

Chapter 3

Functions of the state

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

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

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

Security

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

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

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

Strategic dilemmas

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

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

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

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

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

Peacebuilding versus statebuilding and problematic political settlements

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

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

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

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

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

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

Piecemeal assistance to building security forces

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

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

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

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

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

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

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

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

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

Particular demands of context and flexible intervention in the security sector

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

Box 3.1. Demobilisation in Rwanda

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

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

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

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

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

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

Rule of law and access to justice

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

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

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

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

Formulating and implementing the law

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

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

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

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

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

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

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

Judicial infrastructure

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

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

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

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

Expanding access to justice

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

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

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

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

Taxation

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

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

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

Establishing the state's control over taxation

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

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

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

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

Aid dependency and impact on revenue generation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Effective tax administration

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

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

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

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

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

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

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

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

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

Expatriate taxation and statebuilding

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

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

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

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

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

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

Box 3.3. Expatriate taxation: Experience in Afghanistan

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

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

State capacity to manage economic development and the environment

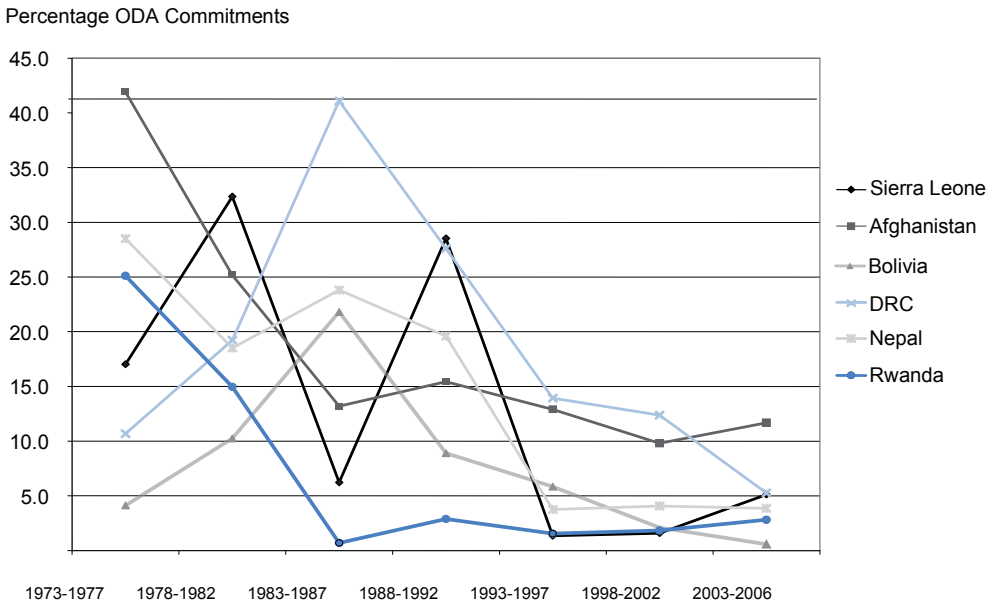
At the root of state fragility lie low levels of economic production, usually characterised by particularly low levels of agricultural productivity and little investment in manufacturing. The extent to which states are able to foster growth in these basic productive sectors can become crucial to legitimacy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

Donor neglect of the productive sectors in fragile states

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

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

Figure 3.1. Aid to production sectors



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

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

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

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

Agricultural production and the challenge of statebuilding

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

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

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

Source: OECD online statistics.

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

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

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

State capacity to manage the environment

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

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

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

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

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

Assistance to service delivery

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Box 3.5. Service provision in Nepal

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

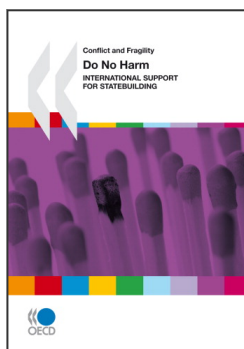
7. Donors risk doing harm to statebuilding by failing to provide support for the creation of capacity within fragile states to expand productive activities.

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

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

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

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



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