

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 (SWAs) 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

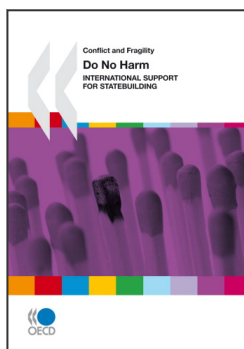
- Where a partner country's state has not established a monopoly over the means of violence within its territory – as a condition and prerequisite for other forms of foreign assistance – donor countries should provide a combination of assistance and pressure for: (a) the resolution of problems in the 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.



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