Introduction

Andrew Rosser

1 Introduction

Over the past few years, the development challenges faced by fragile states have moved to the top of the international development agenda. Partly, this has reflected an apparent increase in the number of fragile states in the world over the past two decades. Since the end of the Cold War, some powerful states have been much less willing and able to support and maintain weaker states, making the latter vulnerable to failure or even collapse (Doornbos 2005). At the same time, globalisation has created a range of economic, political and security-related pressures that have overwhelmed many weaker states (Clapham 2002). Combined with internal political, social and economic conditions that make countries vulnerable to the onset of civil war and economic collapse – such as natural resource wealth, ethnic diversity and large numbers of young unemployed males (Collier and Hoeffler 1998; Collier 2000; De Soysa 2000; Ross 1999; Auty 2004) – these developments have dramatically increased the incidence of state fragility in the developing world.

In part, the increased interest in the development challenges faced by fragile states has also reflected the feelings of insecurity in the West caused by the terrorist attack in the USA on 11 September 2001 and subsequent terrorist attacks elsewhere. These attacks have made it clear that extreme poverty, economic backwardness and severe violent conflict in fragile states are a threat to people, not just in those countries but in other countries as well. The spillover effects on neighbouring countries of various civil wars in fragile states such as those in Rwanda and Colombia during the 1990s have reinforced this perception (Millett 2002; Gleditsch 2003). Many international development organisations have responded to these developments by making improved conditions in fragile states one of their key goals (DFID 2005; USAID 2005; World Bank 2002; AusAID 2005).

This article explores how these organisations might most effectively work to improve conditions in fragile states. Many donors have been influenced by the idea, associated with the work of Burnside, Collier and Dollar (Burnside and Dollar 1997; Collier and Dollar 1999; World Bank 1998), that aid is most effective in promoting development in countries that have sound policies and institutions. This would suggest that aid should be redirected away from fragile states, where policies and institutions are generally weak, and towards other developing countries. But donors appear unlikely to significantly reduce aid to fragile states. As the World Bank (2002: iv) has noted, to disengage from fragile states would cause severe deprivation among the populations of these countries, reduce their chances of recovering, and increase the risk of state failure, ‘with its evident adverse effects, both regional and global’. Indeed, the current global trend is towards significant increases in global aid volumes, raising the prospect of significantly more aid flowing to fragile states (Manor 2005). At the same time, however, rather than simply throwing more money at fragile states, donors are actively trying to find ways of working more effectively in them.

But before donors can work more effectively in fragile states, they need to gain a better understanding of the factors that shape development outcomes in these countries. Devising better strategies for engaging with fragile states requires some sense of the potential for change in these countries as well as the variables that shape this potential. To this end, this article examines the factors that have shaped development outcomes – more specifically, outcomes *vis-à-vis* ‘turnaround’, a concept that I define in detail later – in seven current and former fragile states: Vietnam, Laos, Uganda, Mozambique, Cambodia, Burundi and Indonesia. At the same time, I also examine the role of donors in contributing to outcomes regarding turnaround in these countries and assess the implications of my findings for donor strategies for engaging in fragile states. In presenting this analysis, I draw heavily on the following articles, some of which are published here: Fforde (2005) on Vietnam, Rosser (2005a) on Laos, Robinson (2005) on Uganda, Kulipossa (2005) on Mozambique, Hughes (2005) on Cambodia, Lemarchand (2005) on Burundi, and Rosser (2005b) on Indonesia.

The structure of this article is as follows. In Section 2, I define some of the key concepts that are given in this *IDS Bulletin*. In Section 3, I assess the performance of each of the current and former fragile states in the sample *vis-à-vis* turnaround. In Section 4, I identify the factors that have shaped variation in the sample countries' respective performances regarding turnaround and in Section 5 I examine the role of donors in facilitating or hindering turnaround. Finally, in Section 6, I assess the implications of my findings for donor strategies for engaging in fragile states.

2 Concepts and definitions

The notions of 'fragile state' and 'turnaround' are central to the analysis here. In much of the development literature – and in particular that produced or commissioned by donors – these terms are defined in terms of the perceived quality of countries' governance, policies, and institutions, as measured by the World Bank's Country Policy and Institutional Assessment (CPIA). The problem with this approach is twofold. First, it suggests that the principal development challenge faced by fragile states is weak governance, policies and institutions. Second, it suggests that there is only one way to improve governance, policies and institutions – that defined by the CPIA. The criteria that make up the CPIA emphasise the importance of deregulated markets, conservative macroeconomic and fiscal policies and public administrative and other institutional structures that provide transparency and accountability (World Bank 2002, 2003). While it could be argued that improving governance, policies and institutions is an end in itself, my view is that these states' principal challenges are to overcome economic stagnation, extreme poverty and severe violent conflict. At the same time, as numerous studies of the East Asian experience have demonstrated, there are other pathways towards these goals besides that defined by the CPIA (Chang 2005; Weiss 1999; World Bank 1993; Wade 1990; Amsden 1989). In this way, the use of the CPIA as the primary indicator of 'turnaround' confuses causes with outcomes. Better definitions of fragile states and turnaround need to distinguish between desired outcomes and the models of development that are thought to lead to them.

For these reasons, I have defined 'fragile states' and 'turnaround' in this *IDS Bulletin* to refer to particular development outcomes rather than the supposed quality of countries' governance, policies and institutions. More specifically, I have defined fragile states as low-income countries that (1) are performing poorly in terms of achieving real economic growth; (2) are failing to significantly reduce poverty; or (3) are experiencing severe violent conflict or have done so in the recent past; and turnaround as involving (1) sustained high levels of real economic growth; (2) sustained significant reductions in poverty; and (3) a durable cessation to severe violent conflict.

This focus on development outcomes rather than the models for achieving these outcomes is arguably a more ideologically neutral means of defining fragile states and assessing their development performance. At the same time, however, I acknowledge that it has certain weaknesses. One is that it focuses on particular dimensions of development – real economic growth, poverty reduction, and peace – and ignores other important dimensions such as gender equality, environmental sustainability and inclusion and democracy. Another is that it relies on what are to some extent arbitrary judgements about how much real economic growth or improvement in human development, or how few battle-related deaths are necessary to constitute turnaround.

3 The cases

The seven countries on which I focus have varied in terms of their respective performances *vis-à-vis* turnaround in recent decades. Some – specifically Vietnam, Laos, Uganda and Mozambique – have performed well in turnaround and are no longer fragile states. Cambodia and Burundi, on the other hand, have performed less well in turnaround and are still considered fragile states. Indonesia represents a third category of country in the sample – during the 1960s and 1970s, it achieved turnaround but during the 1990s, it then experienced a renewed period of fragility.

Vietnam and *Laos* were the site of a destructive Cold War-related conflict during the 1960s and early 1970s. The end of this conflict in 1975 ushered in a period of relative peace and stability in both countries but limited progress in terms of economic growth. Between 1975 and the late 1990s, these countries experienced erratic growth, periods of recession and extreme poverty. In the late 1980s and the first half of the 1990s, however, the two countries experienced major economic booms characterised by increased foreign investment and growing exports, particularly in manufacturing. The Asian economic crisis in 1997–8 brought an end to these booms but the countries have still achieved respectable rates of economic growth since the crisis. At the same time, both countries experienced marked improvements in their human development index (HDI) during the late 1980s and 1990s.

Uganda was in the midst of a civil war in the mid-1980s. Since then, peace and stability have been restored to virtually all of the country except the North, the economy has grown strongly (after a short period of stagnation in the mid- to late-1980s), and the country's HDI has improved rapidly.

Mozambique endured civil war for 16 years until the Rome peace agreement was signed in 1992 and a UN mission was established in the country. Since then, it has experienced relative peace and stability, rapid economic growth and marked improvement in its HDI.

Cambodia was severely affected by civil war and poor economic performance during the 1970s and 1980s. Since 1990, it has experienced continued violent conflict but has managed to avoid a return to full-blown war. At the same time, its economy has grown strongly. It has not yet managed to achieve turnaround, however, because it has failed to make significant progress in improving human development levels.

Burundi experienced relative peace and stability and modest economic growth during the 1980s, although it performed poorly in terms of improving human development levels. In the 1990s, the country descended into civil war and its modest record in growth and human development grew worse. Recent years have seen efforts to achieve a durable war to peace transition but the country remains fragile.

Indonesia was one of the poorest countries in the world and experienced a severe economic crisis in the mid-1960s. During the late 1960s and 1970s, the country achieved sustained high levels of growth and a dramatic improvement in human development levels while avoiding severe violent conflict (at least outside East Timor, which it invaded in 1975, and West Papua, which was forcefully incorporated into Indonesia in the 1960s). In the late 1990s, however, the country experienced a partial reversal in turnaround, characterised by a sharp drop in economic growth.

The fact that these countries vary in terms of the dependent variable – performance *vis-à-vis* turnaround – makes the sample a good one for exploring the factors that determine why some fragile states achieve turnaround and others do not. At the same time, however, using a case study approach means that my findings have a higher degree of validity in relation to the particular cases examined here than generalisability. Examination of the dynamics of turnaround in other fragile states is required to establish whether the findings here can be generalised beyond the sample countries.

4 Achieving turnaround

What factors shaped whether or not the countries in the sample achieved turnaround? In addressing this question, it is useful to distinguish between the 'durable cessation of conflict' and 'sustained high rates of real economic growth and significant improvement in human development levels' dimensions of turnaround. All the turnaround countries – or at least those that experienced severe violent conflict prior to achieving turnaround – experienced a cessation of severe violent conflict prior to achieving sustained high rates of real economic growth and significant improvements in human development. In other words, achieving a durable cessation to conflict was the first stage in the process of turnaround. At the same time, however, achieving a durable cessation of conflict was not sufficient in itself to generate turnaround. In Vietnam and Laos, for instance, an end to conflict did not automatically lead to sustained high rates of economic growth and improvement in human development levels – it was more than a decade before these things happened. This suggests that different factors were at work in relation to each of these dimensions of turnaround. My discussion below is consequently organised according to these two dimensions.

4.1 **Achieving a durable cessation of conflict**

All of the countries in the sample experienced severe violent conflict, as that term has been defined here, at some point during the periods under examination, except for Indonesia. In all these cases, severe violent conflict initially came to an end as a result of one of two main factors: a change in geopolitical conditions or a military victory by one party involved in the violent conflict.

In most cases, the former was the important factor. In Mozambique, for instance, the fall of the apartheid regime in South Africa and parallel developments in Rhodesia removed the rationale for governments in these countries to continue supporting the resistance movement in Mozambique. Similarly, the end of the Cold War in the late 1980s provided the trigger for peace in Cambodia by reducing the capacity and willingness of various foreign governments to continue supporting the different sides in the conflict. In both cases, these changes led to international efforts, led by the UN, to ensure a transition to peace and the creation of a more democratic political system. In Laos and Vietnam, it was growing public opposition to the war in Indochina in the USA and other Western countries that ultimately led to the initial cessation of conflict because it forced Western governments to withdraw their troops. In the Ugandan case, however, such geopolitical factors were not important. In this case, it was the ability of the National Resistance Movement (NRM) to defeat its opponents on the battlefield that ultimately brought an end to the conflict. Importantly, the war to peace transition in Burundi has been less decisive, partly because the strategic location of the country has meant that geopolitical changes have had little influence over the willingness or ability of warring parties in that country to continue fighting, and partly because both parties to the conflict have been able to maintain viable military forces.

In all of the cases where an initial cessation of conflict was achieved, this cessation proved durable. Two further factors appear to have been important in this respect. In Laos, Vietnam and Uganda, the important factor was that the losing side in the military conflict was effectively eliminated as a political and military force – in these cases, the losing side either suffered outright defeat or decided that it could not win, gave up and went home. With the enemy defeated or gone, the communist forces in Vietnam and Laos and the NRM in Uganda no longer had anyone significant to fight for control of the state. To be sure, the NRM and the communist party in Laos have both faced long-running insurgencies since the end of their respective wars, the former in the Northern part of the country and the latter in regional areas dominated by the Hmong ethnic group. But these insurgencies have either been geographically contained or caused only minor periodic unrest.

In Mozambique and Cambodia, where severe violent conflict did not result in a clear military victory for one side, the important factor was that opposition groups were given a stake in the post-conflict political order. In these cases, the opposition's ability to continue military resistance meant that their interests had to be accommodated in some way in a post-conflict political order if peace was to be achieved. In Mozambique, this accommodation was achieved by donors agreeing to bankroll the opposition movement's transformation into a political party (Kulipossa 2005). In Cambodia, it was achieved by the fact that opposition groups were not only permitted to establish themselves as viable political parties but, in the case of Funcinpec, had a serious chance of winning elections. As the largest, although not most powerful, party in the coalition government that ran Cambodia after 1993, Funcinpec gained access to state patronage resources and largesse (Hughes 2005). The main threat to a durable peace in Cambodia came from the fact that the Khmer Rouge, another opposition organisation, decided not to participate in the 1993 national elections. But after the death of Pol Pot, the organisation's leader in the late 1990s, the Khmer Rouge collapsed, in turn ensuring that it no longer posed a threat to continued peace and stability (Frieson 1996: 240).

The sample cases do not provide a clear counterfactual example on this point – that is, a country that fell back into severe violent conflict because key opposition groups were not given a stake in a post-conflict political order. But the Burundian case illustrates clearly how the failure to give such groups a stake in a post-conflict order can serve to prolong conflict. In this case, as Lemarchand (2005) argues, one of the key reasons for failed peace negotiations in the late 1990s and early 2000s was the fact that two major armed factions were effectively excluded from them. Without a say in how the post-conflict order would be constructed and run, they stood to gain little from a shift to a more peaceful environment and, consequently, had little reason to lay down their arms.

In summary, whether the countries in the sample were able to achieve a durable cessation of severe violent conflict or not depended, first, either on changes in geopolitical conditions providing an incentive for warring parties to lay down their arms or the achievement by one party to a conflict of a clear military victory over its opponents; and second, on opposition groups either being eliminated as a political and military force or being given a stake in the post-conflict political order.

4.2 **Achieving real economic growth and human development**

As noted earlier, the countries in the sample that achieved turnaround only made the required progress in real economic growth and human development after severe violent conflict had come to end. Thereafter, the countries' respective performances in turnaround – and in particular this second dimension of turnaround – depended on two factors.

The first of these was whether or not political conditions emerged that were conducive to the introduction of an, at least, modest programme of market-oriented economic reform – or in the case of Mozambique, the continuation of a programme of market-oriented economic reform that had begun a few years earlier. All the countries in the sample that achieved turnaround introduced a series of market-oriented economic reforms prior to achieving sustained high rates of real economic growth and significant improvement in human development levels. These programmes proved crucial in reviving economic growth and improving human development levels in each case. By contrast, those countries in the sample that did not introduce programmes of market-oriented economic reform – such as Vietnam and Laos in the 1970s and 1980s – or did not sustain them – such as Burundi in the 1990s – did not perform well in this second dimension of turnaround.

The exact content of the economic reform programmes adopted by turnaround countries varied from case to case but included in all cases, the introduction of conservative fiscal and other macroeconomic measures and the deregulation of trade and investment policies. In some cases, these programmes also included measures related to financial sector deregulation, civil service reform, decentralisation and the privatisation of state-owned enterprises. These reform programmes were modest in the sense that deregulatory measures were often partial and the programmes did not generally include serious attempts to reduce corruption, create clean and efficient judicial systems, or introduce much of the other institutional infrastructure that is required for a competitive market economy. Economic reform was largely about the partial elimination of restrictions to trade, investment and financial flows and, in some cases, the partial privatisation of state assets rather than a fully fledged shift to liberal markets. Nor did it generally mean the building of institutional structures, although in some cases – Uganda and Mozambique, for instance – some significant regulatory and institutional reforms were introduced.

Whether political conditions conducive to such economic reform emerged in the sample countries was determined by a variety of contextually specific factors. In most cases, broad shifts in internal structures of power and interest or geopolitical environment played the key role in this respect. But other factors such as leadership, donor leverage, and competition between competing political forces also figured in some cases.

In Indonesia, it was the political victory of the military and other counter-revolutionary forces over communist and radical nationalist forces, the fall of President Sukarno and his replacement by Suharto, and moves by the USA and other Western countries to support its new ally in its global struggle against communism during the mid-1960s that created the political conditions for market-oriented economic reform (Rosser 2005b). In Laos, it was the end of the Cold War – which forced the government to seek greater aid and assistance from the West and in turn agree to the reforms demanded by Western donors – and a growing realisation on the part of the country's political leadership that its socialist economic agenda had not worked which were the crucial factors in creating the conditions for reform (Rosser 2005a). In Vietnam, it was the growing power of state-owned enterprises and their managers and the end of the Cold War that laid the political basis for reform. When Soviet aid dried up following the end of the Cold War, the incentive for state-owned enterprises to participate in central planning disappeared – with central planners no longer able to provide these enterprises with material resources, their ability to enforce targets on these enterprises declined enormously (Fforde 2005). In Cambodia, the end of the Cold War was also important for similar reasons to Laos. At the same time, Hughes (2005) argues that reform was made possible by the fact that the dominant political element, the leaders of the Cambodian People's Party, saw it as a way to gain control over key economic resources and enhance its position *vis-à-vis* its political opponents. In Uganda, the emergence of a political leadership that was committed to reform and that recognised that earlier state-led policies had failed was a key factor, as was the fact that massive donor funding gave them enormous leverage over the government (Robinson 2005). In Mozambique, donor leverage stemming from aid dependence and the political leadership's commitment to reform were also the key factors in precipitating reform (Kulipossa 2005). In Burundi, political conditions conducive to reform evaporated following the onset of severe violent conflict in the early 1990s, resulting in an aborted programme of reform (Lemarchand 2005).

The second factor that shaped the sample countries' respective performances regarding real economic growth and human development was the way in which the reform process was managed in political terms. While the introduction of reforms was necessary for turnaround, it was not sufficient – it had to be well managed politically. In all the turnaround cases (Vietnam, Uganda, Indonesia during the 1960s and 1970s, Mozambique and Laos), the introduction of economic reforms was initially aimed at overcoming fiscal crises, outbreaks of hyperinflation, or some other type of economic crisis. The introduction of these measures generally paved the way for further economic reforms by demonstrating the positive results that could be achieved with limited market-based reform. In the Indonesian case, for instance, the technocrats' initial success in stabilising the economy paved the way for them to introduce new foreign and domestic investment laws, reforms to the banking system, and other market-based measures in the late 1960s aimed at creating a more attractive environment for capitalist investment. In Laos and Vietnam, economic stabilisation during the late 1980s/early 1990s strengthened the hand of market reformers within the government and thereby made it possible for structural reforms to be introduced in areas such as foreign investment and privatisation. Uganda and Mozambique provide similar stories.

At the same time, however, these initial and subsequent economic reforms potentially posed a threat to key sections of the political and business elite or other sections of the population with the capacity to cause political disruption, creating in-built resistance to at least certain elements of the reform process. In turnaround cases, political leaders dealt with this challenge by designing economic reform programmes in such a way as to effectively protect these groups or compensate them in some way for their losses. In Laos, for instance, the military was awarded new timber contracts and trading rights and privatisation deals were structured in such a way as to leave state enterprise managers in effective control of their enterprises, thus protecting or compensating both groups for any costs they suffered as a result of reform. Similarly in Uganda retrenched civil servants were provided with generous severance packages to reduce the political backlash from large-scale reductions in civil service numbers. In Indonesia, the government introduced measures to assist indigenous business groups after widespread rioting in Jakarta in early 1974. In all turnaround countries, elite groups that controlled access to state facilities and largesse were effectively protected through the non-implementation of institutional reforms. In no cases did political leaders seek to promote a significant shift in the balance of power between the major contending political forces within their respective countries – while some leaders (such as those in Uganda) appear to have been strongly committed to market-oriented economic reform, they were not trying to promote a revolution. At the same time, however, they did not allow reform processes to become hijacked by elite elements.

This is where Cambodia and Indonesia (in the 1980s and 1990s) arguably went wrong. As Hughes (2005) illustrates, in Cambodia reform measures became a mechanism for elements within and associated with the Cambodian People's Party (CPP) to privatise state wealth or seize assets (particularly land) from the poor. Underlying this outcome, Hughes argues, was the fractured structure of power and interest and the CPP's consequent desire to bolster its position with its political opponents. Rather than placate its opponents through strategic concessions as part of a genuine reform programme, the CPP sought to bolster its position with these opponents by maximising its control over resources. Similarly, in Indonesia, economic reform was captured by powerful business groups with close connections to the Suharto family. The result was the transfer of state monopolies into private hands and a pattern of financial sector reform that left it vulnerable to external economic shocks. When the *rupiah* collapsed in 1997, the consequences of this hijacking became clear (Rosser 2005b).

In summary, outcomes in real economic growth and human development in the sample cases depended on two factors: whether or not political conditions emerged in these countries that were conducive to the introduction of at least modest programmes of market-oriented economic reform and the extent to which these programmes were managed so as to keep elites onside while preventing them from hijacking the reform process.

5 The role of donors

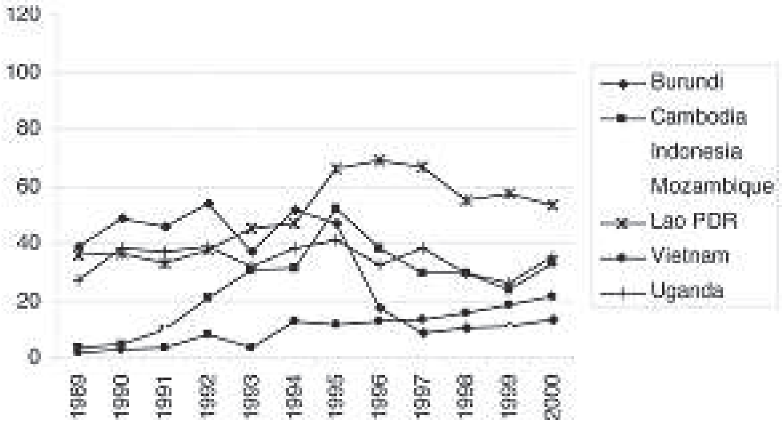
The degree to which donors influenced outcomes regarding turnaround in the sample countries varied from case to case. In some cases, donors played a significant and positive role in promoting turnaround. In other cases, they played a significant and negative role. In other cases again, donors did not have a significant influence on the outcome.

To the extent that donors influenced outcomes *vis-à-vis* turnaround in individual countries, it was typically by shaping at least one of the following three factors discussed previously: (1) whether opposition groups were given a clear stake in the post-conflict political order in cases where such groups had not been eliminated by military conflict or given up and gone home; (2) whether political conditions emerged that were conducive to the introduction of a programme of at least modest market-oriented economic reform; and (3) whether this programme of reform was managed in such a way as to ensure that political and business elites neither blocked crucial economic reforms nor hijacked the process of reform. For obvious reasons, donors had little influence over the other key factors that were mentioned above – the extent to which changes in geopolitical conditions provided an incentive for warring parties to lay down their arms, and the extent to which one party to a conflict was able to achieve a clear military victory over its opponents.

Donors arguably played their most significant and positive role *vis-à-vis* turnaround in Mozambique, Uganda, Laos (during the late 1980s and 1990s) and Indonesia (during the 1960s and 1970s). In all four countries, donors helped to create a political environment conducive to market-oriented reform by providing governments with much-needed aid and taking advantage of the leverage that this gave them to press the case for liberal market policies. The amount of aid provided to these countries varied from case to case (see Figures 1 and 2). But in all cases, the aid was desperately needed – in Mozambique, Uganda and Laos because of the absence of alternative long-term sources of government finance, and Indonesia because of the temporary effects of the mid-1960s economic crisis. Donors thus had considerable scope for pressuring governments in all countries to adopt market-oriented reforms. At the same time, donors also contributed to turnaround in these countries in other ways. In Mozambique, as noted earlier, donors ensured that the opposition movement, Renamo, developed a stake in the post-conflict political order by providing it with the seed capital it needed to transform itself into a viable political party. In Uganda, Laos and Indonesia, donors played a role in the successful political management of the reform process by, in the Ugandan case, providing the funding needed for civil service severance packages (which served to ameliorate civil service opposition to the reform process) and in the Indonesian and Laotian cases, tolerating deviations from the path of market-oriented reform and widespread corruption (which enabled governments to maintain necessary political support). While donors strongly criticised these aspects of the Laotian and Indonesian political economies, they were not so aggrieved by them as to withdraw their aid programmes.

In Burundi, Cambodia and Indonesia during the 1980s and 1990s, by contrast, the role of donors was more problematic. In Burundi, donors and other international actors failed to provide opposition groups with a stake in the planned post-conflict political order. On the one hand, as noted earlier, key opposition groups were excluded from peace negotiations, reflecting a decision by Tanzanian President Julius Nyerere, the main facilitator of the peace negotiations in Burundi, to include rebel movements in the negotiations but not the factions that had broken away from them. On the other hand, the sheer number of international actors that were involved in the peace process worked against the formulation of a coherent political reform package, as did the decision of donors to withdraw

Figure 1 **Aid as a percentage of gross national income, 1989–2000**



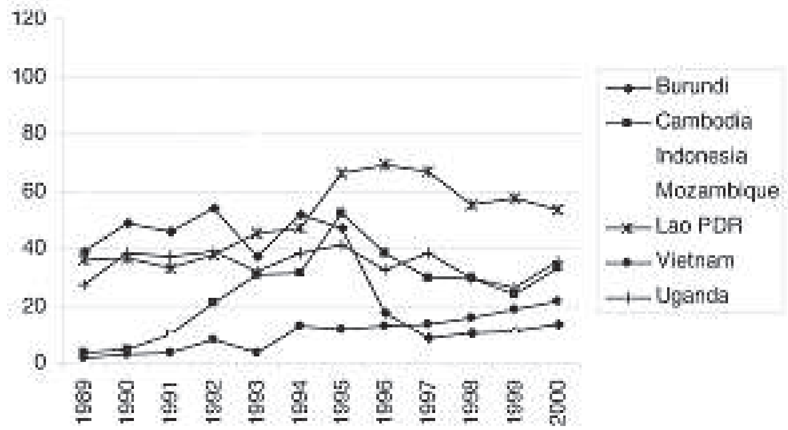
Source World Bank, World Development Indicators CD-Rom (2004).

their funding from Burundi *en masse* in the mid-1990s (Lemarchand 2005). In Cambodia and Indonesia, by contrast, the main problem was that donors' actions served to facilitate the hijacking of the economic reform process. As Hughes (2005) points out, donors' failure to engage early and proactively with the state enabled the Cambodian People's Party to entrench itself within the state, and in turn seize almost total control over the implementation of reforms. In Indonesia, the problem was that insofar as donors encouraged the Indonesian government to deregulate the country's financial system before it had established the necessary prudential safeguards, it facilitated the hijacking of the reform process by well-connected business groups.

Finally, in Laos during the 1970s and early 1980s and Vietnam, donors, or more specifically Western donors, appear to have had relatively little influence over outcomes *vis-à-vis* turnaround. The victory of the Laotian and Vietnamese communist parties in 1975 led to the withdrawal *en masse* of several Western donors from these countries. Insofar as individual donors remained, they exercised relatively little influence over the government, both because of geopolitical factors and because the aid they provided was relatively insignificant compared to the aid provided by the Soviet Union and other socialist countries. In Laos, as noted previously, Western donors came to have greater influence over Laos following the end of the Cold War. The same thing does not appear to have happened in Vietnam. As Fforde (2005) points out, the emergence of a political climate conducive to economic policy reform in the late 1980s in Vietnam had much more to do with changes within the Vietnamese state than with donor influence, perhaps reflecting the relatively limited amounts of aid that donors have provided to that country. As Figure 1 shows, donor funding to Vietnam fluctuated between 2 and 6 per cent of gross national income (GNI) between 1989 and 2000; much lower percentages than Laos and most of the other fragile states that are examined here. Vietnam is best regarded as an example of internally driven turnaround. In this context, donor contributions have not been either positive or negative. They have just not been especially consequential.

What factors shaped the degree of donor success in promoting turnaround in the sample of countries? First, and perhaps most fundamentally, the case studies suggest that donor success was a function of the degree of donor engagement in these countries. In all turnaround countries, donors had a continuous presence during their turnaround phases. They saw the job through. Continuous engagement did not necessarily ensure turnaround, nor did large volumes of aid, as the Cambodian case illustrates. But the decision of donors to withdraw *en masse* from Burundi in the mid-1990s doubtless severely reduced that country's chances of achieving turnaround. And the withdrawal of many donors from Laos, Cambodia and Vietnam in the 1970s for geopolitical reasons dramatically reduced the resources available to these countries for promoting turnaround and limited donor influence over the development of policy in these countries. Predictability of donor

Figure 2 **Aid *per capita*, 1989–2000 ($US)**



Source World Bank, World Development Indicators CD-Rom (2004).

support, both financial and political, appears to have been just as important in enabling donors to make a positive contribution to outcomes *vis-à-vis* turnaround as the financial value of that support.

Second, the case studies suggest that donor success in contributing to turnaround was in part a function of how well they used the resources at their disposal and the leverage that this gave them. This in turn was a function of the quality of advice they provided and the timing of and strategies for their engagement. While donors generally provided useful policy advice, they did not do so in all cases, as the case of financial reform in Indonesia during the 1980s attests. Nor did they always take advantage of opportunities for constructive engagement when they arose or pursue effective strategies when they did engage. Early constructive engagement with the state in Mozambique and Uganda proved crucial to donor success in promoting turnaround in these countries while in Cambodia, as noted earlier, the fact that donors operated through parallel structures contributed to later problems. International actors' use of diplomatic and aid-based strategies to secure the inclusion of opposition groups in Mozambique and Cambodia proved effective in ensuring that these groups developed a stake in the post-conflict political order but their exclusion of certain opposition elements from the peace process in Burundi had the opposite effect.

Finally, the case studies suggest that the nature of countries' broader political economies also affected the extent to which donors were successful in promoting turnaround. For instance, as noted above, geopolitical considerations meant that Western donors exercised little influence over policy and economic outcomes in Cambodia, Vietnam and Laos prior to the late 1980s, even if they remained engaged in these countries. It was only after the collapse of the Soviet Union that they came to exercise much influence over policy, although this influence has been much more significant in Laos and Cambodia than in Vietnam. Similarly, the victory of counter-revolutionary forces over communist and radical nationalist forces in Indonesia in the mid-1960s paved the way for a close relationship between Western donors and the government during the late 1960s and 1970s. The onset of the oil boom in the mid-1970s shifted the balance of power away from donors and their technocratic allies and towards economic nationalists within the government and well-connected domestic capitalists by reducing the government's need for external financial assistance. In this context, donors exercised much less influence over economic policy than they had during the late 1960s and early 1970s. Whether or not countries had a corps of liberal economic technocrats who shared donors' economic policy preferences also appears to have had some impact on their success in promoting turnaround in the sample countries. For instance, donors have had a much easier time in promoting reform in Uganda, where such a corps of technocrats exists, than they have in Laos, where such a corps of technocrats has not yet been created.

In summary, the role of donors in influencing outcomes *vis-à-vis* turnaround in the sample countries was mixed, being significant and positive in some cases, more problematic in other cases, and insignificant in other cases yet again. This variation in turn reflected a series of factors including the degree of donor engagement, how well donors used the resources at their disposal and the leverage that this gave them, and the broader character of the political economies in which they were engaged.

6 Donor strategies for engaging with fragile states

What are the implications of these findings for donor strategies for engaging with fragile states? What do they suggest donors should do in order to successfully promote turnaround in fragile states? A useful starting point in addressing these questions is the report of the World Bank's Task Force on Low Income Countries Under Stress (LICUS) (2002). This report outlines a strategy for donor engagement in fragile states that consists of two elements. The first focuses on improving policies, institutions and governance in fragile states and involves the promotion of 'zero-generation' reforms. In essence, it advises donors, in consultation with domestic stakeholders, to (1) identify a 'highly focused reform agenda' that is likely to have an immediate positive impact and is achievable in political terms and then (2) work strategically to build a coalition for reform. The second element of the strategy is to improve the provision of basic social services by supplementing weak central government delivery with multiple alternative channels (Task Force on LICUS 2002: v). The Task Force argues that because of institutional weakness in fragile states, the successful delivery of basic services requires the use of alternative channels outside the state, such as non-governmental organisations (NGOs) and private businesses.

At the same time, the Task Force makes two general recommendations. The first of these is that donors should focus on the use of knowledge-based instruments in engaging with fragile states rather than finance-based instruments. Insofar as the latter are used, it suggests, they should involve the provision of grants rather than loans. The second recommendation is that donors should remain engaged in fragile states over time, notwithstanding the difficulties associated with operating in these countries and, in particular, the apparent relative ineffectiveness of aid: 'Although the work of the Task Force reaffirms the lesson that finance should continue to reflect performance, total disengagement from LICUS may have larger implications. Countries abandoned by the international development community show few signs of recovery, and meanwhile their populations suffer severe deprivation' (Task Force on LICUS 2002: iv).

Below I consider each of these elements and recommendations in the light of the findings I have previously outlined, as well as proposing some additional elements for donor strategies for engaging in fragile states.

6.1 Promotion of zero-generation reforms

In all the turnaround cases (Vietnam, Uganda, Indonesia during the 1960s and 1970s, Mozambique, and Laos) economic reform programmes began with or included at an early stage measures to stabilise the economy after some type of economic crisis, proceeded to include trade and financial sector deregulation measures and in some cases privatisation of state-owned enterprises but generally did not include serious attempts to combat corruption, create clean and efficient judicial systems, or introduce much of the other institutional infrastructure that is required for a market economy. Such a pattern of economic reform is broadly consistent with the 'zero-generation' reform strategy insofar as it suggests that supporters of economic reform should focus initially on promoting those measures that are most easily achievable politically and which are likely to have the greatest impact in economic terms. At the same time, however, there is little evidence in the country cases to suggest that donors and other supporters of economic reform pursued this pattern of economic reform as part of a conscious and well thought out political strategy. In general, economic policy making was driven either by a need to overcome economic crisis, a recognition that past economic policies had not worked, or struggles between competing coalitions of interest. In other words, economic reforms were not introduced according to some master template devised by supporters of economic reform. At the same time, economic reform did not occur in a piecemeal manner initially and build to a more wide-ranging programme of economic reform, as the zero-generation reform strategy suggests will occur. Rather, crisis conditions and changed political circumstances led to a burst of economic reform activity as reformers tried to push through as much reform as possible while these conditions/ circumstances prevailed. There was little that was strategic about the introduction of these reforms except insofar as reformers recognised that they had to move quickly while there was an opportunity to do so.

6.2 **Supplementing weak central government delivery by strengthening multiple alternative channels**

The case studies suggest that government channels in fragile states can be effective in delivering basic services, notwithstanding relatively low government capacity. In Uganda, for instance, donors funded the delivery of basic services primarily through the provision of general budgetary support (GBS). Robinson (2005) notes that donors favoured GBS because it reduced transaction costs, facilitated direct engagement on government budget priorities, and enabled greater donor coordination. While there was some leakage of budget support funds initially, the implementation of expenditure tracking surveys reduced the scope for this. Similarly, Kulipossa (2005) notes that sector-wide approaches (SWAps) have proven highly effective in Mozambique:

> Whereas in the 1990s government-donor interactions were characterized by competition, duplication, stringent conditions, bypassing of government, and the creation of parallel structures, at present their relationships are now based on sector-wide approaches (SWAps), partnership, ownership, accountability, and transparency. As a result, there is greater organization and complementarity in each sector, fewer donor demands on government capacity, and improved fiscal management. SWAps have enabled the government to incorporate all funding for each sector into the national budget, given it greater freedom to design and implement strategies and programmes and allocate resources to better achieve intended results. Under SWAps, donor resources flow through pooled accounts and are managed through government procedures and systems. All of this enhances resource planning, expenditure control, and performance management systems that are leading to current financial management reforms.

At the same time, as noted earlier, the Cambodian case suggests that the establishment of parallel structures for the delivery of aid outside the government can contribute to governance problems that impair prospects for turnaround by increasing the likelihood that economic reforms will be hijacked by powerful elites.

None of this is to argue that donors should not seek to use non-governmental channels for the delivery of basic services where doing so makes sense. But my findings suggest that non-state mechanisms for service delivery should not be inherently preferred to government mechanisms. There is no reason, on the basis of the evidence here, to presume that governments will not be able to deliver basic services effectively, especially if there is close monitoring of the use of public funds. At the same time, there are clear benefits in terms of capacity-building within the state from using government channels for service delivery. In this sense, rather than trying to supplement ‘weak central government delivery by strengthening multiple alternative channels’ a more profitable strategy is arguably to look at ways of strengthening existing government channels for service delivery.

6.3 **Knowledge *vs.* finance**

The analysis here suggests that the World Bank Task Force’s proposal that donors should focus on the use of knowledge-based instruments in engaging in fragile states rather than finance-based ones is also problematic. There are three reasons for this. First, the case studies show that while donors contributed to turnaround in a number of countries through the provision of policy advice – Indonesia during the late 1960s, Mozambique and Uganda spring most readily to mind – they also show that donors did not always provide good advice – the best example in this respect being their advice to the Indonesian government in the late 1980s in relation to financial sector reform. Second, the case studies suggest that while large volumes of aid were not a precondition for turnaround – Vietnam and Indonesia during the 1960s did not require large volumes of aid to achieve turnaround and large aid receipts did not guarantee Cambodia a good performance *vis-à-vis* turnaround – there can be little doubt that large volumes of aid were needed in some cases. For instance, it is difficult to imagine Mozambique, Uganda and Laos achieving turnaround had it not been for the fact that donors contributed most of the resource needed to fund governments in those countries, provide basic services and so on. In all these cases, it is unclear what alternative sources of funding could have been used for these purposes, given their relative lack of natural resources or other sources of income. In the absence of donor funding, it seems quite possible that these states would have simply collapsed. Finally, the fact that donors were able to provide finance gave them leverage over policy decisions at crucial junctures and influence over outcomes *vis-à-vis* turnaround. To abandon finance-based aid instruments in favour of knowledge-based ones would be to forgo such influence.

This is not meant to be an argument against donor provision of technical assistance during processes of turnaround. Chauvet and Collier (2005) have argued that technical assistance can assist turnaround in countries going through the early stages of turnaround (defined in their case in terms of an improved CPIA score). My cases provide plenty of examples of donors contributing to the initial stages of turnaround by providing technical assistance in one form or another to support reform processes. Assuming that broader political conditions are conducive to economic reform, there is no reason, based on the cases, to assume that such an approach will not be helpful in promoting turnaround. What the cases suggest may be problematic is a strategy of focusing only on technical assistance over the long term in countries where governments do not have access to other substantial sources of revenue. The successful use of GBS and SWAps in countries such as Uganda and Mozambique suggests that donor funding beyond the provision of technical assistance can be used effectively to promote turnaround in countries that do not have access to such income and, in particular, promote the delivery of basic services while building government capacity.

6.4 **Remaining engaged**

The World Bank Task Force's proposal that donors should remain engaged in fragile states, notwithstanding the difficulties involved in operating there, is well supported by the analysis here. As noted above, continued donor engagement was a feature of turnaround in all the successful cases and was particularly important in aid dependent cases such as Laos, Uganda and Mozambique. Such continued donor engagement will of course not be easy to achieve. As new development challenges emerge and the geopolitical interests of major states shift, donor organisations may find that they are unable to give fragile states the high priority that they currently have. One can only hope that the current interest in promoting development in fragile states outlives the current concern about ensuring the security of the West by battling international terrorism and its causes.

6.5 **Additional measures**

The findings here suggest that donor strategies for engaging in fragile states could usefully include three additional elements. The first of these is permitting governments in fragile states to introduce strategic measures aimed at placating groups, particularly within the elite, that stand to lose from reform. This was a feature of economic policy making in all the turnaround cases. In all these cases, the introduction of such measures served to generate political conditions conducive to economic reform by reducing the potential for opposition to reform. In practice, donors seem to do this already, so this is not something which would necessarily lead a marked change in existing practice. The second additional element is recognising that the nature of the broader political economy in which donors are operating will shape the potential for economic reform. The point here is that donors need to have a good sense of whether or not economic reform is politically possible before they go investing time, money and effort in trying to promote it. At the same time, donors can take actions that may serve to improve the political climate for reform. Chauvet and Collier (2005) have suggested that increasing investment in secondary education may be one way of doing this, given that, according to their results, the proportion of people in low-income countries who are enrolled in secondary education is highly correlated with reform. My analysis suggests that there are various other factors that shape the political conditions for reform – the geopolitical climate, the commitment of political leaders, the balance of power between competing coalitions of interest, and the degree of donor leverage, to name a few. While many of these factors are beyond donor influence, some are not. Donor leverage, for instance, is at least partly a function of donor willingness to provide funding. Where the political climate for reform is entirely beyond donor control, donors should focus on keeping track of political developments with a view to spotting opportunities for the introduction of reforms. Finally, donor strategies for engaging in fragile states should include actions aimed at ensuring that in conflict cases, opposition groups are given a stake in new political order. As noted above, this proved crucial to securing a durable cessation of conflict in those countries where opposition groups did not suffer outright defeat on the battlefield or decide to cease fighting, pack up, and return to their countries of origin.

References

Amsden, Alice (1989) *Asia's Next Giant: South Korea and Late Industrialization*, Oxford: Oxford University Press

AusAID (2005) *Fragile States and Australia's Aid Program*, www.ausaid.gov.au/keyaid/fragile_states.cfm (accessed 17 November 2005)

Auty, R. (2004) 'Natural Resources and Civil Strife: A Two-Stage Process', *Geopolitics* 9.1: 29–49

Burnside, C. and Dollar, D. (1997) *Aid, Policies and Growth*, Policy Research Working Paper No 1777, Washington, DC: World Bank

Ha-Joon Chang (2005) *Kicking Away the Ladder: Development Strategy in Historical Perspective*, London: Anthem Press

Chauvet, L. and Collier, P. (2005) 'Development Effectiveness in Fragile States: Spillovers and Turnarounds', mimeo, written for the World Bank

Clapham, C. (2002) 'The Challenge to the State in a Globalized World', *Development and Change* 33.5: 775–96

Collier, P. (2000) 'Doing Well Out of War: An Economic Perspective', in M. Berdal and D. Malone (eds), *Greed and Grievance: Economic Agendas in Civil Wars*, Boulder: Lynne Reiner: 91–111

Collier, P. and Dollar, D. (1999) *Aid Allocation and Poverty Reduction*, Policy Research Working Paper No 2041, Washington, DC: World Bank

Collier, P. and Hoeffler, A. (1998) *On Economic Causes of Civil War*, Oxford Economic Papers 50: 563–73

De Soysa, I. (2000) 'The Resource Curse: Are Civil Wars Driven by Rapacity or Paucity?' in M. Berdal and D. Malone (eds), *Greed and Grievance: Economic Agendas in Civil Wars*, Boulder: Lynne Reiner: 113–35

DFID (2005) *Why We Need to Work More Effectively in Fragile States*, London: Department for International Development, January

Doornbos, Martin (2005) 'State Collapse and Civil Conflict' in P. Burnell and V. Randall (eds), *Politics in the Developing World*, Oxford: Oxford University Press: 171–84

Fforde, A. (2005) 'Vietnam', a paper prepared for the World Bank LICUS Initiative project on 'How do LICUS/Poor Performers Achieve Turnaround?'

Frieson, Kate (1996) 'The Cambodian Elections of 1993: A Case of Power to the People?' in R. Taylor (ed.), *The Politics of Elections in Southeast Asia*, Washington, DC and Cambridge: Woodrow Wilson Center Press and Cambridge University Press

Gleditsch, K. (2003) *Transnational Dimensions of Civil War*, www.yale.edu/irspeakers/Gleditsch.pdf (accessed early December 2005)

Hughes, C. (2005) 'Cambodia', a paper prepared for the World Bank LICUS Initiative project on 'How do LICUS/Poor Performers Achieve Turnaround?'

Kulipossa, Fidelx (2005) 'Mozambique', a paper prepared for the World Bank LICUS Initiative project on 'How do LICUS/Poor Performers Achieve Turnaround?'

Lemarchand, R. (2005) 'Burundi', a paper prepared for the World Bank LICUS Initiative project on 'How do LICUS/Poor Performers Achieve Turnaround?'

Manor, James (ed.) (2005) 'Increased Aid: Minimising Problems, Maximising Gains', *IDS Bulletin* 36.3, Brighton: IDS

Millett, R. (2002) *Colombia's Conflicts: The Spillover Effects of a Wider War*, www.carlisle.army.mil/ssi/pubs/2002/colomcon/colomcon.pdf (accessed early December 2005)

Robinson, M. (2005) 'Uganda' a paper prepared for the World Bank LICUS Initiative project on 'How do LICUS/Poor Performers Achieve Turnaround?'

Ross, M. (1999) 'The Political Economy of the Resource Curse', *World Politics* 51.2: 297–322

Rosser, A. (2005a) 'Laos', a paper prepared for the World Bank LICUS Initiative project on 'How do LICUS/Poor Performers Achieve Turnaround?'

Rosser, A. (2005b) 'Indonesia', a paper prepared for the World Bank LICUS Initiative project on 'How do LICUS/Poor Performers Achieve Turnaround?'

Task Force on LICUS (2002) *World Bank Work in Low-Income Countries Under Stress: A Task Force Report*, mimeo, World Bank

USAID (2005) *Fragile States Strategy*, Washington, DC: United States Agency for International Development, January

Weiss, Linda (1999) *The Myth of the Powerless State: Governing the Economy in a Global Era*, Cambridge: Polity Press

World Bank (2003) *Country Policy and Institutional Assessment 2003: Assessment Questionnaire*, www.siteresources.worldbank.org/IDA/Resources/CPIA2003.pdf (accessed 1 March 2005)

World Bank (2002) *Country Policy and Institutional Assessment 2002: Assessment Questionnaire*, http://siteresources.worldbank.org/IDA/Resources/CPIA2003.pdf (accessed 1 March 2005)

World Bank (1998) *Assessing Aid: What Works, What Doesn't, and Why*, Washington, DC: World Bank

World Bank (1993) *The East Asian Miracle: Economic Growth and Public Policy*, Oxford: Oxford University Press