

THREE

Outstanding Policy Issues

Each of the initiatives described in the previous chapter raises important and unresolved policy issues with regard to the allocation and use of U.S. foreign aid. Some of these issues have already been touched on. This chapter examines in depth several of the more prominent ones not fully examined in chapter 2.

The Millenium Challenge Corporation: Demonstrating More Effective Aid

Aid for development has alternated between an emphasis on promoting growth—through economic reforms, infrastructure expansion, business service centers to provide advice and training for entrepreneurs, and enterprise funds to provide credit to small, medium-size, and midmarket enterprises—and addressing problems of poverty directly, for example, by expanding basic health and education, microenterprise lending, and community development.¹ The 1960s put primary emphasis on fostering growth by creating the conditions that would foster expanded private investment and increased productivity in existing enterprises; the 1970s focused directly on meeting the basic human needs of the poor, such as by expanding basic education, health care, and rural, small farmer development; the 1980s saw a return to growth as a priority through policy reform; and poverty reduction was the theme of the 1990s.

The Millenium Challenge Corporation (MCC) represents a reemphasis on growth by assisting countries whose policies are already deemed relatively good for promoting growth based on eighteen criteria. The MCC monies are also intended to create an incentive for other governments with less adequate policies to implement economic and political reforms and to boost their growth prospects and thus their eligibility for MCC funding.

The core idea behind the MCC is that good policies will result in effective development and poverty reduction and that those policies can be identified and countries classified according to good policy performance. This seems an eminently logical assumption. Poor policies—large-scale corruption, repression and insecurity, hyperinflation, grossly misaligned exchange rates, major barriers to trade and investment—will surely discourage investment, possibly lead to political turmoil and civil conflict, and block sustained growth and development in the future as they have done in the past, for example, in the Democratic Republic of the Congo, Haiti, Sierra Leone, Burma, and elsewhere. But this paradigm rests on several key assumptions that remain to be tested.

First, it is assumed that countries can easily be assessed by using objective measures of “good” and “bad” policies and that those policies are sufficiently influential so as to have a predictable impact on their growth. In fact, many countries have a mix of good and bad policies and have nevertheless been able to enjoy rapid growth. China is the most prominent example of a country with corruption, weak rule of law, and a host of other problems but that has been growing at an incredible rate since the 1980s. Indonesia is another with a history of extensive corruption and healthy growth. It seems likely that other factors besides those captured by the eighteen indicators matter, too, for example, population size. Even with all its problems, China is too big a market and too low cost a producer for hungry investors to ignore if there is a shred of possibility they might be able to make money investing there.

The same is clearly not true for many African countries. Paul Collier notes in his excellent book that small, landlocked, natural-resource-rich or conflict-ridden countries tend to have a much harder time developing, and using aid effectively to spur growth, than countries without these problems.² The right policies are important, but they may not be enough.

This may be why some data-based studies have found no relationship between aid effectiveness and policies of the recipient country.³ With the complexities of the multiple factors, alone or in combination, spurring growth, the MCC is more of an experiment in improving aid effectiveness than an exercise with predictable results, despite the fact that it has been presented to Congress and the public as the latter.

In addition to the very difficult challenge of demonstrating cause and effect between aid and growth, there is another important question facing the MCC: how much aid is really needed in order to have a significant impact in a country? We do not yet have enough information to try to answer that question since the amounts of aid provided through the MCC thus far have turned out to be much smaller than originally envisioned and so are likely in most cases to make a relatively small contribution to the availability of resources to recipient governments. For example, as of July 2007, if we compare the average annual commitments of aid in signed MCC country compacts with total aid disbursed from all sources in 2005 (the latest data from the Development Assistance Committee) in those countries, MCC flows (had all commitments actually been disbursed) would have averaged less than 15 percent of total aid flows that year, with a very large increase in aid flows (by 250 percent) only in Lesotho. These are very rough guidelines to the potential addition in aid represented by the MCC since (1) very little of the MCC monies have in fact been disbursed; (2) they are planned for disbursement in gradually increasing levels over time; and (3) by the time they are actually disbursed (2008–12), aid flows from other sources to MCC countries may have risen significantly from the level in 2005. These percentages do raise the question as to whether MCC aid, once it begins to be spent, will be large enough to have the impact intended on a recipient country's growth. Again, the MCC is a worthy trial, but it is not an exercise in applying known technologies to promote major economic change in foreign lands.

The MCC also was intended to have an effect on countries not eligible for receiving its funds—the promise of sizeable amounts of aid was supposed to provide incentives for governments to undertake the reforms to make them eligible for MCC funding and to sustain those reforms over time. In addition, the MCC was meant to spur recipient countries to undertake further reforms—for example in procurement practices—to

meet MCC standards of operations. Has it had those effects? A 2006 study by two Harvard economists suggests such an “MCC incentive effect” exists.⁴ If confirmed by additional studies, this could be an important achievement for the MCC. However, it must begin to disburse more aid, in much larger amounts, to sustain any such effect.

Another issue in MCC programming is the assumption that low-income recipient countries would be able to muster the capacity to propose their own MCC-funded aid activities and to manage those activities effectively. It is well known that poor countries typically have weak governmental capacities, no matter how good their policies are. But the slowness with which the MCC has been able to disburse its funds in the field—part but not all of which is a result of MCC’s own start-up problems—raises the question whether those capacities are too limited to handle MCC requirements in a reasonable time period, even with technical assistance from the MCC. If, upon careful analysis, this proves to be the case, the MCC model may have to be fundamentally revised to take into account the capacity problem in low-income recipient countries and the implications of that problem for implementation and rates of disbursement.

Finally, there is the challenge of demonstrating to Congress and the American public that MCC funding is effective in promoting growth and poverty reduction in recipient countries—the claim that helped gain congressional support for this new type of aid agency. There are two parts to this challenge. One, mentioned above, is familiar: demonstrating the connection between the aid and its impact. This in itself is a difficult challenge; but in addition, the political clock is running: MCC legislation is to be reauthorized in 2008 when its impact will inevitably be a topic of discussion. At the current rate of disbursements, it will be very hard to demonstrate its impact or even to achieve expected outputs.

The second part of the challenge involves a question seldom asked but nonetheless very important: How much aid effectiveness is enough? Naturally, there is an expectation that aid should achieve its goals—for example, that roads are built to specification and are maintained; that agricultural production and sales increase as foreseen; and that farmers’ incomes grow by the expected amount. But things seldom turn out as intended. Local conditions can present unexpected problems; designated

technologies may not work as planned in a new environment; management of aid interventions can be ineffective on donor and recipient sides; unintended side effects of an aid intervention or events beyond the control of donor or recipient can undercut the impact of the aid. Of course, it is also possible for unexpected events to strengthen rather than undo the impact of an aid-funded activity. In short, attempting to bring about beneficial change in foreign countries is a risky and often experimental business. Where aid evaluators report consistently 100 percent effectiveness, they are probably gaming the system or not taking enough risks for change. So what should we expect regarding successes and failures of aid projects and programs? For example, should we laud or lament a 70 percent rate of achieving intended outcomes?

There is no accepted benchmark, but one way of getting at an answer to this question is to look at similarly risky investments in the private sector. For example, what degree of success do early stage venture capitalists expect from their risk capital? They face the same uncertainties regarding new technologies, the quality of managers implementing projects, and the economic environment in which the project is undertaken. Apparently, venture capitalists do not like to advertise their rates of success or failure, but from several sources it appears that the following pattern is common: roughly 25–30 percent fail, 40–50 percent break even or have moderate success, and 10–20 percent attain outstanding success (where success is measured in rates of return on investment).⁵

How does this stack up against what we know of past aid successes and failures? Bearing in mind that this is the crudest of comparisons and can only be taken so far, there appear to have been fewer transformational successes in aid—the high-yielding varieties of grain could certainly be counted as one of them. There also appear to have been fewer clear failures. For example, the World Bank estimated that between 1974 and 1994, 72 percent of its projects were rated “satisfactory.” In 1995 that percentage fell slightly to 68 percent but rose to 78 percent by 2000.⁶ The U.K. Department for International Development found that its aid projects achieved their purpose (meaning “outputs”) an average of 62 percent of the time in 1986–89, rising to 78 percent in 1994–99. The goals (more like “outcomes” in this study) of British aid projects were achieved at rates

roughly 10 to 20 percentage points below these output numbers, also mostly rising over time.⁷

While these figures are not strictly comparable, they and others used above suggest that success rates for aid effectiveness tend to range from 50 to 80 percent satisfactory. The impression given here is that aid tends to be ineffective or unsatisfactory at roughly the rate of early-stage venture capital investments. There are fewer outstanding aid successes, but the total percentages of satisfactory or better aid interventions are roughly equal to early-stage venture capital investments.

Where aid differs significantly from venture capital is in the area of sustainability. Venture capitalists assume a measure of sustainability in their successful investments, since by the time they end their support, those investments have become profitable. Aid interventions can be effective but unsustainable, especially where the political and economic environment in which the aid intervention has taken place turns adverse. And the sustainability of aid interventions has tended to be significantly lower than effectiveness. However, the one agency that estimates sustainability—the World Bank—shows a rising trend, from roughly one-half of assessed interventions during the period 1996–99 to three-fifths for the period 1999–2000.⁸

These roughest of comparisons suggest ideas for a discussion of how much effectiveness is enough. This discussion is one that the MCC will have to engage in as it attempts to demonstrate that the model on which it is based is accurate—that is, significant amounts of aid to good performers are more effective than aid promoting growth and poverty reduction, and that MCC has been an effective implementer of that model.

There is one more issue that the MCC experience raises: the tendency on the part of executive branch planners (not only in the Bush administration but in many other administrations as well) to oversell new programs to Congress and the public. The MCC was a new model for providing development aid to poor countries, based on the principles of conditionality (that is, that governments needed to have the policies to make them eligible for MCC aid) and “ownership” (that recipient governments should decide, within reasonable constraints, how their aid should be spent). The administration pitched the new program to Congress

as a means of providing more effective aid over a relatively short period of time (that is, five years per compact) with relatively quick results. But these selling points failed to recognize conditions on the ground, as noted above: developing countries, especially those with limited government capacities, would need a lot of time to put into place acceptable plans for the use of MCC funds in an accountable and effective manner—considerably more time than was assumed by MCC planners.

This is not the first time a new idea in foreign aid has been oversold or has underperformed. But each time it happens, it erodes the confidence of Congress, the public, and the foreign policy community in aid in general.

President’s Emergency Plan for AIDS Relief: The Challenges of the Big Push

PEPFAR was established in the implicit belief that a particular problem (in this case, HIV/AIDS prevention, treatment, and care) could be addressed by allocating a very large amount of aid to deal with it—an approach reminiscent of an earlier view that had advocated a large volume of aid, a “big push,” in order to spur development generally in poor countries. While different in key areas, both of these big pushes put great faith in aid as a means of resolving a complex problem, downplaying obstacles to the efficacy of aid and its potential side effects.

The argument often made by PEPFAR advocates is that the rate of infection is rising faster than the rate at which ARVs are supplied worldwide, so funding needs to be ramped up quickly to bring the problem under control. The important differences between the big push for development and that against HIV/AIDS are that (1) the latter is likely to become a permanent element in U.S. aid, given the chronic nature of HIV/AIDS and the poverty of many of its victims in the developing world; (2) a big push for development potentially engages an entire economy while PEPFAR engages only one major problem (HIV/AIDS and to a lesser extent malaria and TB) in one sector (health); and (3) a big push for one sector or function can skew U.S. development aid toward that sector and limit the ability of the administration to address major development issues more broadly.⁹

Objections to a big push approach center on the problem of diminishing returns when foreign aid increases rapidly and dramatically. Because of capacity constraints in governments or organizations receiving the aid (and even among aid agencies in developed countries providing the aid, especially if they are under pressure to spend the money), the returns on that aid could decline as bureaucrats, government management systems, and recipients are overwhelmed with funding. And there are other problems, such as aid dependence—a moral hazard when foreign assistance displaces local funding for activities that recipient governments should be covering. Sudden, large amounts of aid also discourage needed but difficult reforms and avoid hard budget constraints; they make it possible for dysfunctional leaders to remain in power and, like large returns from natural resources, make them less accountable to their publics. Behavioral disincentives also result—if the flows are large enough; government officials and others from different sectors in society may find it more remunerative to spend their time chasing aid monies than producing goods and services. Finally, the impact of aid on the economy in general can have deleterious effects where major increases in aid over a short period of time drive up inflation and exchange rates and depress exports—one variety of the famous “Dutch Disease” that has long preoccupied development economists. All of these effects of large inflows of aid are mostly theoretical since aid flows seldom reach such large volumes for individual countries, and research on diminishing returns to aid has been limited.¹⁰

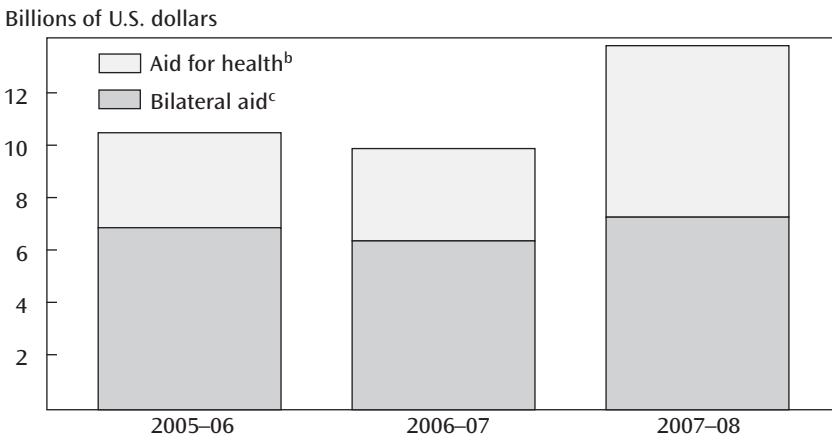
However, many of these problems may not remain theoretical with regard to PEPFAR monies. The large and rising sums provided primarily to African governments for fighting HIV/AIDS have already begun to tax the health systems there, which have never been strong and are typically short on medical personnel, space, equipment, and drugs to address the many, many health challenges of life in the tropics. There is evidence, cited in chapter 2, of medical personnel being drawn out of general practice into the treatment of HIV/AIDS. There are already concerns being quietly expressed by U.S. Agency for International Development (USAID) personnel in the field about having too much PEPFAR funding to use it all productively. With regard to prevention, there is clearly a need to do a lot more but great uncertainty as to how to persuade Africans and others to

abandon practices that have put them in danger of contracting AIDS, not to mention the women and girls who are powerless in male-dominated cultures to set the rules of their sexual encounters. The moral hazard threatened by substantial foreign funding of particular government services over an extended period of time is real as well. In short, there is an obvious capacity problem in many countries, above all in Africa, in dealing with the large and sudden increases in funding to fight HIV/AIDS.

In addition to the capacity problem, there is the broader issue of dealing with HIV/AIDS and health in a way that improves the well-being of not just AIDS victims but of societies as a whole. Health systems need to be strengthened, medical personnel paid more to keep them from immigrating to the United States and elsewhere, and hospitals need to be better built, better supplied, and better run.

And then, what happens to those victims of AIDS when they are again healthy enough to work? Should there not be programs to ensure that they can earn a living adequate not only to feed themselves and their families but also to enable them someday to pay for their own drugs? In short, there is a dense network of economic and social interrelationships in societies where, if large amounts of funding are allocated only to one problem or one sector (often called “stove-piping”), imbalances and distortions begin to appear elsewhere and eventually funding can be wasted and have a negative impact on recipient societies. The motivation and vision of PEPFAR are laudable, but the program must also address problems that are related to HIV/AIDS and that go beyond the disease itself and even beyond the health sector itself. And, it is important to note, PEPFAR is primarily a donor-driven aid program, with amounts and uses set in Washington, not a demand-driven one. There is no question recipient governments are happy to receive PEPFAR funding, but as the quantity of that funding grows, the danger arises that as PEPFAR monies increase, the problems of ownership may increase.

Finally, there is the question of balance in U.S. aid giving. The complaint is often heard that the United States does too many things with its aid and lacks focus and effectiveness. It is true that a considerable portion of U.S. bilateral aid—including Development Assistance, Child Survival and Global Health, PL 480 Food Aid, Economic Support Funds (ESF),

FIGURE 3-1. U.S. Bilateral Aid and Aid for Health, 2005–08^a

Source: Consolidated Appropriations Act, 2008 (www.cfr.org/content/publications/attachments/2764.pdf) and Department of State, International Affairs Budget, 2008.

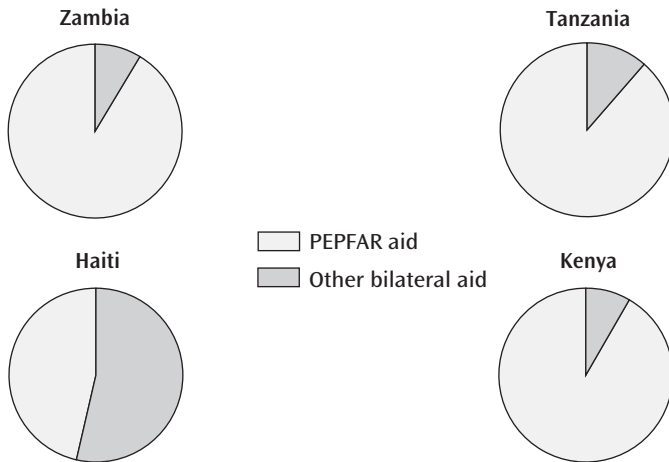
a. The data are not disbursements but appropriations. Disbursements are likely to be smaller, especially for the MCC.

b. Aid for health includes the aid accounts of Child Survival and Global Health and the President's Emergency Plan for AIDS Relief (PEPFAR).

c. Bilateral aid represents aid appropriated in the following major accounts: Development Assistance (DA), Economic Support Funds (ESF), Millennium Challenge Account (MCC), and P.L. 480 Food Aid.

and the Millennium Challenge Account—finances a variety of diverse activities, often ones that Congress has earmarked or the president has identified in a presidential initiative. But it appears increasingly to be the case that U.S. development aid is oriented toward global health issues, especially HIV/AIDS. Two major aid accounts now focus on health: the Child Survival and Global Health account (\$1.8 billion in 2008) and the PEPFAR monies (\$4.7 billion in 2008). These equal nearly one-half of total U.S. bilateral aid included in the five major bilateral aid accounts listed above plus PEPFAR monies—a percentage that rose significantly in 2007–08, as figure 3-1 shows—and, with current commitments to funding HIV/AIDS, will continue to rise in the future.

Figure 3-2 shows the portion of aid funding from PEPFAR in 2008 in four countries as a proportion of U.S. bilateral economic assistance (Development Assistance, Child Survival and Global Health, ESF, and PEPFAR).

FIGURE 3 - 2. U.S. Bilateral Aid: PEPFAR and Other, 2008

Source: USAID, International Affairs Budget, Fiscal Year 2008, country aid charts (www.usaid.gov/policy/budget/cbj2008/fy2008cbj_highlights.pdf).

The number of focus countries receiving PEPFAR monies is still limited, but the charts demonstrate the potential for imbalance in those countries receiving HIV/AIDS funding.

Fighting HIV/AIDS is a worthy cause, but the amounts of funding allocated to this function threaten to limit the funding and flexibility of U.S. bilateral aid to poor countries to address development problems in a holistic fashion.

The Problem of Failed States

The greatest policy deficiency in foreign aid under the Bush administration is the absence of a policy to deal with the problems of failing and failed states. In 2002 the president's National Security Strategy of the United States declared that "America is now threatened less by conquering states than we are by failing ones."¹¹ Statements and reports from the Department of Defense (DoD), the Department of State, and USAID have evinced a strong concern with the consequences of fragile and failed states, which can harbor terrorists in their ungoverned spaces and whose discontented

and often unemployed youth can become vulnerable to the temptations of terrorism. In addition to creating potential sources and sanctuaries for terrorists, drug dealers, and other criminal elements, state weakness or failure can block development and can lead to civil violence, producing displacement, destruction, widespread civilian deaths, and grave humanitarian crises.

As of 2008 there is still no significant or coherent U.S. policy or program to address the problems of failed states. Concern with these states has driven the Department of Defense to begin to provide economic and security assistance to stabilize weak states in Africa and elsewhere. Reflecting its own concern with these states, USAID published a policy paper entitled “Fragile States Strategy,” which, however, was rather more of a statement of the problem and less a strategy for dealing with it.¹² Additionally, problems of state collapse and the task of “nation building” motivated the creation of the Coordinator for Reconstruction and Stabilization in the Department of State (S/CRS).

So what is the problem? There are several that policy planners working on failed states must tackle. How is a “failed state” to be defined? How and why does a state fail? How can state failure be prevented or reversed?

What is a Failing and Failed State?

Establishing an accepted meaning of “failing and failed states” is the first step in identifying a policy response. There are several definitional problems. The first is that different scholars, think tanks, and government agencies use the term in quite distinct ways depending on the problems within these states that concern them. At present, different terms are used to describe these states, including weak states, low-income states, poorly performing states, difficult partners, and fragile states. And these terms are often used interchangeably. The London-based Overseas Development Institute in a recent report on fragile states observed that “The term ‘fragile states’ has no precise meaning” and went on to point out that the term has been used to describe the *functionality* of states—are they able to provide security, basic services (education, health), effective economic regulation?—as well as the *consequences* of state fragility—that is, the

problems they create, such as global security threats or refugees.¹³ Box 3-1 lays out the major components of fragile states, assumptions on causality, approaches to addressing them, and which government agencies employ them.

There have also been several approaches to measuring the degree of state fragility or failure. One attempt has involved identifying and measuring gaps between the expected functions of states and what they really do. The greater the gap between the expected and actual functions, the greater the fragility of the state.¹⁴ Another approach, reflected in the Index of Failed States produced by the Fund for Peace and *Foreign Policy* magazine, identified a set of factors believed to contribute to state fragility, rated countries on those factors, and produced a list of failed states (see box 3-2).

Clearly, even these two approaches reflect very different ideas of state failure. The gap analysis permits a distinction between failed and failing states, with failed states presumably unable to perform most or all the normal functions of a state. Somalia would be a completely failed—or collapsed—state. In the index approach, there is no special category for a collapsed state; rather, states with serious problems are all classified as more or less failed.

What are we to make of the confusion in the use of the terms weak, fragile, failing, and failed states? The best thing is to ignore the terms and simply identify what our main concern is with the performance of states and develop our policies and programs accordingly. The Bush administration's main concern with regard to failing and failed states is their potential role in harboring terrorists. Many in the U.S. government and policy community have also long been concerned about the developmental and humanitarian consequences of state failure, but what has elevated state failure to a priority today is the global war on terror. The next administration will need to elaborate a policy reflecting that priority, and this section offers some thoughts on how to proceed.

Tackling Fragile and Failed States

There are four types of problems related to the behavior of governments that can produce sanctuaries for terrorists. I shall use four different terms

BOX 3-1. Main Components of the Fragile States Agenda

<i>Focus or emphasis and goals</i>	<i>Underlying assumptions and views on causality</i>	<i>Types of "external" actors and approaches</i>	<i>Donors emphasizing a particular component of the FS agenda</i>
Local peace, human security, and basic needs	Politicization of ethnic and religious divisions and of resource constraints causes conflict, which undermines development.	Postconflict resolution specialists, peace-keeping agencies focusing on IDPs and refugees, security-sector reform, DDR and development, and humanitarian workers	DFID UN peace-keeping BMZ EU
Economic development and good governance	State failure, collapse, weakness, underperformance causes poor developmental outcomes and vice-versa. Differences in emphasis on <ul style="list-style-type: none"> ◆ Economic and political development ◆ Governance as primary driver or consequence of economic growth ◆ Short-term humanitarian needs or longer-term development aims 	Range of developmental and humanitarian professionals and donor agencies, including bilateral agencies, UN, IFIs, economic analysts, and governance and human rights workers	DFID Aus-AID USAID UNDP IFIs OECD-DAC BMZ Netherlands agencies EC
Global security	The poor quality of governance and the economy in some weak states generates organized crime (for example, drug trade), terrorism, immigration and social cohesion concerns, WMD threats, and so on. Development and good governance in these countries are instrumental to reducing global security threats.	Foreign policy and diplomacy, security and defense actors, police, anti-drug trafficking, money laundering, arms specialists.	United States (DoD, State Department and USAID) United Kingdom (FCP and MoD) Aus-AID UN Security Council OECD EC

Source: Diana Cammack, Dinah McLeod, and Alina Rocha Menocal with Karin Christiansen, *Donors and the "Fragile States" Agenda: A Survey of Current Thinking and Practice* (London: Overseas Development Institute, 2006), p. x.

BOX 3-2. Failed States and Their Indicators

Social indicators

Mounting demographic pressures
 Massive movement of refugees or internally displaced persons creating complex humanitarian emergencies
 Legacy of vengeance-seeking group grievance or group paranoia
 Chronic and sustained human flight

Economic indicator

Uneven economic development along group lines
 Sharp or severe economic decline, or both

Political indicators

Criminalization or delegitimization of the state, or both
 Progressive deterioration of public services
 Suspension or arbitrary application of the rule of law and widespread violation of human rights
 Security apparatus operates as a “state within a state”
 Rise of factionalized elites
 Intervention of other states or external political actors

Worst cases of failed states^a

Sudan	Pakistan	Sierra Leone
Iraq	North Korea	Yemen
Somalia	Myanmar	Sri Lanka
Zimbabwe	Uganda	Republic of the Congo
Chad	Bangladesh	Liberia
Côte d’Ivoire	Nigeria	Lebanon
Democratic Republic of the Congo	Ethiopia	Malawi
Afghanistan	Burundi	Solomon Islands
Guinea	Timor-Leste	Kenya
Central African Republic	Nepal	Niger
Haiti	Uzbekistan	

Source: This box is drawn from the Fund for Peace (www.fundforpeace.org/web/index.php?option=com_content&task=view&id=229&Itemid=366).

a. This list represents the top 32 worst cases of failed states on the basis of their scores on the Failed States Index 2007 (from first to thirty-second).

drawn from the state failure discourse to describe them. First are *weak or fragile states* that do not have a large enough or competent enough military or security services to govern their space, such as many in the Sahelian region of Africa. These states are typically very poor with responsibilities for securing very large (and often sparsely populated) spaces. Theirs is a *capacity* problem.

Second, there are *failing states* that are so oppressive or corrupt that—while their security services may not be weak and they may not have ungoverned spaces—their behavior drives their societies toward conflict and eventual state collapse (for example, Zimbabwe, Myanmar, or Liberia under Charles Taylor), which can produce ungoverned spaces. Their problem is a *governance* problem.

Third are *rogue states* that might be able to control their territory and deliver some services to their populations but choose to harbor or tolerate terrorists operating within their borders, such as Afghanistan under the Taliban, Sudan, and perhaps Pakistan. Finally, there are *collapsed states* that are largely or wholly nonfunctional. These types of states are typically the result of prolonged periods of poor governance, often combined with external interference; they almost always experience widespread violence and civil conflict and have ungoverned spaces or spaces where warlords or militias operate. Somalia has long been the poster child for a collapsed state. The Democratic Republic of the Congo, Guinea, and Sudan may be headed in the same direction.

What Makes States Weak, Failing, and Failed?

All states have weaknesses. But which weaknesses lead to failure and why? With all the differences in definitions of failed and failing states, it is no surprise that there has been a lot of research and debate on why states are weak or failing, but there are no settled answers. One approach is to list the conditions that are presumed to contribute to state weakness and then attempt to measure them, as with the Index of Failed States.

Another approach has been to identify the main factors that are correlated with state failure. This was the methodology behind the State Failure Project, first commissioned by the Clinton administration in 1994 and later continued at the University of Maryland and George Mason

University.¹⁵ The first findings of this study, based on an extensive analysis of available data associated with severe political crises, found that three factors were correlated with state failure: closed trading systems, high childhood mortality rates, and the absence of democracy. Trade is associated with economic performance; childhood mortality rates are a result of the services states provide; and democracy is linked to the ability of citizens to have their voices heard and have government protect and promote their interests. These efforts at identifying and accumulating quantitative indicators and correlating them with state failure are useful in providing a general impression of the underlying weaknesses of states, but they do not tell us why some weak states sometimes progress to failing and failed states. Nor do they give us the tools to predict when failure and collapse looms.

One way to understand the dynamics of state failure is suggested by the State Failure Project. Clearly underlying conditions increase the likelihood of state failure generally, such as poverty, lack of education and infrastructure, and perhaps ethnic or religious cleavages. But many states with these conditions do not descend into failure. Additionally, accelerators of state failure, for example, political repression, pervasive corruption, economic exclusion, and past experience of civil conflict, can create a predisposition of societal groups toward conflict. But states can exist in a position of fragility and even increasing weakness without dissolving into failure or violence. Finally, there are triggers of state failure. External intervention is often a factor and one far too little considered in studies of failing and failed states. Other factors are a severe economic shock, natural disaster, or a major political crisis, or very poor decisions on the part of political leaders.

While this three-part structure does not provide a satisfactory theory of state failure, it does begin to provide a framework for studying past cases of state weakness and collapse and suggests a direction for U.S. policies to address these problems. The underlying conditions help explain why weak states lack the capacity to control their spaces, even though they want to do so and may be governed relatively well. Their poverty and high unemployment may lead young people with few life prospects to become terrorist recruits. Clearly, poverty and unemployment are not the only factors

leading to terrorist recruitment; sometimes, as with the 9/11 terrorists, they play no obvious role at all. A deep sense of humiliation or injustice can also have an impact.

What Is to Be Done?

The underlying conditions of weak states can be addressed with traditional long-term development programs managed by USAID and could also include aid and training to strengthen local security forces where they are weak.

Weak states can turn into failing states where political elites are corrupt or repressive. Corruption and repression can act as accelerators by undercutting the legitimacy of the state—especially where one ethnic or religious group is favored and others are excluded. Exclusion and repression also can make states vulnerable to civil conflict and failure. These states may or may not have ungoverned spaces, but the real problem is the way they are governed. Thus, strengthening their militaries could make the problems of repression and, perhaps, corruption worse. To change their manner of governing requires persuasion, pressure (including carrots and sticks), and even military intervention—all preferably on a multilateral basis. Aid can be used as an incentive, in coordination with other aid-giving governments and institutions, but it is seldom adequate alone; and unless used judiciously, aid can even be counterproductive. In some cases, foreign governments may have no leverage over the political leadership, as in the case of Zimbabwe or Myanmar. Military intervention (direct or indirect), as we have seen in Iraq, can bring its own set of intractable problems. In the end, there may be no good policy options while that leadership is in power.

Triggering factors are by their nature unpredictable, but one factor in particular is vulnerable to policy action—the role of external actors, including states as well as non-state actors that play a role provoking and funding civil violence in weak states. For example, Muammar Qaddafi of Libya is said to have been deeply involved in multiple cases of civil violence and state failure in West Africa. In the Horn of Africa, the axis of conflict has been between Sudan, Eritrea, Ethiopia, and Uganda where

various governments have armed and supported rebels in neighboring countries to weaken their governments and strengthen the bargaining position of the intervening state on issues of conflict. A regional perspective and response is essential in addressing the problems of failing states.

Dealing with rogue states is a diplomatic and military task where foreign aid might play a limited role as an incentive for behavioral change. Helping collapsed states in the wake of civil conflict or war involves a series of postconflict policies like disarmament, demobilization, and reintegration as well as nation building, especially where there is a U.S. military occupation. There are two units in the U.S. government available for this work: the Office of Transition Initiatives in USAID and the S/CRS office in the Department of State. There may also be a role for DoD if the U.S. military is an occupying power or is otherwise involved. These functions need to be elaborated and integrated with more attention on what works and what does not and at what cost to the United States.

The thrust of this discussion on failed states is not so much to suggest a set of U.S. policies but to argue that we need to be clear about the problems weak states present us with and to begin developing our policies from that point rather than act as if there is a coherent category of “fragile, failing, or failed states” that we can and must change and reform.

One More Element in Aid’s Transformation

Much of the discussion thus far has been about the problems associated with the transformation in foreign aid undertaken over the past seven years. It is worth ending this chapter with a brief mention of an initiative that holds considerable promise—the Office of Global Development Alliances (GDA), housed in USAID, which supports private-public partnerships, including business enterprises, foundations, and nonprofit agencies, to promote international development. The partnerships typically involve joint design, planning, and implementation through a collaboration agreement (different from a contract or grant from USAID where the agency is in the driver’s seat). By September 2007 USAID had formed 600 alliances, leveraging \$5.8 billion in resources from partners with a U.S. government investment of \$2.1 billion.¹⁶ Past alliances among USAID, the World Cocoa Federation, and the chocolate industry have helped African

BOX 3-3 . Roles of the members of the Sustainable Forest Products Global Alliance

- ◆ U.S. Agency for International Development (USAID) provides funds and manages the alliance.
- ◆ The World Wildlife Fund manages the Global Forest and Trade Network, an affiliation of national and regional buyer and producer groups in nearly thirty nations, with more than 400 member companies committed to responsible forestry.
- ◆ Metafore works with North American businesses to promote the responsible purchasing and use of wood and paper.
- ◆ The U.S. Department of Agriculture (USDA) Forest Service provides technical support and guidance.
- ◆ Home Depot, a charter private sector partner, contributes funding, its global reputation, and its purchasing model in support of responsible forest management.

Source: USAID, Office of Global Development Alliances, “Global Development Alliance: Public-Private Alliances for Transformational Development,” Washington, January 2006 (www.usaid.gov/our_work/global_partnerships/gda/pdf/GDA_Report_Jan2006_Intro.pdf).

cocoa farmers to upgrade the quality of their product while protecting biodiversity. The Sustainable Forest Products Alliance encourages responsible logging practices and forest management through a certification program and technical assistance. Box 3-3 describes the roles of the various members of this particular alliance.

The GDA represents an innovation that is an increasing trend in the twenty-first century: reaching out to the many private enterprises and foundations that already play an important role in development—a role that only promises to expand. The model is now being imitated by the MCC, the International Finance Corporation, and other public aid agencies.

Summing Up

The aid initiatives of the Bush administration are both worthy and laudable. But they raise basic issues, many of which are familiar in other forms to development practitioners. The MCC is essentially an experiment with

a new business model for using aid effectively to further development. It is not yet clear that this model will work as expected, at least within the political time frame that exists in Washington.

The experience of PEPFAR raises a different warning flag—that very large amounts of funding for a particular functional program can distort overall development progress in recipient countries. There is the additional concern that the overall U.S. aid program can become unbalanced.

Finally, the discussion of fragile states suggests another familiar lesson of past experience in aid giving. Where new policy concerns in aid giving arise with little settled meaning behind them or limited ideas of how to address them (as with sustainable development or conflict prevention in the 1990s), they become fads but ultimately have little impact on the use or effectiveness of aid. Without considerably more clarity in our thinking about fragile and failed states, aid to address “state fragility” may prove to be one of these fads, except, in this case, a powerful department—DoD—is poised to deploy an increasing amount of aid to tackle this as yet poorly defined purpose.