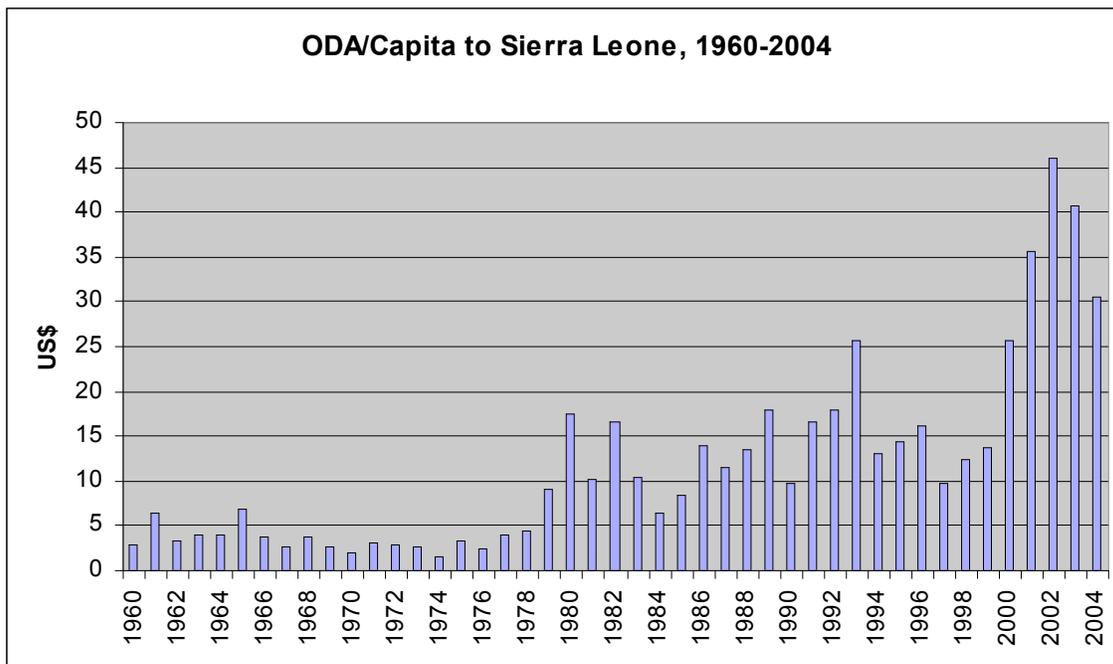
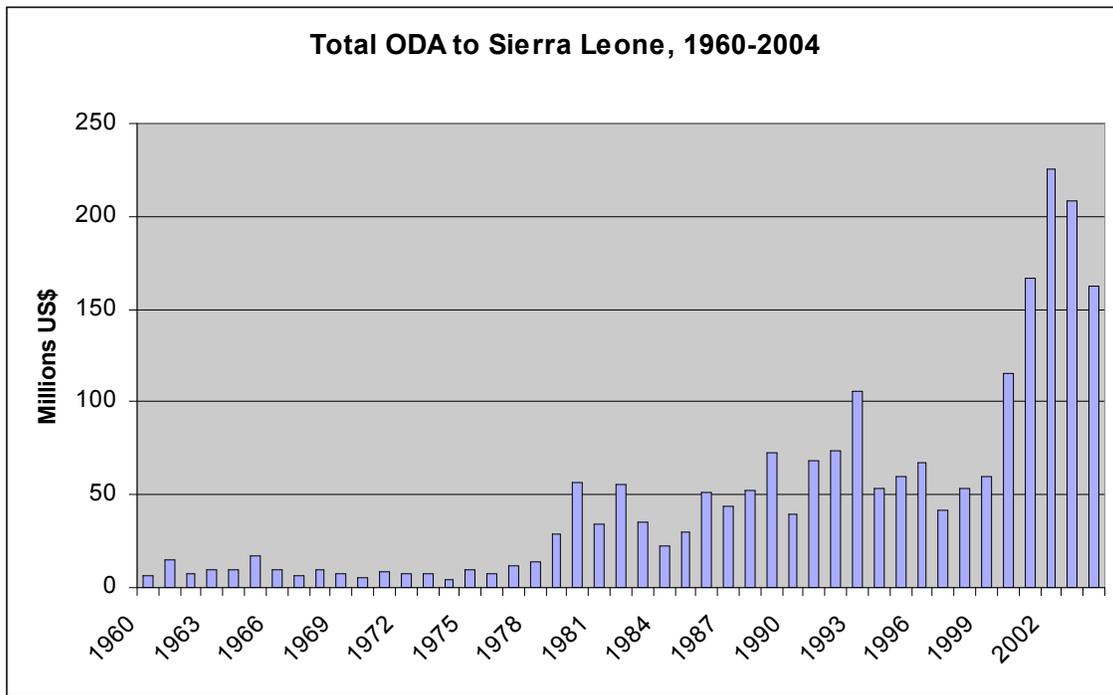
Sources for all tables:

- ODA data: OECD Development Assistance Committee, International Development Statistics
- Population: World Bank, World Development Indicators

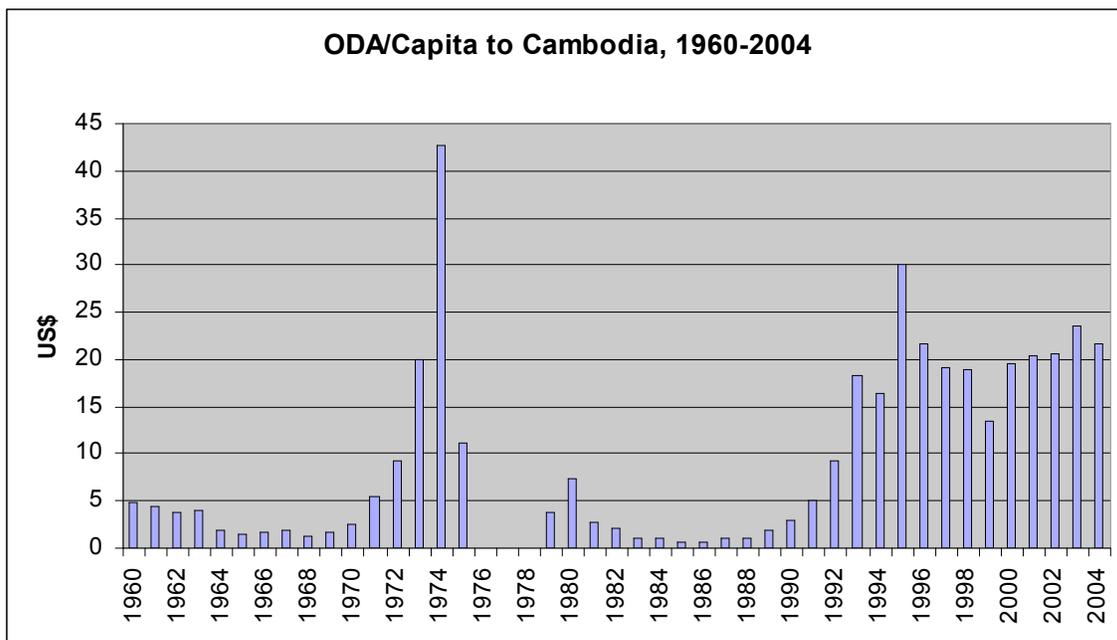
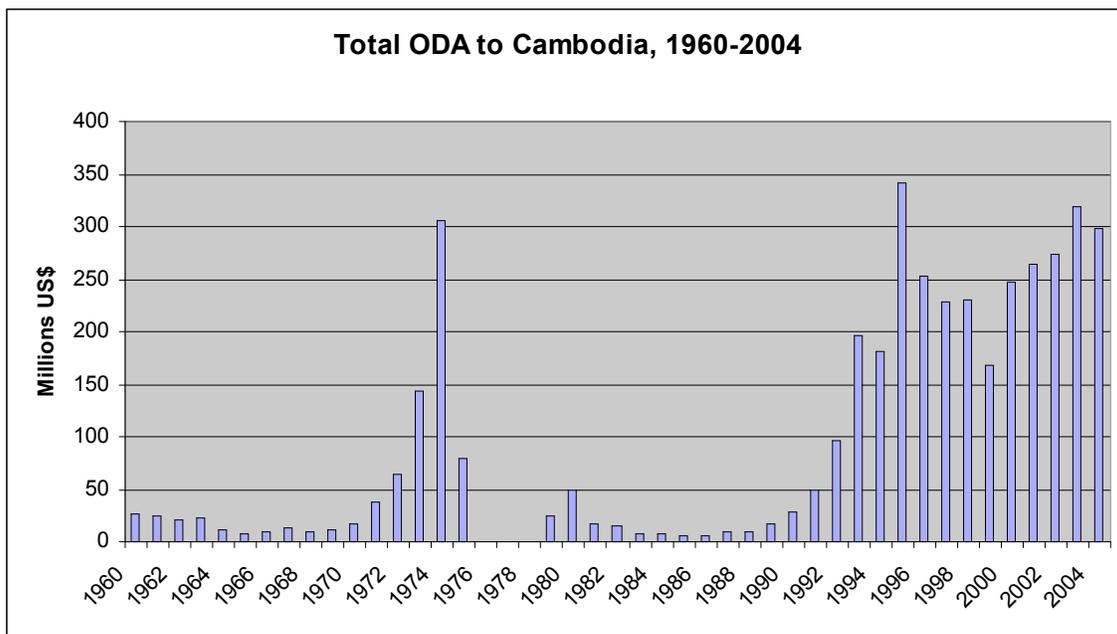
Central African Republic

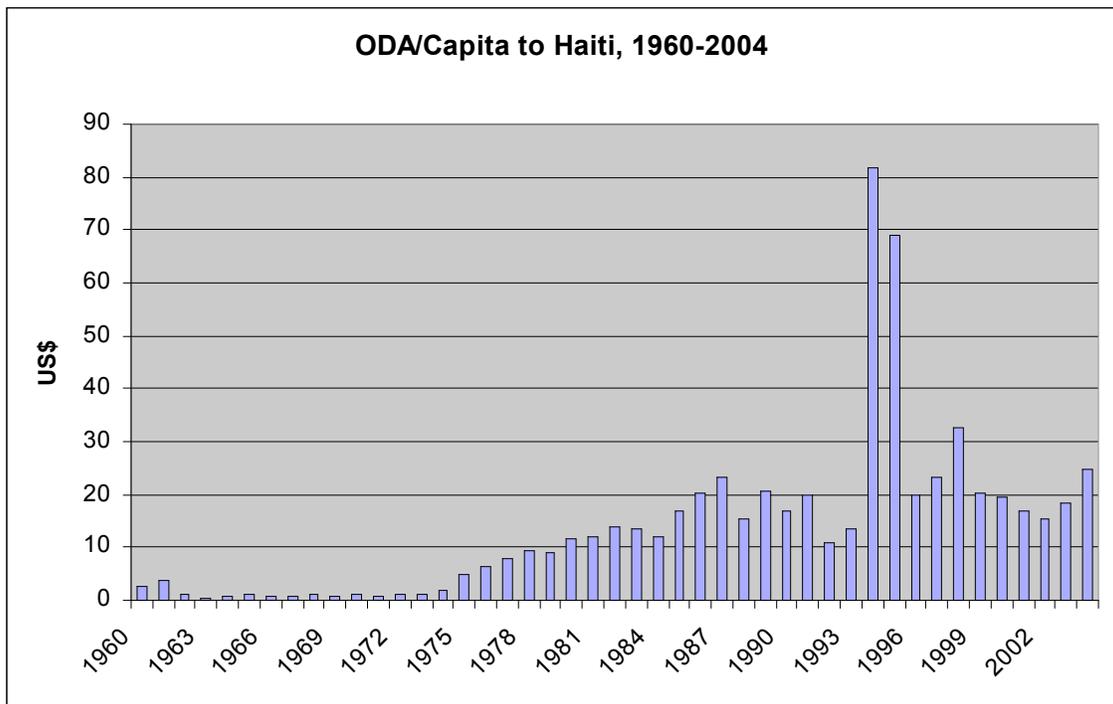
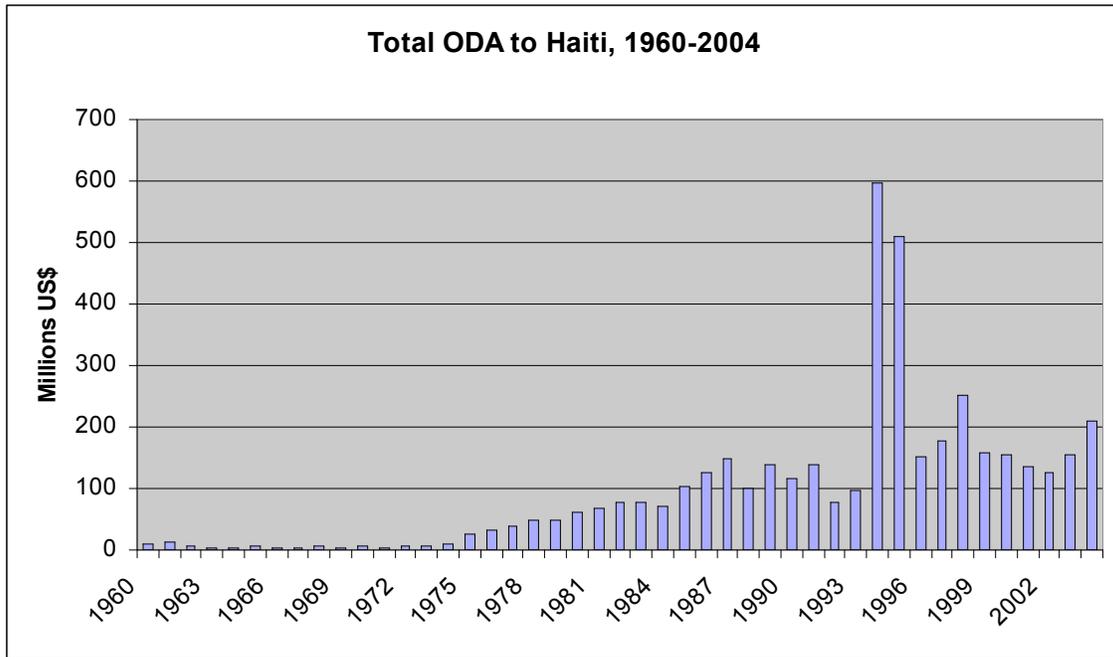


Sierra Leone

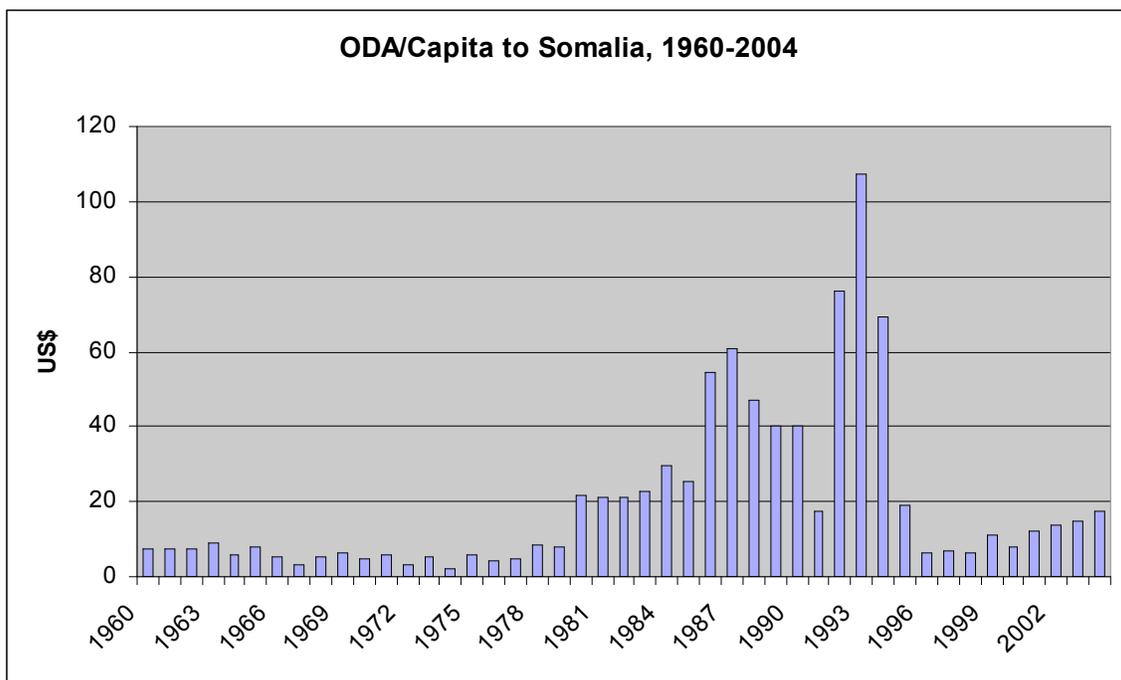
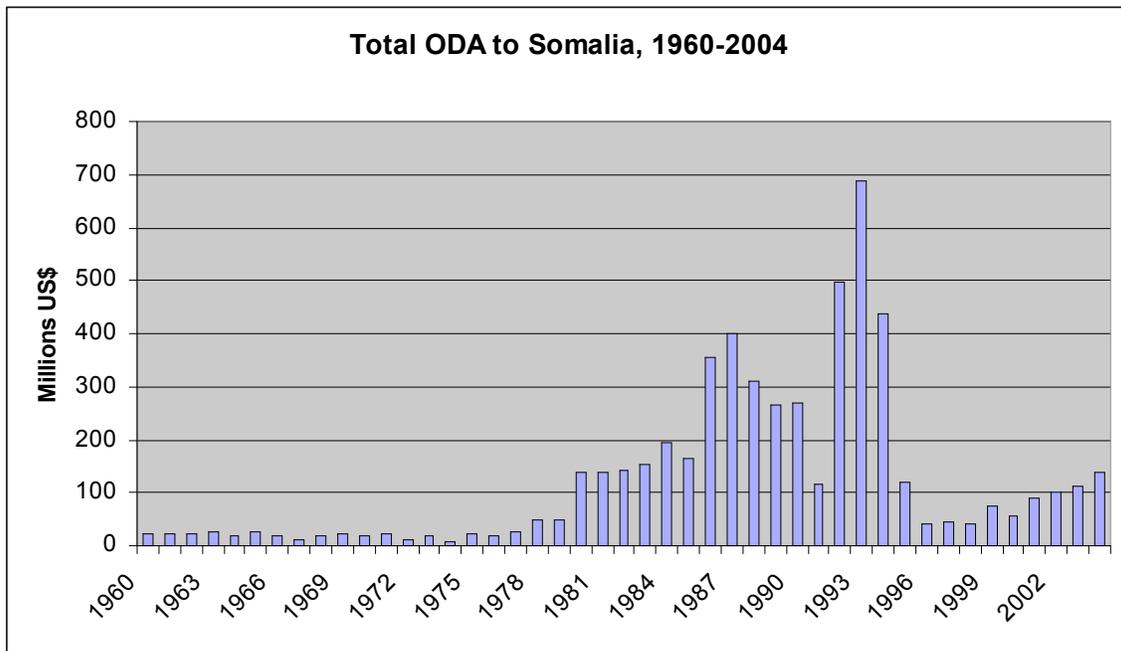


Cambodia



Haiti

Somalia



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