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About the Commission

The LSE-Oxford Commission on State Fragility, Growth and Development was launched in March 2017 to guide policy to address state fragility. The Commission, established under the auspices of the International Growth Centre (IGC), is sponsored by the London School of Economics and Political Science (LSE) and the University of Oxford’s Blavatnik School of Government. It is funded from the LSE Knowledge Exchange and Impact (KEI) Fund and the British Academy’s Sustainable Development Programme through the Global Challenges Research Fund.

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- **Donald Kaberuka (Co-chair)**, Special Envoy, African Union Peace Fund; Former President, African Development Bank
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Acknowledgements

The Commission’s recommendations draw on wide-ranging academic research and evidence given by policymakers, academics, business leaders, and other practitioners with expertise in fragile and conflict situations. The Commissioners would like to thank all the individuals and organisations listed in Appendix 1 for their valuable contributions.

The Commissioners wish to acknowledge the Secretariat team at the IGC, headed by Rafat Al-Akhali, for their tireless efforts which made this report possible. The team included Dr. Nematullah Bizhan, Emilie Yam, Laura Sili, Sarah Lyness, Jamie Green, Elisabetta Pilati, and the rest of the IGC team. In addition, Zander Woolcombe and Amy Barry provided valuable support and advice on communications and outreach.

The Commissioners wish to acknowledge the organisational support of LSE, University of Oxford’s Blavatnik School of Government, the IGC, and the financial support of the LSE KEI Fund and the British Academy’s Sustainable Development Programme through the Global Challenges Research Fund.
Foreword
The challenge of fragility

Cutting extreme poverty in half is one of the greatest achievements of the last three decades. Six million fewer children died before the age of five in 2016 than in 1990. Forty-two million more children go to school now than in 2000. More than two billion more people now have access to clean drinking water, and vaccinations have saved seven million lives since the turn of the century.

Across the world, from India to Ethiopia to China, huge numbers of people are escaping poverty. From Botswana to Bangladesh, previously poor countries are achieving middle-income status. And places that were once riven by conflict, like Colombia and Rwanda, are moving decisively from instability to stability.

However, there is much more to do. The Sustainable Development Goals (SDGs) set the mission to eradicate extreme poverty by 2030. Yet nearly a third of the way towards that deadline, almost 900 million people are still living on less than two dollars a day and, in too many of the world’s poorest countries, progress is completely stuck.

Why state fragility?
State fragility drives some of the biggest problems in our world today: extreme poverty, mass migration, terrorism, trafficking, and more.

Why now?
More and more of the world’s population are living in fragile states – half of the world’s poor by 2030.

A great many of these countries are what are often called ‘fragile states’. They are blighted by conflict and corruption. Their governments lack the legitimacy and capacity to deliver the jobs, public services, and opportunities their people need. The latest estimates suggest that by 2030, half of the world’s poor will live in countries that are fragile.

This report sets out clearly the characteristics of fragility, including the lack of basic security, inadequate government capacity, the absence of a properly functioning private sector, and the presence of divided societies.

It also looks at the wider consequences. Because state fragility doesn’t just condemn people to poverty; it impacts upon the world, driving mass migration, providing safe havens for piracy and trafficking, and enabling terrorist training camps to thrive.

Of course, there are fragile states that are not particularly poor – Libya and Syria being cases in point. But the suffering of people in those countries and the knock on effects for their neighbours and the wider world only serve to demonstrate the importance of addressing the problems of fragility.

The Commission’s findings are clear. If international assistance, aid, and – crucially – economic development are to help make our world safer and more prosperous, we need to address what we call the ‘syndrome’ of fragility.
At the moment, we are failing to do so. Indeed, some of the things developed countries, non-governmental organisations (NGOs), and donors have done have arguably made matters worse. After decades of aid, many of these countries are as poor as they ever were – some even poorer.

The solutions to such fragility, the Commission concludes, will be largely domestic. That may be slow and tough, but it is likely to be more lasting. Homegrown solutions and locally negotiated coalitions of governments, businesses, and civil society are the things that will make well-designed international support more likely to be effective.

That is why this report argues that international actors – donor countries, aid agencies, the International Monetary Fund (IMF), the United Nations (UN), development finance institutions, security forces, and NGOs – need to do things differently, learning from the mistakes that have been made and the evidence that has been collected over the years. Above all, they must stop setting out long lists of unachievable objectives and unrealistic timetables, and start working with governments rather than around governments.

Domestic actors – governments, political parties, media, and civil society – need to do things differently, too. This emphasis on greater national respect and responsibility will only work if they set out their national priorities – about where they are going as a country and who they want to be. Owning those priorities, learning from mistakes, combatting corruption, and demonstrating accountability are all crucial.

**What works**

- Realism, not idealism
- Local, not international priorities
- Reconciliation first, not elections first
- Working with governments not around governments
- Institution building and nation building

The recommendations in this report amount to a new approach to state fragility and international aid.

It looks in detail about whether there should be more realism about what can be achieved by states that have suffered from decades of conflict and failure. Simple steps that bring jobs and security matter more than, for instance, setting new national targets for tackling inequality and climate change.

When it comes to priorities, isn’t it vital that countries are able to set these themselves? The aim of international assistance should be to help fragile states to build legitimate and capable institutions, rather than undermine them.

When it comes to the conditions we attach to our aid, wouldn’t it be better if they were linked to ensuring that money was properly spent and not embezzled, rather than being tied to particular policies?

The Commission analyses how the rush to elections before genuine reconciliation and consensus building has impacted on fragile states. And it looks at whether there are moments of potential change – when conflicts end or a new leader emerges – when international assistance can make a significant difference.
The importance of the growth of genuine inclusive, participatory democracy remains clear. But this report says that the building blocks of democracy – the rule of law, checks and balances, the protection of minorities – matter as much as the act of holding elections. For states trying to find a pathway out of fragility, these building blocks can be even more important.

Everyone involved in the Commission believes in the power of gender equality to drive development in all states, fragile or not. And we support the full range of goals in the SDGs, including the vital coming together of environmental and economic objectives. But this report does not cover many of these vital topics. It is focused – purely and simply – on what makes countries suffer from fragility and how to escape the fragility trap.

Much of this work was started by the UK government of 2010–2015. For example, the proportion of overseas aid going to fragile states was increased, and the focus of development was shifted towards supporting the building blocks of democracy.

There was also a sustained effort to build international consensus on issues like corruption and transparency. After all, in too many cases, wealth has been stolen from poor, yet mineral rich, countries and hidden in the West. That is why developed countries have a vital role to play in this work and why the agenda set out in the 2013 G8 – greater transparency, establishing registers of beneficial ownership, sharing tax information, returning stolen assets, and combating corruption in all its forms – is more essential than ever. Of course these things are not easy to achieve. Building schools or funding vaccination programmes is straightforward compared to the sort of action that is needed to transform fragile states, such as mending fractured societies, building effective institutions, and increasing the quality of governance in places where there is often no history of effective administration and the basic contract between state and individual is often completely absent.

We need to be upfront: the risk of failure will be higher with fragile states than other countries. But it is imperative that we try. Why? Because the consequences of failure for these countries and the world are so grave.

It has been a privilege for us to chair this Commission. Hearing from such talented practitioners and experts in their fields, and looking again at the evidence of what works and what doesn’t, has been a refreshing process. Some of the recommendations the academic directors make are challenging to take on board. But we need to do so.

The good thing is we know that the escape from fragility can be done. Six decades ago, Singapore looked extremely fragile as it seceded from the Federation of Malaya. Today, it’s one of the most prosperous countries in the world. Just over 20 years ago, up to a million citizens in Rwanda were butchered in 100 days. Now it’s one of Africa’s fastest growing economies. Little more than a decade ago, Colombia was racked by drugs, death squads, and guerrilla war. Now it is a model for reconciliation.
So we should have confidence in our abilities, and the potential for progress. The world is richer than ever. There is more of a will to make a difference. We know more about the key ingredients for economic success. We’ve seen where reconciliation and peace processes have genuinely worked. And we have transformational technology at our fingertips that can help cut out corruption and deliver aid more effectively. Put simply, we have more weapons in the fight against poverty than ever before. Let’s use them.

David Cameron (Chair)
Former UK Prime Minister

Donald Kaberuka (Co-chair)
Special Envoy, African Union Peace Fund;
Former President, African Development Bank

Adnan Khan (Co-chair)
Research and Policy Director, IGC, LSE
Academic foreword
An analytical approach

All countries were once fragile. No society started off with the institutions and norms needed for peace and security. The first governments did not strive to fulfil some purpose agreed by society. The process by which many societies have escaped from fragility has long been studied by historians. From the 1990s, analytic political economy has provided a new perspective on these issues. Its main emphasis has been on the importance of building specific institutions of governance. These are the institutions that constrain the arbitrary use of power and create open and competitive access to public office. More recently, this approach has been enriched by integrating aspects of social psychology. Psychologists have emphasised that how formal rules work hinges on the values and norms of citizens who are subject to them. In a well-functioning society, rules and institutions are underpinned by civic culture. Our report applies this recent synthesis of political economy and social psychology to the problem of state fragility, growth, and development. It draws extensively on a range of academic research along with 20 specially commissioned case studies.

Our approach acknowledges that institutions matter in shaping how governments acquire and use their power. Formal rules shape interaction between governments and their citizens, both those which have a constitutional basis and those that emerge as norms. Some institutions provide checks and balances that create more inclusive policy-making. Other institutions enable governments to foster personal and economic security, raise substantial tax revenue, and build public programmes with wide benefits for their citizens. Part of the explanation for the persistence of state fragility is thus that some polities have not yet built the institutional framework needed for effective and inclusive government.

Our approach also tells us that some social attitudes, such as oppositional identities and norms of honour, can entrap a society in persistent conflict. A key role of inclusive government is to reshape identities and values to those which support the peaceful transition of power, the obligation to obey laws, and the collective effort needed to lift the society out of poverty.

We have used these ideas to suggest viable paths from fragility to prosperity. The political economy literature has assembled a rich evidence base on what works in building effective states. This helps us to pinpoint more precisely the nature of state fragility. For example, we distinguish between two different forms of fragility: that which afflicts polities where the state has always lacked the power to guarantee effective security throughout its territory; and that which reflects the abuse of state power where it already exists. Although an analytic framework is useful, no framework can override the detailed knowledge and stake in a society that only its citizens possess and which needs to be harnessed to provide solutions to its problems.

The roots of those states that are now successful have hardly ever been found in the visions of benevolent external architects. Our report argues that international actors have radically overreached their competence in addressing the challenges of state fragility. Ending this overreach implies ceasing many activities in ways that we elaborate. But there are also sins of omission: we
discuss neglected actions that could help the escape from fragility. In general, domestic actors have been marginalised and yet their role is vital. Since states affected by fragility tend to lack government capacity, prioritisation is essential. Many things are wrong, and governments have been pressured to put everything right at once. But initially, few things can be done and so establishing a viable sequence of change is critical. We have tried to provide for governments options that are feasible to implement and which have a good chance of lifting the society step-by-step out of fragility.

All of our recommendations have been informed by an analytical approach merged with the insights of practitioners. Context always matters, but having an intellectual framework ensures that the recommendations are individually and collectively coherent.

Past policies, both of international actors and of the governments of states affected by fragility have failed for many reasons. But, in the view of the Commission, this is true in significant measure because they have not been derived from a coherent analytic framework. Instead, what has become received wisdom has accumulated via three different processes. The first has been quick reactions to the crises inherent to fragility. Humanitarian emergencies call for such reactions, but they are merely necessary palliatives, with no pretence at being viable solutions.

The second has been to imagine that fragility has a single root cause that can be addressed by international intervention or domestic resolution. This approach singularly fails to recognise that regardless of its origin, fragility is a syndrome of reinforcing characteristics that entrap the society. There need be no logical connection between whatever initiated this entrapment and viable means of escape from it.

The third has been to infer strategy for the escape from fragility from the current characteristics of Western democracies. This too is a fundamental error since the historical circumstances that shaped this path are rarely applicable to the challenges faced today and encourage overreach which is likely to end in failure and hence reinforce a sense of fragility.

Since political economy is about both the politics that generate decisions, and the economics that determine the path to prosperity, our recommendations fall into those primarily about politics and security and those primarily about the economy. Both matter, and both are paths, not leaps. Without rising prosperity, political-cum-security solutions are liable to come unstuck. Without strengthening institutions and norms, whatever prosperity is achieved will be precarious. But the art of good analysis is to disentangle. Hence, we group our recommendations according to whether their focus is political or economic, and whether the pertinent actor is international or the government of the country concerned.

Professor Sir Tim Besley
London School of Economics and Political Science

Professor Sir Paul Collier
University of Oxford

Academic Directors
Summary of recommendations

Transforming politics and security

International actors

1 Help build government that is subject to checks and balances and works for common purpose

— Accept that an escape from fragility is a gradual process of the state developing effective checks and balances on power-holders and developing a sense of common public purpose.

— Therefore recognise that the building blocks of effective democracy – including checks and balances, rule of law, and protection of minorities – are more important than the actual event of holding a multi-party election.

— Stop assuming that fragility can be ended by processes that simply replicate the OECD model of political governance through new constitutions and multi-party elections.

— Promote the resolution of situations of open conflict by power-sharing rather than by a leap to winner-take-all elections.

— Encourage constitutions and multi-party elections to consolidate these processes rather than to initiate them.

2 Help build domestic security, including through a phase of international and regional security

— Give greater priority to helping build domestic security.

— Recognise that international peacekeepers only buy the time needed to build the capacity of domestic and regional security services to keep peace.

— Ensure that new domestic security services are decisively subject to checks and balances that curtail abuse.

— Work with all relevant local and regional parties to help them agree red lines, and reinforce commitments by linking them to the pressure points.
3 Capitalise on pivotal moments

— Accept that in fragile situations there will be long periods when outsiders have limited scope to support transformative change.

— Identify and use pivotal moments when transformative change is possible, such as a change of leadership or major international, regional, or national events, to support local leadership.

— Recognise that all transformational change depends on chosen actions by national leaders. Pivotal moments work by creating opportunities for leaders to take actions that signal new intentions, resetting citizen expectations, and building trust.

— Don’t use debt relief as an opportunity to impose donor priorities.

— Support leaders to take actions that signal new intentions, reset citizen expectations, and build trust in an inclusive way across the country.

4 Establish limited and purposive long-term goals

— Focus on citizens, not donors.

— Use narratives, institutions, and actions coherently to achieve three difficult goals:
  — Shared identity needs to supplant identities that are fragmented or oppositional.
  — Distrust of government needs to be turned into conditional trust.
  — Opportunistic short-termism needs to be supplanted by a future orientation and a willingness to make sacrifices for a better future.

5 In the short-term, look for quick wins

— Build legitimacy and confidence through small, easy steps that yield quick, visible wins on popular things. Focus on process as well as outcomes.
Focus on economic governance, not policies

— Do not make international support conditional upon any specific policies.

— Support governments financially and technically to implement their own programmes.

— Governments in fragile states should have genuine choice of options, subject only to minimum standard of economic governance – honesty, realism, and inclusion.

Use aid to support private investment for job creation

— Channel aid through development finance institutions (DFIs) to support pioneering firms.

— DFIs and aid agencies should coordinate their financial and technical support for sectors prioritised as strategic.

— DFIs should cooperate with each other to create standardised support so that investments that succeed can readily be offloaded.

— DFIs should drop conventional environmental, social, and governance (ESG) requirements in fragile states, replacing them with simple and pertinent yardsticks such as job creation – particularly for key demographics such as young people.
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<td><strong>Adopt distinctive international financial institution (IFI) policies for fragile states</strong>&lt;br&gt;— In fragile states, the IMF should encourage donors to provide aid for the public investment necessary to emerge from political and economic fragility. An objective of ‘reducing aid dependence’ should explicitly be recognised as premature.&lt;br&gt;— The IMF needs to commit to radical improvements in how programmes in fragile states are staffed.&lt;br&gt;— The World Bank needs both a strategy for fragile states and an organisational structure for delivery of a strategy.</td>
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<td><strong>Use international means of building resilience</strong>&lt;br&gt;— Build better surveillance capacity to anticipate economic shocks.&lt;br&gt;— Ensure humanitarian interventions conducted in emergency situations contribute to long-term development plans, in line with national government priorities.&lt;br&gt;— Support domestically-generated government initiatives that increase macro and micro resilience.&lt;br&gt;— Develop forms of IFI lending that link debt service to observable risks to reduce both fragility and the exposure of IFIs to default.</td>
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<td><strong>Build institutions to support the private economy</strong>&lt;br&gt;— Build legal capacity for regulation and contract enforcement.&lt;br&gt;— Build tax capacity to finance public investment.&lt;br&gt;— Build the capacity to manage public investment.</td>
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<td><strong>Invest in urban infrastructure for energy and connectivity</strong>&lt;br&gt;— Ensure firms have reliable power.&lt;br&gt;— Invest in serviced urban electricity, water, sanitation, and road grids.&lt;br&gt;— Ignite the private construction of affordable urban housing.</td>
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<td><strong>Use domestic means of building resilience</strong>&lt;br&gt;— Build quick responses to household shocks.&lt;br&gt;— Provide insurance against macroeconomic and environmental shocks.&lt;br&gt;— Build resilience against avoidable policy shocks.</td>
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PATHWAYS OUT OF FRAGILITY
Why this report?

Since the pioneering World Bank report of 2002, *Low-Income Countries Under Stress*, there has been a continuous flow of official reports on the problems posed by state fragility issued by development agencies and governments. This report concerns the same subject but is distinctive in being independent and academic. Established by the LSE and University of Oxford’s Blavatnik School of Government, under the auspices of the IGC, the Fragility Commission brings together an international consortium of distinguished scholars and practitioners with the academic input directed by Professor Tim Besley and Professor Paul Collier. It has been funded by the LSE KEI Fund and the British Academy’s Sustainable Development Programme through the Global Challenges Research Fund. Being independent, there has been no pressure to defend any particular interests or policies. Being academic, it is grounded in analysis and evidence rather than current practice. Our conclusion is that, in important respects, current practice is seriously misguided.

The report has two main parts. This introduction and the following section set out our proposed path out of fragility, together with our specific recommendations to governments and international actors addressing situations of fragility. This is followed by the analytic section of the report which sets out the logic and evidential underpinnings of the findings, linking them to relevant academic research and thinking. The summaries are just that: readers wanting elaboration should turn to the analytic section of the report.

Recognising the reasons for past failure

Despite global economic growth, and greatly increased international attention on addressing insecurity and fragility, key indicators such as refugee flows are at record levels. This suggests that despite good intentions, international policies have not worked well in many countries.

What has become ‘standard practice’ has largely accumulated from quick reactions to crises, glossed by a veneer of high-sounding sentiments based on a salient myth. This is that if only some hypothesised root cause of the fragility is addressed, the society will swiftly be able to function as if it were a typical Organisation for Economic Co-operation and Development (OECD) society. All that is then needed for it to do so is to replicate the democratic institutions now familiar across the OECD. This was the mythology of the approach taken following the ousting of Saddam Hussein in Iraq, demolishing all vestiges of the previous Iraqi state, and replacing it with a new constitution and a government chosen through multi-party elections. Manifestly, this did not work: by 2006 Iraqi society faced existential challenges and appalling levels of violence. In transferring power to the Shia majority, multi-party elections did not resolve the abuse of power so much as change it.

Yet variants of the strategy exemplified by Iraq have been implemented again and again. Colonel Gaddafi in Libya, President Mubarak in Egypt, President Mobutu in Zaire, oppressive rule over South Sudan, the Taliban in Afghanistan:
the ousting of all these regimes has been followed by ‘pop up democracy’. Yet none of these societies duly became flourishing democracies; instead each disintegrated into varied degrees of disorder.

Of course there have been successful instant transitions to democracy: a notable example is that from white minority rule to majority rule in South Africa. But that transition was not remotely akin to any of the above situations. Pre-1994 South Africa had been a society that repressed a majority of its population but not a fragile state: it had built robust institutions that provided the basis for checking the abuse of power for personal gain, and which were retained by the democratic government. Further, the African National Congress (ANC) had built itself as a nationally inclusive party: post-1994 political competition became less ethnically-divided as the ethnically based ‘National Party’ dissolved.

Fragility as a syndrome

Regardless of what initially caused the situation, fragile societies are typically trapped in a syndrome of interlocking characteristics which makes it hard to make sustained progress. Usually they are fractured into groups with opposing identities who see their struggles as a zero-sum game. This impedes the inter-group cooperation to use of the state for national purpose. Instead, it induces a view of the state as a resource to be plundered if only the group can capture control of it: the mentality of ‘our turn to eat’ in the phrase common in Kenya.

Oppositional identities compound a second problem: many citizens do not regard the state as legitimate and so do not comply with it. For example, the Sunnis in Mosul were not prepared to accept the Iraqi government as legitimate and support it against the threat of ISIS, even though the Shia regime had won an election.

In turn, the lack of legitimacy and the view of the state as a resource to be plundered compound a third problem: the state lacks the capacity to perform basic functions, such as service delivery, citizen security, taxation, and infrastructure. Often this is because many public officials are not motivated by a sense of national purpose to perform their mandated function, but instead abuse their position for personal gain with impunity.

This lack of capacity, lack of legitimacy, and oppositional identities compound a fourth problem: inadequate security manifested in sporadic outbreaks of violence. All four of these problems then compound a fifth: the private sector is under-developed so that incomes are low, and the economy narrowly-based. Not only does this feed back onto weak government revenues and a lack of jobs, but it compounds a final problem: the society is exposed to shocks, both political and economic, and these periodically set the society back even when some progress has been made.

This is the syndrome of characteristics that entraps a fragile state. The myth that the problem can be addressed simply by fixing some Western-diagnosed ‘root cause’ is a fundamental misjudgement of the intractable nature of fragility, and correspondingly an insult to the scale of the effort required for escaping fragility.

Genuine change is hard because in these conditions, short-term private interests naturally prevail over long-term public purpose. Leaders use their office to loot public money; strong groups exploit weaker groups; public employees rely on patronage rather than performance for advancement.
Stepping stones out of fragility

Getting out of fragility is a step-by-step process that happens within the society, and gradually enables public purpose for national development to prevail. In part, this is through a ‘negative’ agenda of building the checks and balances that restrain those holding public power. In part, it is through a ‘positive’ agenda of building a sense of common purpose for achieving long-term mutual gains. Most likely, the checks and balances must come first: only once people are less fearful of each other can they begin to cooperate.

Building inclusive government through a phase of power-sharing

In a society divided into oppositional identities which are in open conflict, such as South Sudan, Yemen, and Libya, each group will have its own narratives of past grievances. In such situations, agreement on objective notions of ‘justice’ is likely to prove illusive. A more realistic agenda is for international actors to recommend a forward-looking agenda, using the leverage at their disposal (which will vary between situations), to encourage genuine power-sharing. Because people are fearful, power-sharing will initially focus on the ‘negative’ agenda of checks and balances. But for sustained exit from fragility, those sharing power also gradually need to formulate the ‘positive’ agenda of common purpose.

The test of whether checks and balances are becoming effective is whether they become trusted by citizens. Often, they will not conform to those currently used in established Western democracies. For example, probably the most critical restraint will be whether a group has a veto on authorisation of public spending. But the power of veto should come with responsibility: any such group must have a credible mechanism of internal accountability to its members. In contrast, conventional elections may inadvertently undermine checks and balances by handing power to majority groups, as happened in Iraq. Further, since in the conditions prevalent in fragile societies elections are easily manipulated, the results are not widely trusted by citizens. As a result, until effective checks and balances have been built that are trusted within the society, elections typically do not confer legitimacy on the declared winner.

A test of whether common purpose is becoming effective is whether people become willing to defer private consumption to finance an increase in productive public investment. For this to happen, people have to come to trust each other – that everyone will indeed pay taxes; and to trust government – that it will use extra tax revenues efficiently for productive investment. This trust has to be built by matching what leaders say, with how they themselves behave, and how public institutions function day-by-day. Such common purpose is only feasible if citizens come to feel some degree of overarching shared identity and recognise the scope for mutual gains from cooperation. As with the building of checks and balances, premature conventional multi-party electoral competition can impede this process: prior to shared identity, parties can only be organised on oppositional identities and their political narratives of mutual antipathy can reinforce the perception of politics as a zero-sum struggle. The short horizon imposed by the electoral calendars can also impede the longer horizons on which common purpose investment depends.
The process of building power-sharing, checks and balances and common purpose is only a phase, albeit an essential one. Once checks and balances on the abuse of power replace the culture of impunity, and belief in common purpose for mutual future gains replaces zero-sum struggles, power-sharing can be superseded. These are the conditions under which multi-party electoral competition under an agreed constitution is superior to power-sharing.

Building domestic security services through a phase of international and regional security

When a divided society characterised by abuse of power has descended into widespread internal violence, foreign intervention to save lives may ultimately become necessary. But this should only be a rare last resort. International pressure for power-sharing needs to become both more concerted and more all-embracing. An array of economic sanctions, effectively enforced by tough penalties, should be deployed so as to be sufficiently decisive that they achieve their objective so rapidly as to inflict little damage on ordinary citizens. Half-hearted sanctions, and those widely broken, inflict lingering damage on citizens without achieving their objective.

Once power-sharing is in place, there is likely to be a phase in which lack of trust makes cooperative international peacekeeping valuable. This can be organised either regionally, through entities such as the African Union and NATO, or at the global level through the UN, and international public money should be deployed on whichever is most effective in a given context.

However, the maintenance of peace through such forces is not sustainable. Rather, it provides a period during which domestic security forces should be built up to replace them. Such forces, whether police, military, or a hybrid, need to be sufficiently strong to defeat organised criminal violence, but sufficiently subject to effective checks and balances that they cannot be used either for one group to intimidate another, or for undisciplined predatory behaviour against citizens. Typically, building defences against such indiscipline is done through inculcating a sense of professional pride in fulfilling a national purpose. Since each interaction of a security official with a citizen is a ‘teachable moment’ that either increases or reduces trust in government, a smart government will make this a priority. Subject to this, support for domestic security forces is a legitimate and necessary use of aid during the transition out of fragility. We do not underestimate the difficulty of building such forces, and a prolonged phase of joint provision through intensive cooperation with regional and international forces may be necessary.

Building legitimacy through responsibility for policy

Only governments can lift societies out of fragility. Governments will only sustainably implement what they have freely chosen. More fundamentally, unless government is visibly responsible for policy, citizens cannot gain trust in it. For decades, donors have recognised the need for greater donor
coordination without being able to achieve it, the reasons being self-evident: no donor government is genuinely willing to be coordinated by some other donor government. The only means of achieving effective donor coordination is if the government of the country sets the agenda for all of them. Mistakes will be made, but as long as responsibility for them is clearly domestic, government and society will learn from them. All international actors must decisively abandon the entrenched practice of policy conditionality, by which they make finance dependent upon government acceptance of specific policies. Their role is to assist and empower, not to impose their own preferences.

Donor support for government should be conditional solely upon three conditions – realism, honesty, and inclusion. This can collectively be thought of as a switch from policy conditionality to economic governance conditionality as defined below.

The condition of realism implies that the programme set by the government should only be supported if it is likely to achieve its specified goals within the politically pertinent time frame. This implies that it must be feasible given the limited resources and capacities of the government. Realism is further distinguished from populism by the condition that, if achieved, the policies would take the society in the right direction, in the sense of improving, however modestly, at least some of characteristics of fragility that are entrapping the society.

The condition of honesty applies both to government and other economic actors. For government, it implies that the programme is clearly specified in a public budget, and that effective systems are put in place to ensure that government revenues are spent on the stated purposes rather than being captured through the abuse of public office by top officials. For non-government economic actors, both businesses and criminal gangs such as drug and people smugglers, the condition of honesty implies that international power is used to curtail corporate tax avoidance, bribery, money laundering, secrecy havens, and organised crime.

The condition of inclusion stops well short of dictating policies. It merely requires that either power is distributed among different groups, or, if one group is dominant, it should not abuse its power over policy and public agencies to achieve economic gain for itself at the expense of weaker groups.

**Using pivotal moments and quick wins**

Transforming fragile societies is a generational process, not an event. But some events, such as a change of leader, or a crisis, can be pivotal moments at which citizens and elites recognise that change is likely and this makes escape from fragility easier. This is an opportunity both for international actors and for governments themselves.

A government that seizes such an opportunity still faces the challenge of maintaining the support of citizens while the longer-term processes of building checks and balances and common purpose are underway. Our suggested strategy is to focus on ‘quick wins’: actions that result in visible and rapid improvements for ordinary citizens. Because the state has little capacity, such quick wins will be straightforward and modest, but success in delivering
something simple builds confidence and hope, whereas failure in something more ambitious deepens the problem.

‘It’s the economy stupid!’

President Clinton’s famous line is even more applicable to the escape from fragility than to American elections. If the economy grows and drives up living standards, people acquire a greater stake in their society, and state revenues, capacities, and legitimacy all increase. Igniting economic growth depends upon encouraging a private sector to develop, yet decent firms are naturally wary of fragility. Fragile states are chronically short of conventional firms: instead, people work overwhelmingly informally in micro-enterprises. While micro-enterprises can keep people from destitution, only firms can enable workers to reap the huge productivity gains that come from scale and specialisation. Attracting such firms, and helping local entrepreneurs copy them, requires a major refocusing of international and domestic policies.

Overwhelmingly, economic growth happens in cities. A well-functioning city provides firms with the energy and transport connectivity that enables firms to thrive, generating productive jobs. But building a city that works is a costly and politically challenging undertaking: road grids, water, sewerage, and power are more cheaply installed ahead of population settlement. Retrofitting such infrastructure involves moving people, and this takes more political legitimacy than most fragile states possess. During periods of conflict, people rush to the main city at just the time when the government has no money to cope with the influx, and so cities in fragile states typically provide neither power nor connectivity. Consequently, they are chronically short of firms and productive jobs. Yet donors have systematically underplayed the importance of investments in urban infrastructure in fragile situations.
Recommendations

What follows is a set of 12 recommendations informed by our new approach to tackling state fragility. They are presented as two groups, one on politics and security, the other on the economy. Within each group of recommendations, we distinguish between international actors such as the international financial institutions (IFIs), the UN, and donor governments, and the governments of states facing situations of fragility and related domestic actors.

Our recommendations for national leaders of states facing situations of fragility are made in the spirit of sharing suggestions, based on contemporary analytical thinking and evidence of what works and what does not in promoting transformative politics, security, economic growth, and resilience. We hope that national leaders will take these into consideration when formulating their priorities.
Transforming politics and security

Transforming politics and security requires fundamental changes in governance. However, charting a path away from fragility requires a step-by-step approach. Above all, it is important to recognise the constraints imposed by the starting point and to avoid overloading the capacity of the state in the reform process.

International actors

1. Help build government that is subject to checks and balances and works for common purpose

- Accept that an escape from fragility is a gradual process of the state developing effective checks and balances on power-holders and developing a sense of common public purpose.

- Therefore recognise that the building blocks of effective democracy – including checks and balances, rule of law, and protection of minorities – are more important than the actual event of holding a multi-party election.

- Stop assuming that fragility can be ended by processes that simply replicate the OECD model of political governance through new constitutions and multi-party elections.

- Promote the resolution of situations of open conflict by power-sharing rather than by a leap to winner-take-all elections.

- Encourage constitutions and multi-party elections to consolidate these processes rather than to initiate them.

In working towards transformative change, the first and most important phase will usually be one of helping the state to build two aspects of governance: one that prevents it from doing harm, and the other then enables it to be useful. The negative agenda enables the state to reassure citizens by building domestic checks and balances on abuse of power. Building effective checks and balances is a gradual process of curtailing exploitation of the public purse for private gain, limiting corruption, and developing restraints on the exploitation of weaker groups for the economic benefit of a powerful group. The checks and balances that work may be context-specific. Power may be widely distributed in a ruling party: as demonstrated by the ANC to some extent. The judiciary may be able to build a tradition of professional independence. Senior civil service positions may be divided between political groups. Political leadership positions may alternate...
or rotate. Budget transparency may be aided by new technology. The acid test of effectiveness is whether they reassure citizens. The second positive goal is to create an environment which is conducive to the state actively promoting national development, the common purpose agenda. This will include a gradual process of building shared identity around the shared endeavour of development, in the hope of achieving a sense of common purpose.

Necessarily, these changes are processes rather than events. The steps that are effective in building credible checks and balances, and common purpose, will vary between societies. Mimicking all the forms of accountability that are now trusted by citizens in Western societies is unlikely to work. Indeed, some practices that mimic them, such as early multi-party elections, risk impeding progress.

Examples of processes that have sustained peace following conflict are found in Lebanon, Bosnia, Uganda, Rwanda, and Ethiopia. Recognising the idiosyncratic nature of fragility and the resulting country-specificities, each country chose a somewhat distinctive path. Lebanon focused on the ‘negative agenda’ of checks and balances that reassured each group: for example, the top political positions were pre-assigned to each of the three major identity groups. But Lebanon neglected the positive agenda of common purpose. The result has been peace sustained through 25 years, but few instances of purposive government. While Lebanon has been and remains very challenging, the maintenance of peace is a substantial achievement through a period when some other Middle East societies descended into violent conflict.

Uganda, Rwanda, and Ethiopia focused heavily upon actions that delivered a common purpose. In all three, the common purpose was rapid and broad-based economic growth and each has delivered remarkably effectively on it. The living standards of ordinary people have been transformed, and in marked contrast to 1984, Ethiopia recently survived a severe drought without famine. Checks and balances were more limited, essentially amounting to norms of conduct within the top echelons of the national party. In both Rwanda and Ethiopia, the abuse of office, incompetence, and corruption were limited by norms set by national leaders who to an extent became constrained by the group norms that they had created. All three, to varying extents, built national political parties. None of them have yet evolved to conventional Western multi-party electoral democracy, and the true test of their escape from the fragility trap will be the peaceful transfer of power from the ruling party.

The role of international actors in such societies should be to support governments, helping them to implement their own chosen concrete incremental steps to strengthen the economy and the capacity of the state to deliver on behalf of its citizens. As we discuss below, this support should be subject only to a limited form of ‘economic governance conditionality’, which serves an interim strategy while domestic checks and balances are being built.

In situations where fragility is manifested in open conflict, such as Libya, Yemen, South Sudan, Iraq, Syria, and Afghanistan, an inclusive government based on power-sharing offers the most viable path to peace. Such power-sharing is inherently difficult, but Northern Ireland, a rare case of an OECD society faced by the problems that routinely beset fragile states, offers an encouraging example: power-sharing worked fairly well following a period of bitter conflict. In this case, the design of the institutions was critical as they
reduced the scope for conflict (as we discuss further below). Contexts vary enormously, but often international actors have considerable scope to bring much greater pressure on the parties than has been commonly used to date, through sanctions and aid suspensions, to accept a power-sharing formula. Once formed, the business of a power-sharing government should evolve to be the same as set out above – the restraining agenda of checks and balances, and the common purpose agenda.

While it is understandable that international actors begin with visions of long-term success that are based on OECD states, it can be a dangerous starting point that has led to misdirected policies. It encourages the conception that the task of international actors is to chart a rapid course to fully-fledged OECD-style institutions. The Commission is fully committed to such values but believes that the legitimate domain of international actions is to focus on a viable path that gradually takes the society step-by-step out of fragility. It is the careful choice of feasible steps that matters, rather than a grand vision that encourages an unsustainable leap.

There are many well-intentioned blueprints for good governance which reflect the ambitions of donor states and international institutions. But gradual improvement achieved from within the society is more likely to be sustainable than leaps that imitate the forms that OECD societies have themselves only established relatively recently. If government becomes a form of theatrical performance focused on the benchmarks laid down by international actors, it is liable to deepen cynicism and disaffection.

International actors often bring pressure to hold rapid multi-party elections and write new constitutions. While this is desirable as a long-term goal, when applied too soon, it confuses form with substance and has misled the Western electorates who have ultimately been the audience that international policy has tried to satisfy. Multi-party electoral democracy is the right end-goal, but first the effective checks and balances and common purposes on which it depends must be built, and this is a gradual process.

Tangible acts of inclusive governance which signal common purpose are more important than grandiose symbolic gestures and pronouncements such as a constitution signed in a flurry of publicity while the parties to it are still enmeshed in short term tactical manoeuvring which is often within a mind-set of a zero-sum game. In societies without strongly embedded norms for the peaceful management of disagreements, such constitutional arrangements are often formal rather than real. It is not only institutions, but norms and practices that need to change. Symbolic changes also contribute to the perception of power being exercised to please international actors, rather than delivering on behalf of citizens. To be effective, constitutional change has to be anchored in the norms that are accepted by ordinary citizens. In fragile conditions, a new constitution is liable to be regarded merely as a new tactic, rather than an enduring set of rules. Since norms can only be changed gradually, forms of governance that build on them are also developed gradually. The pace is likely to be determined by the ability of the society to build credible constraints on executive authority.

The Commission’s evidence from those who have been involved in the process of constitution building was unequivocal on the dangers of moving too quickly. Even if the process is effective in changing compliance with the rules,
Escaping the fragility trap

it can lock a society into these rules rather than recognising the need to build evolutionary change. Flexibility may be needed.

Voting can serve as part of the transformation process and plays an important symbolic role, emphasising the importance of participation of citizens in governance. But voting can take many forms and choosing electoral rules is important. The competences, honesty, and interests of those who are elected to power can make a decisive difference in effective government.

There are different tiers of government where voting can take place – local, regional, or national. The balance of power between the centre and localities is an important dimension of checks and balances. Whether the polity makes use of referenda or election of political representatives can also be important. A further key decision is the pattern of districting; political boundaries can be drawn in ways that are favourable to some groups. The form of voting, proportional or majoritarian, can affect how a given population is represented in a legislature and how parties choose to formulate policies to appeal to narrower or broader interests. Many countries have successfully made use of reservations in representation for some groups in order to enhance representation of women and/or traditionally disadvantaged groups. And there is evidence that this can affect the kinds of policies that emerge following an election.

In making choices about electoral rules, careful thinking is needed as to how electoral rules can reinforce or undermine checks and balances. Creating a system where an incumbent is subject to a threat of losing power when he/she performs poorly is desirable, but can be no stronger than the extent to which citizens base their votes on past performance rather than identity or momentary rewards. It is also important to be mindful of how the electoral system reinforces or surmounts political cleavages. For example, elections fought by broadly-based coalitions under rules requiring minimum vote shares in many regions can be used to enhance the sense of common purpose.

While there can be a role for international expertise and guidance, the electoral rules most suited to the context should be determined by the parties to the conflict through negotiation rather than by international actors. Whatever form is chosen should be compatible with the larger agenda of building checks and balances on power, and common purpose.

Pluralistic politics flourish only after constraints on power that are credible to citizens have been built and have proven themselves to be effective. It may be prudent for international actors to resist pressures from those lobbying for early multi-party elections. A phase during which government realises that it has to earn legitimacy in the eyes of citizens gradually, by a succession of actions – new checks and balances, and new common purpose – is preferable to the illusion of instant legitimacy conferred by a donor-approved election that citizens do not accept. This can be done without renouncing belief in multi-party plural democracy as a desirable medium-term goal. Explaining this to Western electorates is long overdue.
Help build domestic security, including through a phase of international and regional security

- Give greater priority to helping build domestic security.
- Recognise that international peacekeepers only buy the time needed to build the capacity of domestic and regional security services to keep peace.
- Ensure that new domestic security services are decisively subject to checks and balances that curtail abuse.
- Work with all relevant local and regional parties to help them agree red lines, and reinforce commitments by linking them to the pressure points.

Peacekeeping is an important part of provisional governance and security. But it cannot be a long-term solution: international military peacekeeping can only be a temporary substitute for domestic provision. Beyond a horizon of seven to ten years, foreign peacekeepers often become resented. Their presence can therefore be seen as an investment that buys an initial phase of security during which technical and financial assistance can help to build effective domestic security. However, building domestic security requires a different approach, albeit one that depends upon the nature of the insecurity being faced.

In some contexts, such as the Democratic Republic of Congo (DRC) after the fall of President Mobutu, the state has become too weak to face down organised private violence even when it is of a quasi-criminal nature such as natural resource plunder and drug trafficking. The appropriate type of security to counter this is often a gendarmerie, with more military capacity than a police force but more community presence than an army. But the danger with any public security service is that in becoming militarily effective, it may also become predatory on the people it is there to protect. It therefore needs to be subject to effective discipline so that citizens see it as a source of protection, not a threat. Each interaction between the security forces and a citizen is a ‘teachable moment’ that either increases or reduces trust in government. The professionalisation of domestic security forces may take time and major resources, but this should be the clear task of interim international and regional forces. Progress in this task should be rigorously monitored to determine what approaches are most effective. The phasing out of non-national forces should be linked to evaluated success rather than to a preset timetable. Subject to checks and balances, support for domestic security forces is a legitimate and necessary use of aid in reducing this type of fragility.

In other contexts, such as the current situation in Venezuela, the state has sufficient security strength such that if it were reasonably inclusive, it would be able to maintain the peace. Instead, it uses its power abusively and so faces periodic disorder. In such situations, the key international security objective is to promote credible and sustainable power sharing. The purpose of power sharing is primarily to allay mutual fears by enabling the political factions that control significant armed force to block changes that transgress their red lines.
The underlying rationale for focusing on this objective is the concept of ‘loss aversion’ (discussed more fully in the Analytic Framework). Some conflicts are intractable, but in others, international actors have the potential for real leverage through economic pressure. For example, in both Venezuela and South Sudan, governments are entirely dependent upon continued access to world oil markets to fund their activities.

In brokering power-sharing, international actors should get the parties to agree their red lines, and reinforce commitments by linking them to the pressure points. The groups should exclude ones whose red lines are totally unacceptable (like ISIS) and should include, but not be confined to, those that currently have a significant military capacity. In fragile situations, it is usually easy for a faction that feels excluded to gain access to armaments, money, and recruits, and so the net of inclusion needs to be cast wide to include political leaders who might not be militarised yet but could easily turn to arms if their grievances are not addressed and they are not included. Recent history provides several sobering examples, including that of Yemen’s 2011 political settlement that did not include the Houthis and southern secessionists.

International donors can potentially play an important role if they use aid to limit the sacrifices that groups must make to be part of a sustained process towards peace and inclusion. However, this requires a pragmatic approach based on a proper detailed understanding of the underlying situation. This role should also appreciate that support is time-bound, giving way to an autonomous approach to development which can slowly move forward as groups build the confidence to cooperate. This process of withdrawing support needs to be anticipated at the start of the process.
3 Capitalise on pivotal moments

- Accept that in fragile situations there will be long periods when outsiders have limited scope to support transformative change.
- Identify and use pivotal moments when transformative change is possible, such as a change of leadership or major international, regional, or national events, to support local leadership.
- Recognise that all transformational change depends on chosen actions by national leaders. Pivotal moments work by creating opportunities for leaders to take actions that signal new intentions, resetting citizen expectations and building trust.
- Don’t use debt relief as an opportunity to impose donor priorities.
- Support leaders to take actions that signal new intentions, reset citizen expectations and build trust in an inclusive way across the country.

Pivotal moments arise when circumstances change due to the end of a conflict, a new leader, or after an economic shock. Sometimes short-term humanitarian crises that reveal the weaknesses of existing policies can also loosen the control of vested interests. Some pivotal moments are only seen in retrospect, but others can be spotted by fostering dialogues that make for better anticipation. In some circumstances, these create opportunities to reset political discussion, kick-starting the kind of transformative process discussed in our Recommendation 1 above.

The discontinuities created by pivotal moments mean that leaders have a good chance of changing the expectations of citizens. The role of international actors should be to encourage and support leaders who seize this opportunity. They should not be used as opportunities for international actors to impose their own policy preferences. For an action of a leader to signal good intentions to citizens, it must manifestly be a free choice (and one that would be too costly for a badly intentioned leader to take). Hence, any policy change that international actors require as a condition for support is automatically no longer useable as a potential signal by a leader. This is why even apparently very well-chosen policy conditions can be highly damaging.

While these are uncertain moments when some caution is needed, as it is easy for setbacks to occur, they are opportunities toforge new compacts between international and domestic actors which recognise the need for change. In forging such compacts, it is important to judge actions on measured and limited criteria, rather than on conformity with OECD standards. Encourage modest, easily implemented actions that yield quick, visible, and popular success, that are announced and explained to citizens.

Many fragile states have accumulated significant debts, the servicing of which requires diversion of resources from other priorities. Debt service is a form of taxation on the country and can create adverse incentives. Early discussion of relief, particularly if it is used as leverage to build pressure for
an inclusive political settlement, may be appropriate but gives creditors a moment of such considerable power that it tempts them into policy and political conditionality. As we propose more fully below, it is imperative to resist this temptation, requiring instead far more limited commitments which we refer to as economic governance conditionality.

Hence, it may be best to announce following a pivotal moment that debt relief will be based on an assessment of the general direction taken by national leaders, but not on any specific policy.

Domestic actors
Our second set of recommendations concern viable strategies for national leaders wishing to begin the escape from fragility.

Establish limited and purposive long-term goals

- Focus on citizens, not donors.
- Use narratives, institutions, and actions coherently to achieve three difficult goals:
  - Shared identity needs to supplant identities that are fragmented or oppositional.
  - Distrust of government needs to be turned into conditional trust.
  - Opportunistic short-termism needs to be supplanted by a future orientation and a willingness to make sacrifices for a better future.

To build a sense of shared purpose, the focus of government should inevitably be on its citizens and on improving their daily lives through raising living standards. Accountability to citizens enhances the credibility of this as the guiding purpose, while a focus on pleasing donors inevitably undermines it. There is a role for getting honest and open evidence on people’s attitudes to government. And if such attitudes seem excessively critical, then it is essential to develop a strategy for changing them.

In achieving the above-mentioned goals, leaders have three types of tools: what they say to their citizens, their public actions, and the institutions they build. The key skill that distinguishes the most effective leaders is to combine these three tools coherently around a persistent message.

Narratives of shared belonging and shared purpose help to build the necessary conditions for authority. They have the potential to counter distrust of government but only if the narratives are realistic and promise what can be visibly delivered. Realistic narratives of shared sacrifice for a better future can also explain the need for patience.
However, words are never enough in themselves. In conditions of fragility, previous desperate governments have often promised things that they did not mean and this has deepened citizen suspicions of government. Re-establishing credibility is essential, since otherwise even good policies tend to be misinterpreted. Well-chosen actions can do this, but the necessary actions will be costly. These actions are investments in restoring credibility.

Good leaders change policies, but great leaders build institutions which can restrain future poor leaders, bequeathing new-found trust in government as their legacy. New and strengthened institutions are valuable in fostering shared belonging. For example, they can be mandated to promote social integration and representation of diverse opinions, such as neutral public service broadcasting and rules of equal representation. In building trust, the State Bank of Pakistan has been helped by a recruitment rule that requires proportionate ethnic representation among its staff. Evidently this comes at some cost: sometimes the most able people will not be eligible. But Switzerland, for example, has functioned well despite this cost. Institutions can also build trust in government by restraining the abuse of public office, and monitoring performance of government agencies against announced targets. They can also reinforce trust in shared sacrifice, for example, through a transparent budgetary process which tracks the change in public assets and liabilities.

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**Good leaders change policies, but great leaders build institutions which can restrain future poor leaders, bequeathing new-found trust in government as their legacy**

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**In the short-term, look for quick wins**

- **Build legitimacy and confidence through small, easy steps that yield quick, visible wins on popular things. Focus on process as well as outcomes.**

It is important for governments to develop and take responsibility for their own strategy for growth and development. But citizens are more likely to comply with government if they feel co-ownership of the strategy. This implies a consultative process. Good consultation aims to reconcile what citizens say they want with what can feasibly be delivered quickly. Actions that are necessary should be clearly announced, but it is important to be cautious: under-promise and over-deliver. Promising what turns out not to be feasible undermines credibility. Of course, even OECD politicians are guilty of this trait, but they do not typically face the debilitating lack of legitimacy with citizens that characterises state fragility and so it is less costly. The priority for national leaders is to build trust with citizens. In the process, international actors will learn to respect what the government does.

Look for modest investments which do not rely on complex systems: this inspires confidence and increases the prospects of successful delivery.
Governance requirements on investment should be realistic given the starting point. Look for opportunities where infrastructure can be quick, incremental, and free-standing. A decade ago, licensing mobile phone operators transformed people’s daily lives. The current equivalent may be licensing the commercial rental of solar panels and liquified petroleum gas (LPG) cylinders for off-grid light and cooking, as is currently underway in Nigeria.

Gradually strengthen public agencies by emphasising professionalism, and reward it by granting greater independence to motivated public sector professionals who lead this process. Developing cultures of professionalism in key institutions faces a coordination problem among staff which can only be overcome by good leadership. As this happens, the judiciary and the central bank can build citizen trust in government. Building a public service ethos among a team is often more vital than conventional individually-focused training.

Fragility extends down to daily experience. In India, guaranteed access to temporary work at a wage that is low enough that only the truly needy apply for it, but high enough to provide a lifeline and set a floor to other wage offers, has proved to be highly effective in making people feel more secure. Evidence also shows that citizen trust in government depends upon how they are treated by public officials. Those officials in day-to-day contact, such as the police and tax collectors, need to be retrained with an emphasis upon treating people fairly, according to clear rules. Hence investing in process and training of teams of public officials to new standards is important. Such training must be evaluated by monitored subsequent conduct and its design modified accordingly.

Innovative forms of government can sometimes play a role in transforming politics and delivery. Where regional identities are strong and mutually hostile, it may be realistic to build more state capacity at the regional level and decentralise some power to it. However, to avoid increasing pressures for secession it may be wise to split large regions into several political units, none of which is viable as an independent polity, as done in Nigeria following the civil war.

Decentralisation can make people more willing to comply with authority, and tailor policies more closely to the local needs. Following success at the local level, leaders can also become potential national leaders. But decentralisation also has a downside. It sacrifices the potential for gains from having uniform national standards, and the scale economies of running common functions such as tax collection and security. Decentralisation often means duplication and confusion of government functions. Such trade-offs can only be resolved case-by-case, but sometimes it will be the only realistic option for building trust.
Transforming the economy

We now turn from the political-security nexus, to the economy. Job creation is essential for the emergence from the fragility trap. This requires both international and domestic actors to focus far more on private sector development. We have seven specific recommendations.

International actors

Focus on economic governance, not policies

- Do not make international support conditional upon any specific policies.
- Support governments financially and technically to implement their own programmes.
- Governments in fragile states should have genuine choice of options, subject only to minimum standard of economic governance – honesty, realism, and inclusion.

Despite the mantra of ‘ownership not donorship’, the reality in fragile states has continued to be that international actors insist governments adopt the policies preferred by donors. In some respects, this has become worse as donor-funded parallel project structures that bypass regular public bodies have proliferated, and NGOs have pressured development agencies into adding the priorities fashionable with their activists. The gulf between the rhetoric of national ownership and the reality of intrusion has arisen due to the absence of any coherent specification of the boundary between legitimate and illegitimate conditions for support.

Quite evidently, international actors cannot be expected to support any programme chosen by a government, regardless of its content. But bilateral donors have typically filled this vacuum with conditions that are appealing to their own electorates such as social spending or respect for climate change (hence a carbon reduction programme undertaken in South Sudan). The IFIs have continued largely with business-as-usual: tough negotiations in which ‘success’ for staff is measured by whether they get the government to implement an IFI-designed programme that it opposes, enforced by linking tranches of funding to milestones. Our recommendation provides a practical means of escape from this approach.

Economic governance conditionality, defined precisely below, is designed to resolve this problem by delineating the boundaries of legitimate international conditions for support. This is critical both to restrain international power from
over-extension, and to focus it on areas where its role is vital. The policies that national leaders adopt must visibly be their own choice. Leaders will only sustainably implement what they have freely chosen. Otherwise, there is a risk that policies will become volatile as leaders game the system, reversing reforms once they have received the money: the World Bank ‘bought’ the same agricultural reform from the Government of Kenya five times in 15 years.

More fundamentally, unless national leaders are visibly responsible for policy, citizens cannot gain trust in them. In 1986, the IFIs took responsibility for the Nigerian austerity programme, which had been made necessary by irresponsible government borrowing that had turned a fall in the world oil price into a macroeconomic disaster. Consequently, Nigerians came to believe that the IFIs wanted to punish the country, whereas the policies that had caused the crisis had been brilliant: over 30 years later, the society is still trapped in these beliefs. In setting their own policies, governments will make mistakes, but as long as responsibility for them is clearly domestic, government and society will learn from them.

The current gulf between the pious rhetoric of ‘ownership not donorship’ spoken at conferences and the reality of what happens day-by-day, country-by-country has arisen because of the failure to delineate clear, legitimate, and necessary conditions for support. As set out below, such conditions should stop well short of insisting on particular policies. International actors can assist in domestically-generated policy formation by helping to create a menu of options which offers genuine choice as to both objectives and the means of achieving
them. Since quick successes are essential, all options must be possible given available resources and mindful of the constraints which politics impose.

Specifically, by economic governance conditionality we mean three conditions:

- **The condition of realism** implies that the programme set by the government should only be supported if it is likely to achieve its specified goals within the politically pertinent time frame, and if achieved would take the society in the right direction by easing some of the constraints, and by strengthening domestic checks and balances on the abuse of office.

  Realism sounds a modest requirement, but to date, neither international programmes nor government preferences in fragile states have typically met it. IFIs and bilateral agencies have been tempted to use their power to overload programmes, sometimes to a ludicrous extent. As a result, many programmes fail because they are inconsistent with available state capacity and therefore technically unrealistic. Governments have been coerced into adopting IFI programmes and donor projects that they do not want, so that many fail because they are politically unrealistic. For their part, the governments of fragile states have been tempted to respond to periodic political crises with opportunist policies that buy short-term electoral support at the expense of future liabilities. In consequence, even with international support they would fail because they are fiscally inconsistent.

- **The condition of honesty** applies both to government and other economic actors. For government, it implies that the programme is clearly specified in a public budget, and that effective systems are put in place to ensure that government revenues are spent on the stated purposes rather than being captured through the abuse of public office by senior officials.

  For non-government economic actors, both businesses and criminal gangs such as drug and people smugglers, the condition of honesty implies that international power is used to curtail corporate tax avoidance, bribery, money laundering, secrecy havens, and organised crime. The international community needs to do far more on all these fronts as a matter of urgency. After decades of international inattention, the credibility problem is not confined to fragile states.

  International financial support needs also to be protected against looting for personal gain but in a way that respects the context. The situation in Liberia after its civil war suggested an approach when the threat was from very senior officials. This was resolved by instituting a dual-signature system. This was not an infringement on national sovereignty since the money that was being spent belonged to more than one sovereign entity. Where the threat of looting is pervasive, an extensive system of financial scrutiny is needed.¹

- **The condition of inclusion** implies that powerful groups should not use their power over policy and public agencies to achieve economic gain for themselves at the expense of weaker groups. Inclusivity will therefore have to be monitored in ways that make sense for the country context.

  As inclusive governance evolves, these conditions will come to be enforced by means of domestic checks and balances so that economic governance conditionality can itself be phased out. In the meantime, these
economic governance requirements provide the bounds for donor support to reform. This means resisting the widespread pressures from Western electorates to impose economic, political, or ethical policy conditionality.

Our approach is premised on finding the right balance between the support of international actors and the reciprocal obligations for receiving that support by governments in recipient countries. It sets an upper bound to intrusion by international actors by leaving a clearly defined space for choice by governments. This adopts and extends the pioneering approach of the 2017 G20 Compacts with Africa. The approach also sets a lower bound to intrusion with its proposed focus on purely ‘economic governance’ embodied on just three conditions: realism, honesty, and inclusion.

Use aid to support private investment for job creation

- Channel aid through DFIs to support pioneering firms.
- DFIs and aid agencies should coordinate their financial and technical support for sectors prioritised as strategic.
- DFIs should cooperate with each other to create standardised support so that investments that succeed can readily be offloaded.
- DFIs should drop conventional environmental, social, and governance (ESG) requirements in fragile states, replacing them with simple and pertinent yardsticks such as job creation – particularly for key demographics such as young people.

Rapid expansion of productive jobs gradually stabilises a society. Such jobs are created primarily by the private sector: modern firms harness economies of scale and specialisation by organising workers into teams. In fragile states, there are very few such firms, and so the typical person currently works solo. Consequently, people are stuck in low productivity jobs, and hence poverty. Fragile states have few modern firms because they exist only where they can thrive: the risks currently outweigh the likely rewards. But without firms, societies will remain fragile. Fortunately, aid can be used to break this trap, by changing the balance between risk and reward.

Typically, firms in fragile environments face four major negatives. First, the economic infrastructure is inadequate, providing neither the electricity nor connectivity to markets that firms need in order to function: aid can directly finance the necessary infrastructure projects. Secondly, the regulatory environment is hostile: aid can finance the technical advice that assists governments in regulatory reform. Thirdly, while in fragile states the economy is typically rudimentary, with many possible activities lacking proper firms, there is a first-mover disadvantage in pioneering activities, so they remain neglected: aid can be channelled through DFIs to offset this disadvantage. Finally, fragility poses an existential risk that is beyond the power of the government to remove
or offset: aid can finance the political risk cover that addresses these fears. The Private Sector Window of the International Development Association, which since 2017 has provided aid for the International Finance Corporation (IFC) to support firms in fragile states, is pioneering a component for this purpose.

Actions addressing all four of these challenges need to be coordinated within and between agencies. This is not currently happening: indeed, in some cases systems are currently designed to prevent it. The World Bank Group has operated a ‘Chinese Walls’ policy to prevent ‘conflicts of interest’: if IFC invests in an activity, the World Bank team advising on government policy cannot interact with the IFC team. This reveals a misunderstanding of purpose: both the IFC investment and the World Bank policy team share the same purpose of generating job creation in the sector. Since their roles are complementary, they need to work together.

Just as there is a lack of coordination within agencies, there is lack of coordination between them. Astonishingly, there is no forum for coordinating among DFIs. Because DFIs have not sufficiently recognised that their core purpose in fragile states is common, they tend to see themselves as being in competition with each other.

Because DFIs have not sufficiently recognised that their core purpose in fragile states is common, they tend to see themselves as being in competition with each other. There is currently neither a forum where their CEOs meet routinely to develop standardised approaches, nor a forum where their owners, the development agencies, meet regularly to agree common purpose in specific countries.

The World Bank Group’s Multilateral Investment Guarantee Agency (MIGA) has historically been run to minimise its own risk, rather than to induce firms to operate in fragile states. It has little exposure in fragile states and those projects it does cover have a negligible rate of claims: MIGA has been run as if it were a commercial insurance company, cherry-picking safe projects and avoiding its core purpose.

Our recommendation is based on the European Bank for Reconstruction and Development (EBRD) model and CDC Group practices. To deliver in situations of state fragility, DFIs such as IFC and CDC should partner with their counterpart aid agencies (such as the World Bank, DFID), jointly adopting the EBRD model of integrated sector strategies.

Second, DFIs should coordinate to standardise their instruments for reducing the risks borne by investors. Currently there are far too many small and idiosyncratic schemes. By reducing complexity, the underlying assets would become more marketable. In turn, this would gradually enable DFIs to sell on completed investments into DFI-managed funds designed to operate at investment-grade quality, so that they could attract portfolio finance. This would enable the scarce DFI risk capital to be recycled for new business investments.

Currently aid programmes to fragile states are very far removed from this focused and integrated economic agenda. Instead, they have been captured by well-meaning but ultimately futile agendas that are superficially appealing to Western electorates. The current ESG standards, designed for emerging market economies, are inappropriate for the needs of fragile countries, discourage and delay investment, and should be discontinued. For example, IFC imposes the same NGO-approved ESG standards on firms proposing investments in fragile states that it uses in emerging market economies: had these criteria guided
the early phase of Chinese policy, it would have delayed and frustrated many
investments, and might well have impeded China’s transformation. IFC and other
DFIs need to state clearly that in fragile states their ultimate objective is to reduce
fragility, and its practical metric will be jobs, or some similarly straightforward
goal of the society itself.

Pioneering investments can catalyse a sector, creating large benefits for
the society, even though the pioneer may lose money. International actors
should focus on supporting pioneering investments with active participation in
company management; direct subsidy of components of cost, such as labour
training; equity stakes and first loss provisions in pioneer enterprises; and
subsidised risk insurance (administered by MIGA and its bilateral counterparts).
MIGA and its bilateral counterparts should use aid to scale up cover in fragile
environments and accept greater risk. In 2017 the World Bank Group launched
the ‘Private Sector Window’, by which 3% of IDA can be used by IFC in fragile
states. Currently it is a pilot programme, but it needs to be monitored on
appropriate criteria such as job creation, and substantially scaled up, becoming
explicitly willing to accept commercial loss to achieve public benefit. The firm
that catalysed the Bangladeshi garment industry closed after three years, but
it got copied and spawned a $30 billion export industry.

### Adopt distinctive IFI policies for fragile states

- In fragile states, the IMF should encourage donors to provide aid for
  the public investment necessary to emerge from political and economic
  fragility. An objective of ‘reducing aid dependence’ should explicitly
  be recognised as premature.

- The IMF needs to commit to radical improvements in how programmes
  in fragile states are staffed.

- The World Bank needs both a strategy for fragile states and
  an organisational structure for delivery of a strategy.

IMF Programmes have adopted essentially the same framework in all countries,
whether they belong to the OECD or fragile low-income countries. In all cases,
programmes are quite prescriptive of the policies that the IMF requires to be
followed as a condition of finance. However, a major difference between the IMF
in an OECD country and in a fragile state is the duration of engagement. Many
fragile states have been under a nearly continuous succession of IMF programmes
for long periods interrupted when they go off track. Virtually all have been subject
to continual negotiations with the World Bank on aid projects and programmes,
and virtually all are highly dependent upon aid. This contrasts with the OECD
and emerging market countries, where programmes are rare and temporary
events, and aid is absent or peripheral. Hence, whereas in OECD and emerging
market countries, governments are clearly seen by their citizens as being normally
responsible for economic outcomes, in fragile states this is not the case.
Since it is essential that governments are seen by their citizens as responsible for the consequences of their economic policies, in fragile states the longstanding global practice by which the IMF has been prepared to take the blame for unpopular policies is distinctively damaging. It has encouraged over-ambitious policy change as governments in desperation have accepted policies in which they do not believe, and has impeded the process of social learning by which societies learn from the pain caused by their mistakes.

Clearly, regardless of whether the country is fragile, the sustainability of public finances is important. However, two distinctive aspects of fragility imply that the design of programmes should also be distinctive. One is that the constraints are distinctive, and so require different solutions even for identical goals. The other is that the objectives are distinctive: in fragile states, sustainability requires investment in the economic infrastructure necessary for the escape from fragility, and so a programme cannot aim to stabilise the public finances by sacrificing such expenditures. While the IMF Board has gradually been moving towards distinctive programmes, revision is a process of evolution to a new strategy and is far from being completed. An explicit focus on growth-orientation could become a Board requirement, so that deficits and aid are judged by whether the resources generated are used for effective investment in economic institutions and infrastructure.

In the early 1990s, Ethiopia and Rwanda were among the most fragile states in the world. A quarter-century into recovery, the insistence of the Government of Ethiopia that investment in economic infrastructure for electricity and connectivity were more important than containing the fiscal deficit and reducing aid dependence looks to have been viable. Recently, the government was able to raise a moderately priced sovereign bond (we make no judgment on whether alternatives might have been superior, but because the government believed in its choice, the strategy was effectively implemented). After a similar period, Rwanda is still aid dependent, but meanwhile has achieved broad-based economic growth unprecedented in Africa.

Related to the adoption of a more sophisticated strategy, the IMF faces a major challenge in changing its staffing policy and getting its most capable staff working in these complex and distinctive situations. The findings of its Independent Evaluation Office provide clear evidence on this matter. IMF staff tries to avoid working on fragile states because of the greater career risks implied by failure. To be credible given long-set expectations, policy change at the IMF needs to be public; too painful to be interpreted as business-as-usual (i.e. a ‘signal’); linked to clear and monitored milestones; and enforced through annual scrutiny by the IMF Board.

The IMF’s current mandate and the undertakings given by member governments authorise the Article IV annual consultations to cover all aspects of economic policy that impinge on the various dimensions of fragility. In fragile states, IMF surveillance is an opportunity to encourage discussion of growth-orientation, rather than just the conventional focus on macroeconomic risks. Within the current commitment to annual Article IV consultations, IMF staff could engage government in a serious discussion of how economic policies affect the
full range of risks associated with fragility, leading to a staff assessment for the government and the Board.

The World Bank lacks a distinctive Bank-wide strategy for fragile states (there is not even one for those fragile states that are eligible for IDA, despite this group having dedicated resources allocated through the ‘Fragile States Window’, which was established because it was recognised that fragile states were distinctive). The Bank’s strategies for low-income fragile states continue to resemble those of non-fragile states, the only difference being that the financing comes from this earmarked window.

In part, the problem is organisational. Although the World Bank has a unit focused on fragility, the Fragility, Conflict and Violence Group (FCV), it is merely a ‘global theme’. The FCV lacks the seniority to formulate an economic strategy. Country Strategies are set through discussion with the ‘Global Practices’ departments which between them comprehensively span policies. Since each Global Practice department wants a role, there is a strong bias against prioritisation. The FCV has no power of sign-off on Country Strategies for fragile states. But the core of the problem is that the Bank has not devoted sufficiently senior economic expertise to the formulation of a distinctive strategy. Developing a strategy can only be done with the credibility to change Country Strategies if led by a Vice President or Managing Director (drawing on FCV group and the Development Economics department as needed). Once formulated, an enhanced FCV group should be the implementing entity for the strategy, with all Country Strategies for fragile states discussed by the group, and its assessment accompanying submission of each such Strategy to the Board for review.

9

Use international means of building resilience

- **Build better surveillance capacity to anticipate economic shocks.**
- **Ensure humanitarian interventions conducted in emergency situations contribute to long-term development plans, in line with national government priorities.**
- **Support domestically-generated government initiatives that increase macro and micro resilience.**
- **Develop forms of IFI lending that link debt service to observable risks to reduce both fragility and the exposure of IFIs to default.**

Environmental shocks like a hurricane, health shocks like Ebola, and export shocks like a crash in commodity prices, can all derail a fragile economy. Building resilience is fundamentally about creating a system that is not thrown off course in the face of such shocks, causing lasting damage. Economies can be made shock-ready by building surveillance systems that identify potential risks. In some cases, acting in anticipation of shocks is the best form of risk mitigation. **Too often the approach of international actors has been to deal**
with the consequences of shocks after they are manifest. International actors should consider the potential for building a better institutionalised capacity to anticipate such setbacks and respond to them. Many risks are complex and there is a need for intelligence to be shared across actors. Because of their lack of state capacity, or the consequences of violent conflict, fragile states sometimes fall into humanitarian crises, such as the Ebola outbreak in Guinea, Liberia, and Sierra Leone; the current famine in South Sudan; and incipient famine and cholera in Yemen. It is important to recognise that emergency humanitarian intervention is distinct from the longer-term process of building government capacity. Indeed, there is a potential tension between a greater role for external NGOs which are accountable to their donors, and building the capacity of the government to respond to its citizens’ needs. In these extreme situations, international emergency measures should prioritise effectiveness over conformity to government processes. Humanitarian NGOs always have a presence on the ground and can guide this temporary support. This may also involve use of new technologies like ones that enable money to be transferred directly by mobile phones to health workers and hungry families. But such emergency overrides of domestic systems are better made unnecessary by building resilience. There is an emerging consensus that resilience needs to be built both at the macro and micro levels. While building this has ultimately to be driven by domestic priorities, international actors can lend financial support and expertise in setting up and financing national programmes especially at initial stages. Macro level resilience can be strengthened through responsible public management of fiscal and monetary policy. Agencies that act independently of government can provide objective advice on risks. Fiscal forecasts and monetary policy that is politicised may increase rather than diminish macro risks. There is now ample evidence on international experience with operating independent central banks and fiscal agencies that can help a government which recognises the importance of building greater resilience. Macro resilience is particularly pertinent in countries which are heavily dependent on global commodity prices. Efforts to stabilise prices have not proven successful, but creating facilities that help countries to manage risks may have a role to play. Developing forms of IFI lending that link debt service to observable risks would reduce both fragility and the exposure of IFIs to default. Resilience may also be built by protecting vulnerable people. There is evidence that violence is more likely when there are shocks to wages, and to the employment prospects of young men in particular. There is emerging evidence that micro-level schemes which offer last resort employment guarantees and/or support wages to households threatened by destitution can help to mitigate the threat of violence as well as having independent benefits in encouraging investment. How such schemes are targeted may be important to secure maximum effectiveness in reducing the risk of violence.
Domestic actors

If the economy can generate productive jobs, the society is more likely to gradually stabilise. But productive jobs need the firms that can organise a workforce, and firms need a few public institutions to work well. Only leaders can ensure that they get built and not everything can be a priority.

The overarching theme of our report is to empower the states that directly face situations of fragility. However, we also emphasise the difficulty of this task given the limited capacities and severe constraints that governments initially face. Needs are pervasive, but if national leaders are not to be overwhelmed by them they have to prioritise. International actors often use the language of prioritisation, but in practice they push leaders in the opposite direction, showering them with new initiatives and emotive needs that cumulate to an irresponsibly overloaded agenda. Only those national leaders who insist on drastic limitation of focus can forge a step-by-step path out of the syndrome of interdependent constraints that trap societies in fragility.

Our report has called decisively for freedom of national leaders from the priorities set by donor preferences, and this is entirely feasible. But it is not possible to free anyone from the constraints of economic reality. The path out of fragility depends upon rapid and sustained increases in productive jobs. In turn, this depends upon developing the private economy. Only leaders can insist on this priority: despite the plethora of donor enthusiasms, rapid increases in productive jobs have received little attention from them to date. Since government capacity is limited, a vital task of good leadership is to be ruthless in limiting priorities. Studies of time management show that typically the time of top leaders is dissipated in too many activities, presidents spending only a tiny fraction of their time on their top priorities. If the private sector is to generate jobs, the state will need to prioritise the sinews of the economy: legal, financial, and managerial. Hence, leaders need to link priorities to benchmarks, with specific officials expected to achieve monitored annual improvements.

10 Build institutions to support the private economy

- **Build legal capacity for regulation and contract enforcement.**
- **Build tax capacity to finance public investment.**
- **Build the capacity to manage public investment.**

Fragile societies need jobs; jobs need firms; and firms need key public institutions that provide them with secure property rights. Insecure property rights are both a symptom of fragility and a contributor to it. Many legal disputes concern land ownership which often reflects the absence of a public register of ownership. Establishing a register for urban land is an important step toward property rights security since cities offer significant scope for private
and public investment. This can be achieved in fragile conditions as has been demonstrated by Rwanda over a period of three years where progress towards improving property registration was an openly stated and monitored goal. Clarifying ownership of each parcel of land is an essential starting point for security of ownership and also enhances the marketability of investments. Land may also function as collateral, opening the scope for banks to extend lending. There is now a body of established academic evidence to support this focus.

By reducing contestation of land, commercial courts can be freed to provide rapid adjudication of inter-firm disputes, making transactions easier. Shortening the time taken to settle a commercial dispute is one goal for policy change that can readily be monitored. For many disputes between firms and the government, domestic courts are unsuitable; firms tend not to trust them to be independent of government and this perception will curtail investment. The government may therefore consider a standard international dispute resolution mechanism such as provided, for example, by the World Bank. Reducing the perceived risk of expropriation is also a monitorable measure of policy change. Sovereignty of domestic courts is one of the fruits attained once economic development is secured.

Building the capacity to tax makes raising a given amount of revenue less detrimental, and enables revenue to be increased. This increases the capacity to borrow, generating a platform for a highly-geared increase in the finance for public investment. If this is done alongside a public register of land, there is scope to introduce an annual tax on urban land and buildings. There is a growing
knowledge base on strategies to build fiscal capacity. This suggests that there is value in creating small, motivated teams of tax inspectors with clear objectives. Progress in raising tax revenues is a readily monitorable goal. However, this needs to be balanced by reductions in perceived abuse of the tax system and corruption in the process of collection. Adopting an e-payment system can make taxes hard to avoid, while increasing transparency in tax collection and visibly linking some tax revenues with specific services can enhance voluntary compliance and trust in the state helping to build a stronger sense of reciprocity between state and citizens.

The quality of public investment management determines the cost effectiveness of a given revenue. The cost of a given amount of public investment, such as a kilometre of road, is often high in fragile states. Money spent on enhancing the capacity to manage such projects can rapidly recover its outlay. Hence, before scaling up spending on public investment, it is smart to invest in the capacity to invest. This too is monitorable and is now benchmarked annually by the IFIs, through the Public Investment Management Assessment (PIMA). This makes monitoring of the improvements in capacity much easier for top leadership. It is also critical to keep tight central control of implementing ministries.

Invest in urban infrastructure for energy and connectivity

- Ensure firms have reliable power.
- Invest in serviced urban electricity, water, sanitation, and road grids.
- Ignite the private construction of affordable urban housing.

In spite of being fragile, many states are rapidly urbanising. Yet donor advice often remains focused on rural development. When deciding on priorities, it is important not to neglect urban infrastructure: it is around three times as costly, and far more politically difficult, to retrofit infrastructure once people have settled on land than to do it prior to settlement. Managing urbanisation is key part of the strategy for building an economy. The options that we propose in this recommendation provide a means of doing this and taking advantage of the job creation possibilities that urbanisation affords.

Firms need energy and this is most cheaply supplied through the grid. However, supply must be reliable and competitively priced and this depends upon delinking it from household provision. Access of urban households to grid-based electricity is a quick and visible win with citizens while prioritising reliability of supply to firms is a key step in supporting firm growth, but further expansion of the grid can be deferred until the society is richer: in the meantime, wide access can be achieved off-grid by commercial provision of pay-as-you-go electricity generated from solar panels.

Without roads and the water, sewerage, and electricity grids beneath them, cities grow into congested and unsafe environments where jobs are scarce
because firms cannot thrive in them. Hence, public investment in this grid of infrastructure is critical, this involves taking the opportunity to delineate small plots that enable households to build homes with legal security, while ensuring the high density that facilitates connectivity by creating sufficient plots with good access to the centre of the city to match the expansion of the urban population.

Expanding the construction sector is an important way of generating jobs, many of them for relatively low-skilled young men, the group most prone to violence. Because construction has to be done in the country, extra demand leads to extra activity, unlike demand for goods that can be imported. Demand for housing can be stimulated by pre-approval for homes built to affordable designs on serviced sites. Pre-approved designs also ease valuation, and the central bank may be able to catalyse building societies that lend to these designs using the plot-cum-building as collateral. Government may also be able to catalyst small and medium-sized construction firms that can build them cheaply.

Use domestic means of building resilience

- Build quick responses to household shocks.
- Provide insurance against macroeconomic and environmental shocks.
- Build resilience against avoidable policy shocks.

As set out in Recommendation 9, international actors can help to build resilience. But national leaders can themselves do much to make their citizens more secure. Ethiopia provides a good model: in 1984 a drought led to a murderous famine, branding the country as a failed state. But by putting in place early warning systems, and physically integrating markets, recently the country coped with a similar drought without famine. In contrast, South Sudan has had a famine without a drought.

Shocks happen but they are more likely to escalate into a humanitarian crisis if reliance is placed on ad hoc emergency reactions, than if they automatically trigger a system of support. New technologies enable vastly enhanced early warning; simple means of pre-identifying vulnerable groups; and quick and reliable ways of providing money to those vulnerable households predicted to be hit. The international agencies with humanitarian mandates may be reluctant to embrace such a fundamental change in their mode of operation, and so governments facing situations of fragility need to take the lead themselves. With initial donor support, many countries have established social protection programmes, like the Hunger Safety Nets Programme in Kenya and Benazir Income Support Programme in Pakistan, to support vulnerable households to cope with poverty and deprivation through regular cash transfers.

Fragile states are typically exposed to macroeconomic shocks from commodity exports, such as price slumps, and natural shocks such as earthquakes and hurricanes. Since the risk of such events can be estimated, they are most appropriately handled by insurance mechanisms rather than
the present system of ad hoc emergency reaction. These would be a smart government use of aid, and once in place would reduce the perceived risks of investment. A good example is the Caribbean Catastrophe Risk Insurance Facility (CCRIF) that acts as a risk pooling facility operated by Caribbean governments and some non-member governments like Guyana to limit the financial impact of catastrophic hurricanes and earthquakes by quickly providing short-term liquidity when a policy is triggered. It has involved collaboration between CCRIF and Swiss Re in design and roll-out of hurricane insurance and in sharing risk via reinsurance cover.

Macroeconomic shocks derail both the difficult political task of building the capacities of the state, and the carefully nurtured perception among investors that risks are declining. The impact of macro shocks can be reduced by purchasing insurance against them. The governments of fragile states have much more need of such shock insurance, but currently it is very rare. Governments can approach major insurance firms, some of which are now motivated to meet these needs as part of their Corporate Social Responsibility (CSR), and ask the IFIs to switch from demanding senior creditor status for all their lending, which increases risks to all other parties, to loans that build in risk-sharing.

A valuable way of gaining credibility for macroeconomic policies, with both investors and citizens, is to create an independent ‘Office of Budgetary Responsibility’. Its purpose is to advise government as to the sustainability of its growth-oriented policies during the preparation of the annual budget, and to comment publicly on it once announced. The Office can be small, but since its purpose is to achieve credibility, those appointed need to be qualified and independent.

Governments are the source of many of the perceived risks. This both discourages investment, and leads investors to insist on ‘stabilisation clauses’ that excessively limit the scope for policy improvement, and guarantees that shift even commercial risks onto government. Investor confidence can be increased through routine prior consultation with the business community to get early warning of concerns. The World Bank has recently introduced a process, the Systemic Investor Response Mechanism (SIRM), which alerts governments to grievances well before they escalate, and identifies patterns in government-generated grievances affecting investment. Governments are in a weak position vis-à-vis firms, and currently this tempts firms to address their reasonable concerns through overkill strategies such as ‘stabilisation clauses’ and guarantees. A less costly way of reassuring investors is to use routine consultation both to learn about their concerns, and to keep them informed about trends in government thinking.
ANALYTIC FRAMEWORK
Successful and unsuccessful states

Any attempt to combat state fragility has to begin with a clear sense of what constitutes success, and an understanding of the process by which it is achieved. Perhaps the biggest challenge faced by any society is to build an effective state whose focus is on developing the economy and building capacities which benefit wide groups of citizens. While good leadership is important, effective states need to find a means to transcend the careers of specific policymakers in particular to maintain a focus on long-run benefits. A key role of the state is to provide reassurances to private investors so that they are willing to commit capital for the long-term. Reliable wage employment in private businesses is key to economic growth and poverty reduction. China’s focus on this with a raft of underpinning reforms led to it embarking on a sustained growth path which has lifted millions of its citizens out of poverty.

While the specific means of delivery vary enormously, successful states have two core elements:

- a combination of authority and the power of enforcement sufficient for it to implement policies that ignite and sustain private enterprise; and

- the deployment of its capacities on behalf of its citizens in a range of dimensions including provision of security, public services and raising revenue.

Recent research has created an understanding of the process by which this is achieved. The transformation from poverty to prosperity takes time and depends upon creating future orientation by the state, firms, and individuals. This means being willing to forgo consumption in order to invest for the future. The government’s role in achieving this is underpinned by mutual trust: governments use their authority for collective good and citizens comply with regulations, laws, and taxes which enable the state to function effectively. Societies characterised by fragility are a long way from such a state of affairs. Getting there can be decomposed into two processes of change, each of which is difficult and takes time.

First, institutional arrangements need to be built that give policymakers incentives to produce policy that serves a wide group of citizens. In the longer term, such institutions select to public office those with the honesty and integrity to do so. In essence, institutions have to be changed so as to promote social cohesion and common interests.3

Secondly, societal norms and values need to be encouraged which give leaders, state institutions, and the private sector, a sense of mission and cohesion around common goals. In essence, the society needs new values and norms, common to officials and businesses, which guide a national mission.4

A state builds institutions by defining formal procedures to govern decision-making processes and creating a cadre of public officials to implement them. It builds values and norms by harnessing the influence of leaders and civil society to develop and communicate the narratives that circulate in society, so as to set examples of good conduct.

Both institutions and norms are necessary to the process of building effective states. Norms need to be reinforced by the enforcement powers that institutions
bring. But institutions need norms because they can be no stronger than the people who staff them, and the day-to-day behaviour of these public officials depends upon their norms. Building institutions with the right rules and budgets is relatively straightforward, and many states have them. But building norms that people are willing to comply with is more challenging. Norms of reciprocity are key; citizens are more likely to comply voluntarily, if they are confident that other citizens (especially those in positions of power) will also do so. This creates a social contract between the rulers and the ruled. Moreover, the intangible capacity to induce compliance in this way is an important manifestation of state legitimacy. Compliance is withdrawn when governments either seize power, or use it, in ways that are deemed to violate an agreed social contract thus weakening state authority.⁵

Building norms of reciprocity is facilitated by a sense of shared identity and values. These shape the nature of mutual obligation and create common goals for the state to pursue. Political leadership plays a crucial role in creating or depreciating shared identity. Leaders have influence through their actions, and through their words. Influential leaders have been able to do this even in mass polities (e.g. Prime Minister Nyerere, President Sukarno). Actions are often more credible than words, but the latter are important in explaining the path being taken and the reasons for it. When actions clash with rhetoric, both are devalued. Societies that already have strong institutions and norms can survive a bad leader, but a fragile state with a bad leader will remain fragile. Hence, in fragile societies national leaders bear a heavy responsibility.

An influential body of work in economics and sociology has highlighted the importance of identity and norms in influencing human behaviour. Cooperation can be made easier by building an overarching sense of shared identity that spans across more differentiated identities – as done by Julius Nyerere in Tanzania and Lee Kuan Yew in Singapore.⁶ Effective leaders have also shaped powerful norms around common purpose in order to elicit sharing and compliance with rules. In Botswana, norms providing a rationale for patience were pre-emptively shaped by Sir Seretse Khama. Seeing the potential for mismanagement of diamond discoveries, he pre-empted pressures for extravagance by introducing the mantra ‘we are poor and so we must carry a heavy load’.

Building willing compliance of citizens with government has a direct impact on state fragility. The transition to prosperity beginning with state fragility is demanding because of the need to encourage collective investment in state capacities such as tax collection, security, and infrastructure which increases productivity and connectivity. Creating an effective state cuts across the conventional democratic-autocratic distinction. Historical and contemporary experience shows that states on each side of this classification can achieve it, or fail to do so. But there is evidence that some institutional features are more conducive to developing effective states than others. Institutions that create constraints on executive power are extremely important. This can be created using conventional means with strong independent judiciaries, free media, and legislative oversight. However, strong party structures and a delivery-focused elite which holds rulers to account can also play this role.

With both institutions and norms in place, there is scope for citizens to entrust government with a wider role in the economy, safe in the knowledge that
the capacity of the state will be used predominantly for the pursuit of mutually beneficial ends. It is naturally more difficult to achieve this in fractured societies where mistrust across groups is rife and views about policy are polarised. Part and parcel of building effective states is therefore to inculcate the trust and mutual respect that allows the state to operate on a common interest basis.

An effective state has two complementary means of achieving compliance. One is the raw power of enforcement: monitoring, detection, and formal penalties for transgression. The other comes from informal authority sustained by norms that lead citizens to comply voluntarily. The cost of building an effective state relying only on enforcement is normally prohibitive: the attempt to rely only on enforcement leads not to effectiveness but to conflict. Moreover, there is ample survey evidence based on attitudes and values suggesting that building authority is feasible. For example, many citizens express support for paying taxes as an intrinsically valuable act.⁷

There is a ‘paradox of power’ at the heart of effective states which says that states that have evolved appropriate constraints, imposed by a combination of formal institutions and social norms, actually enjoy greater effective control, because of the willing compliance that comes with adding authority to power. There are two common routes from enforcement to authority. One is pressure from excluded groups: sometimes leaders who are fearful that they may lose their grip on power are driven into accepting restraints on how they would use authority. The other is the enlightened self-interest of leaders: some leaders are far-sighted and choose to build restraints on their own power because they recognise the benefits of converting power to authority. Wise leaders leave a legacy: the benefits of restraints on power transcend the leader’s period in power.

At the heart of state fragility is therefore a failure to build a state that is effectively restrained. At the risk of simplification, two different explanations for the persistence of state fragility suggest themselves leading to distinctive forms of state fragility.

The first of these is the problem of weak states where a state lacks the power to deliver security, and has not built the institutions and norms that are needed for prosperity. We would put Somalia and possibly DRC in this category.⁸

The second of these is the case where, having built the power of the state, the state apparatus is abused by leaders who neither face sufficient formal constraints nor are restrained by norms that discourage misrule. The descent into conflict in Syria is a prime example of this.

Many leaders in both types of states attempt to fool citizens into willing compliance by mimicking the institutions and norms of an effectively-constrained state. They hold sham elections, and advocate norms that their actions contradict.⁵ This compounds the problem of building an effective and inclusive state because citizens will eventually get wise to such strategies, leading to a breakdown in trust between government and citizens. This deepened distrust makes a successful transition even harder as the history of a country like Nigeria has shown.¹⁰

Another dysfunctional strategy which often has long-run costs is the diversion of effort and resources into staying in power by weak and abusive leaders. This takes many forms such as cultivating favours among an increasingly corrupt elite or jailing opponents. It can also prove expeditious to foment division into
opposing social identities. All of these strategies have damaging long-run consequences not least when they provoke open conflict.

It is no surprise therefore that state fragility of either kind described above frequently results in political violence. Weak states often face gang-type violence as in DRC and Burundi, while abusive states face periodic violent challenge as we see in contemporary Venezuela.

Norms of reciprocity between the state and the citizen can take a long time to build. And in the earliest phases of a transition, critical shocks can lead to setbacks leading to relapses into fragility. However, there are sufficiently many encouraging examples to fuel the belief that this transition can be achieved with sufficient will and dedication. The Commission’s work which is reflected in this report has focused on states that are openly fragile. But some states that rely only upon the repressive power of a ruling elite arguably are in a state of latent fragility. The apparent stability of Syria prior to the recent outbreak of violence serves as an important reminder that repression as a means of staying in power risks spilling over into violent conflict. States like North Korea which are built on a coercive apparatus supported by a narrative of an existential threat are arguably in an extreme state of latent fragility.

To be clear, latent fragility constitutes a radically distinct type of international problem and its discussion falls outside our remit. We focus entirely upon societies that are openly fragile. The two forms of state fragility that the Commission has focused on have many common symptoms. However, they require distinctive reform strategies. The next section discusses these symptoms.

Symptoms of fragility

Our diagnosis of state fragility is based on six key symptoms. These should not be seen in isolation but as interdependent and mutually reinforcing aspects of complex processes and these apply to different degrees in different settings.

Symptom 1
A security threat from organised non-state violence

Lack of security lies at the heart of fragility. All states face challenges to state authority that need to be surmounted. But when states are fragile, they lack the capacity or motivation to respond effectively to such challenges. And this calls into question whether the state has the basic feature of legitimacy: a monopoly on the use of organised violence within its territory.

Threats to security can come from a variety of sources. In some cases, it comes from groups which seek to take over the state. However, it can also be from groups that wish to have autonomy in particular spheres such as religious freedom or within a particular part of the state’s territory which may in some cases be a desire to secede. States do typically respond to security threats but fragile states are ill equipped to do it effectively. Citizens are therefore exposed to personal risks from violence. Lack of security also deters investment, both starting
up and investing in businesses whose investments may be subject to the risk of expropriation. There is also increasing evidence that violence deters children from going to schools and the loss of skills is perpetuated throughout their lives.

Even where the government inherits a functional security apparatus, the threat of violence diverts its attention towards quelling disorder which is a distraction away from delivering basic goods and services to their citizens and promoting the investment needed for growth and development.

Violence sometimes has its roots in long-standing grievances between groups which make finding the means to cooperate in power difficult. Natural resource revenue can accentuate the problem, since divvying up the resource rents encourages a zero-sum view of politics. Indeed, in the absence of robust cooperative norms or cohesive institutional arrangements, natural resources become a prize for the winner in a violent struggle, intensifying the use of violence. This is more likely to be the case in low-capacity fragile states.

**Symptom 2**

**The government lacks legitimacy in the eyes of many citizens**

Fragile states also lack legitimacy which weakens their capacity to call on voluntary compliance by citizens. Legitimacy reflects a self-fulfilling belief that power has been acquired and is being exercised appropriately. Leaders who seize power through violence or abuse the state for personal gain therefore undermine state legitimacy. Legitimate government is a reflection of norms of behaviour by office holders that have become accepted and are adhered to even when they fly in the face of narrow self-interest. Process is key in building legitimacy; even when a state delivers public services, the procedures for doing so can matter. As citizens come to see that they are being treated fairly in day-to-day interactions with public officials, they acquire a larger sense of trust in government. A case in point is policing where due process is important in establishing confidence in the police.\(^{13}\)

States that lack legitimacy find it difficult to deliver security as well as other basic services. While they may have *de jure* authority, such states lack *de facto* power. In such cases, the process of government is often reduced to theatre. Attempts for governments which lack legitimacy to coerce their citizens can backfire; it may simply reinforce the sense that the state has violated norms that underpin voluntary compliance. It is essential therefore office holders are subject to the laws that they make. One reason why corruption undermines legitimacy is that it creates a sense in the minds of citizens that laws can be violated with impunity by government officials. This further reinforces the importance of voluntary compliance rather than resorting to coercion in building a successful state.

Legitimacy is not all or nothing. Some groups may recognise the authority of the state in particular spheres. Extra-government structures that underpin challenges to the state themselves embed authority structures based on norms, for example where these are tribally based. It is perfectly possible for such loyalties to co-exist alongside state structures. But for an effective nation state, there is an irreducible level of legitimacy that the central state needs to command sufficient cooperation from its citizens even when power in some domains is diffuse.
Symptom 3
The state has weak capacity for essential functions

Modern states deliver a range of services to their citizens which requires a cadre of trained and competent professionals alongside effective organisational structures. Sustaining public expenditures also requires systems for raising tax revenue. There are many well-documented failings of state delivery in low-income countries such as teachers who do not show up to the classroom or health professionals who lack basic expertise or access to medicines. Supply chains for essential inputs may also be compromised by corruption.

State fragility is manifested in the failure of delivery of basic services to citizens and firms, such as infrastructure, education, or healthcare. Organising effective state delivery of services requires building the capacity of mandated teams of public officials to accomplish specified tasks, both the delivery of these services and the tax administration that provides the finance for them.

An ineffective public sector is partly a consequence of inadequate accountability, so that inadequate performance does not suffer consequences, but also the consequence of weak social norms. It is notoriously difficult to provide incentives for the provision of public services where performance measurement is difficult. Effective states rely on building a strong public service ethos in order to motivate staff. If staff lack this, then adding resources will not yield returns in the form of better services.
Symptom 4
The environment for private investment is unattractive

The key to long-run development is also to allow firms to operate at a scale sufficient to ensure that productive firms can create ample employment opportunities which reduce unemployment and raise wages. Private sector development depends on having secure property rights, predictable government policy, infrastructure, and a skills base. Fragile states typically lack all of these which are in turn a reflection of weak state capacity. The absence of court systems with open access and enforcement of the rule of law makes it difficult for new entrepreneurs, particularly those without connections to government, to thrive.

Developing export industries is extremely challenging in economies with weak supporting infrastructure. Few multinational firms wish to operate in fragile states; global competition for such firms is intense. Although wages are low, returns to investing are typically not high in fragile states due to having poor investment climate. Indeed, low wages are a symptom of the hostile business climate rather than an attraction to multi-national business. Moreover, where businesses operate, governance is often weak and such businesses may be accused of operating an exploitative agenda. This is a particular issue in the natural resources and utility sectors.

The skills base in fragile states is often weak due to long-term failings in the education system. But workers may also feel that it is not worth investing in skills when there are few opportunities. There is therefore a vicious circle of low investment in business creation and skills which needs to be broken.\textsuperscript{15}

Symptom 5
The economy is exposed to shocks with little resilience

All economies are exposed to shocks from time-to-time, a number of them emanating from sources beyond the control of governments. But some of these shocks are domestically generated either by changes of government or unwise policy decisions. Effective government intervention should diminish rather than exacerbate shocks.

Structures can be put in place which are useful in diagnosing problems and acting on lessons.\textsuperscript{16} The response of the developed world to the global financial crisis was a case in point where many governments changed their regulatory structures and surveillance measures. Building resilience with the support of government is also important at a more micro level, protecting individuals from shocks to their incomes or health through social protection. It is important where possible to avoid children being pulled out of school at critical points in the learning process. Micro-level resilience can also be important in providing the kinds of predictable livelihoods which mean that young men do not engage in political violence.

A symptom of state fragility is the lack of systems for protection against shocks and structures which may exacerbate rather than diminish their consequences. The absence of structures to increase resilience may result in a country which is emerging from conflict settings, relapsing. Investors who anticipate this possibility understand that uncertainty is magnified in fragile
states because resilience is lacking, further compounding the problems of low investment. Coping mechanisms for responding to shocks are also a reflection of weak state capacity.

Symptom 6
Deep divisions in the society

State structures are often a reflection of the societies that create them. The nature of social cleavages which create fault lines in societies can make finding cohesive solutions to policy problems difficult. Fragile states are often found in places where religious or ethnic polarisation is high. Some fragile states may also have experience with traditional ruling elites which have governed mainly to suit their own interests. Social divisions are not cast in stone. Interventions and the experience of different kinds of governance can either exacerbate or diminish such divisions. Some leaders may actually increase their grip on power in the short-term by fomenting division.

The successful inclusion of groups that were once oppositional has often been part of the history of successful states. For example, the United States has managed to weave together a plethora of nationalities, religions, and ethnicities. A large democracy like India contends religious fractures and the legacy of a caste system. Malaysia too has built democratic institutions in a divided society. But other societies have not seized the chance to address oppositional identities. For example, when South Sudan gained independence, its national leaders faced a pivotal moment for forging national unity. Instead, tribal divisions have been accentuated and it has descended into civil war. Hence, oppositional identities are social problems to be changed, not immutable facts of life.

Instead, in fragile states polarisation has often become entrenched in dysfunctional ways. Groups who wield power do so in ways that favour narrow group interests. Calls to national causes are either false forms of sectarianism or simply unheeded. This permeates policymaking, creating a climate in which it is hard to build the social norms that sustain state capacity and legitimacy. And when it affects the economy, it often creates crony capitalism which stacks the deck in favour of those with political connections. This reduces competition and reduces economic opportunity.

Fragility as a syndrome

The weaknesses that are manifest in state fragility outlined above have a life of their own and can create a perception that further constrains reform options. Moreover, these different dimensions of fragility are mutually reinforcing. There are many examples of this.

A history of shocks coupled with economic stagnation can lead people to perceive their world as unpredictable. This makes it difficult to get key actors to take a long-term perspective for fear that any efforts at reform can easily be thrown off course by shocks. Individuals and policymakers may therefore make few efforts to invest in reputations believing that such efforts will eventually be wasted.
Reform in a world where there is little prospect of growth can often be viewed as a zero-sum game where gains to one party are losses to another. This may limit the scope for cooperation and the emergence of a sense of shared national identity, perpetuating loyalties shaped by the interests of family and tribe.

Fractured societies spawn greater insecurity; insecurity exposes the society to the risk of shocks; the risk of shocks discourages investment; weak legitimacy undermines state capacity; and weak capacity worsens the investment climate and deepens social divisions; the small size of the formal private sector limits the tax base and so revenues will be small, constraining state effectiveness; the lack of salient national identity impedes building the legitimacy of the state, and weakens the loyalty of public officials to national objectives.

Our evidence sessions and country studies offered many insights into concrete examples with several states demonstrating the syndrome of fragility with different dimensions of fragility reinforcing each other in a vicious circle. Burundi provides an unfortunate illustration. Since independence in 1962, the country has been characterised by insecurity due to political violence owing to elite capture and fractures between its two major groups, the Hutus and the Tutsis. It has gone through six episodes of civil war, has seen seven major coups d'états of which six led to regime change. With the political elites primarily engaged in controlling the state to capture the associated rents, the private sector has been neglected and remains underdeveloped while weak state capacity has resulted in poor service delivery and poor infrastructure. This syndrome has resulted in Burundi becoming the second poorest country in the world.

Although details vary, Burundi’s story is not unique. It is also true for DRC which in fact constitutes one of the most tragic stories in human history. This is also true for Sierra Leone that has known few periods of stability with recurrent inter-group conflict over power and resources that has generated endemic social unrest and transformed the economy into an arena of conflict – the military coups in 1967, 1968, 1992, 1996, 1997 followed by social unrest that escalated into civil war in 1991 lasting until 2002. The countries of the Sahel constitute another unfortunate example. Fragility has been less apparent in some seemingly stable countries like Libya and Syria but lurking beneath the surface with conflict boiling over once they are hit by a serious shock.

This self-reinforcing cycle creates a trap which is locally stable. Moreover, it makes it incoherent to use the language of root causes. There is no single proximate cause of state fragility, just webs of multi-directional causation. Trying to tackle fragility in any one given dimension, such as bringing in consultants to build a tax system and strengthen state capacity, can be upended when the legitimacy of the state is weak, and when citizens perceive the state as a zero-sum game. Hence escaping from one aspect of fragility is made more difficult by the constraints imposed by the other aspects of fragility.

An overarching implication of this syndrome of fragility is that it is unhelpful to guide exit strategies by comparing the situation in which the society finds itself against some distant goal of ultimate success, with the comparison being used to generate a checklist of required changes. Such an approach inevitably
yields an enormous list. Yet implementing it will normally be infeasible, precisely because of state fragility and the self-reinforcing syndrome described above. Constraints such as a lack of capacity and legitimacy that severely constrain the scope for change and formulating a daunting list of comprehensive changes, which fail if they are attempted, only serves to deepen the problem.

Beyond this overarching principle, a viable strategy depends upon which type of open fragility applies: lack of state power or its abuse. A key message from this report is that it is necessary to tailor recommendations to circumstances. Efforts to measure ‘fragility’ or categorise countries as ‘fragile’ are generally unhelpful. Ineffective states come in many forms and the agenda should be to diagnose specific problems in situ and respond to them eschewing grand visions.

**Strategies to escape fragility**

**Building authority**

By its nature, escaping from such a stable equilibrium is difficult. Our proposed strategies have **two overarching objectives** which between them enable the state to act with genuine authority. One is a ‘negative agenda’ whereby the state gradually builds checks and balances on the abuse of power, the other a ‘positive agenda’ whereby the state gradually builds a sense of common purpose in the society.

The checks and balances prevent the individual abuse of office, whether grand abuse such as when high officials loot state revenues, or petty abuse such as when schoolteachers do not turn up for class. They also prevent powerful groups from privileging themselves at the expense of weaker groups. The forms of these checks and balances are likely to vary considerably between countries: the acid test is whether they become trusted by citizens, not whether they mimic the forms now used in OECD societies. For example, many fragile states are multi-ethnic and multi-lingual with little trust between groups. Where trust in inclusion is low, people's confidence can be increased by mechanistic procedures for allocating state resources. Only a few OECD societies are still multi-lingual, but they have usually evolved highly distinctive forms of checks and balances on the largest language group abusing its majority power. For example, in Switzerland recruitment to the civil service observes strict language quotas, with jobs being earmarked for each of the three language groups. In Tanzania, President Nyerere introduced a rule that senior civil servants could not work in their home region. In Nigeria, the dominant political party had a rule that required the Presidency to alternate between three regions in a complex formula. In a celebrated example, the Ugandan Ministry of Finance issued a poster for each school, explaining the money that was being sent to it, dramatically reducing looting by intermediating public officials. The common feature is that the checks and balances have evolved to respond to the real fears of ordinary people. Conversely, there is evidence that those checks and balances established as ‘tick-box’ responses to international pressure, such as anti-corruption agencies, are ineffective.
As fears of domination are allayed, groups can begin to recognise the scope for cooperation. The rationale for building a sense of common purpose is that it can then be used for collective efforts that transform people’s condition from insecure poverty to secure prosperity. Often, this will involve a phase of collective sacrifice. For example, the remarkable transformations in East Asia were all underpinned by a phase of public investment in economically productive infrastructure and institutions, and these were financed by a high level of savings. For example, Prime Minister Lee Kuan Yew restrained wages, profits, a wide range of anti-social behaviours, and even high fertility in Singapore. Similarly, over the past two decades, successive Governors of Lagos State have built a culture in which people are expected to pay their taxes in order to finance improved infrastructure. This was a step-by-step process in which modest increases in revenues were used to finance visible quick wins, justifying further small increases in revenues in a virtuous spiral. It was also helpful that Nigeria had built a federal system in which Lagos State had considerable autonomy.

Between them, checks and balances that people come to trust, and a sense of common purpose for a better future, gradually enable the state to become more effective by augmenting its limited power to enforce compliance, with the compliance supported by social pressure that is the essence of authority.

**Using a policy toolbox**

In achieving these objectives, the state has recourse to a toolbox of three distinct types of policy. These are the **narratives** that leaders use, the **actions** that governments take, and the permanent **institutions** that they build. The three types of policy complement each other.

Leaders are first-and-foremost communicators: they have a unique power to be heard by their citizens. A well-chosen narrative can explain to people what a government is intending to achieve, and how it plans to do so. Because everyone knows that they are hearing the same message, it enables the coordination needed to build reciprocal obligations: ‘you should pay your tax because others are now doing so’. Narratives are good for precision of meaning, but not in themselves very credible.

For credibility, a government needs **actions that signal** what it really wants. A signalling action (see Box on pg. 64), is one that a government which was saying something that it did not really believe, would find too costly to do. For example, when Lee Kuan Yew became prime minister of Singapore, he announced that he would not tolerate the corruption that was then endemic in the state. The narrative was easy to say, but when he jailed the man who had financed his election campaign because he had been caught behaving corruptly, his narrative became credible. Jailing his friend was a signalling action. Good leaders use effective narratives and decisive signalling actions, but great leaders also build the institutions.

**Effective institutions** can transform the likelihood of good actions. Instead of a good action depending upon a good decision, it becomes routine behaviour, set by the rules that constitute the institution. They are useful to implement both checks and balances, an example being courts that enforce the law; and the
actions required by common purpose, an example being the management of public investment. But although institutions are constituted by their rules, their ability to function depends upon how they are run: an institution is a team of people. Building a team of public officials who are motivated to work together for the common purpose set by their mandate, is itself a particular instance of the overarching objective of building common purpose across the society. In fragile states the institutions often lack this sense of common purpose, and building it is a difficult and gradual process.

Three time horizons for strategy

In many fragile societies, people have lived through prolonged periods of economic stagnation interspersed with shocks. People learn from this experience to focus on the short term, since the long term is too unpredictable, and to view life as a struggle in a zero-sum game. Any successful strategy must therefore begin from this reality, and offer people credible prospects of improvements within a short horizon of around two years. But the changes that would be transformational will usually take much longer to implement. We therefore suggest packaging new policies into three groups: a short-term package designed to restore credibility; a medium-term package focused on igniting economic growth; and a longer-term package focused on the overarching objectives of checks and balances and common purpose.

The objective of the short-term strategy is quick and visible policy successes for things that ordinary people would appreciate, (however trivial they may seem to donors). The prime objective is partly to buy the time for a few longer-term actions done in tandem, and partly to change the perceptions and expectations of what government can do and wants to do, thereby building confidence within the bureaucracy, and legitimacy with citizens. Success is a scarce commodity in the administrations of fragile states, and ensuring that actions succeed, gradually lifts the debilitating expectation of failure. An effective civil service depends upon building teams that work together for some purpose. Success helps the process of building such teams: research finds that people want to identify with success and distance themselves from failure. To achieve successes in a state that has little capacity it is vital that the agenda should not be overloaded, and that all actions should be simple to implement within existing capacities; often this will imply limiting the programme to a few modest objectives that are not high on conventional donor priorities. To build credibility, the state would prominently announce the purpose of each action and subsequently celebrate success, being cautious to under-promise and over-deliver. The testimony of Hedi Larbi, brought in as Minister in Tunisia in 2014, provided a good example of such a quick win. He recognised that his government lacked both legitimacy and capacity, and in a divided society was viewed with suspicion by the previous Islamic government that had just stepped down following the overthrow of the Morsi Government in Egypt. His solution was to announce a programme of

To achieve successes in a state that has little capacity, it is vital that the agenda should not be overloaded, and that all actions should be simple to implement within existing capacities
cleaning all the mosques: a project that was feasible, visible, widely appreciated, and reassuring to potential opponents.

The objective of the medium-term strategy is a coordinated concentration of efforts to ignite economic growth, especially in jobs. The rationale for this focus is that sustained over two decades it would substantially raise living standards and thereby stabilise the society. To implement it, the focus would be on improving those aspects of the state that most directly impinge on the economic activities of firms: commercial aspects of the rule of law (property rights and the sanctity of contract); security against criminality; adequate provision to firms of energy and connectivity; and taxation of firms that is straightforward, honestly administered, and linked to those expenditures which they recognise as useful to them. Rwanda is an example of how such focus on the economy can succeed even starting from very constrained circumstances: living standards have increased rapidly, giving people a stake in continued peace.

The objective of the longer-term strategy is to build a sense of shared national identity around a shared national purpose. State building requires nation building, and nation building requires actions by the state. Shared identity across something as large as a country can only be built by the state, and in doing so, the state strengthens its own capacity to achieve other national goals. The tools for building shared identity around purposive actions are not mysterious: they are symbols, narratives of shared belonging, restraints on divisive discourse, and success in shared endeavours. For example, research has shown that victories of the national football team build shared identity, and contested elections organised around rival identities reduce it.

As shared identity around common purpose is built, norms develop which harness the pressure of esteem and self-respect to reinforce reciprocal obligations. Such pressure helps to remind citizens of their responsibility to pay taxes, and of civil servants of their responsibility to citizens. Without such norms, institutions are liable to malfunction: for example, tax collectors may define a ‘good tax collector’ as one who is smart in using opportunities to extract as much as possible from tax payers to help his own family. Building shared national identity around shared purpose inevitably takes time, but as leaders Nyerere and Sukarno demonstrated, it is feasible within two or three decades. This is probably a realistic timescale to transition from disorder to effective state-provided security, widely accepted by citizens.

How this approach differs from standard international practice

Standard international practice differs markedly from this approach.

First, it derives a strategy by benchmarking against a global long-term vision of what the country should aim to be like. From this benchmark, the need for policy changes is then deduced, resulting in a comprehensive programme. The consequence is a programme that is wildly overloaded relative to the very limited capacity of a fragile state to implement new policies. For example, in South Sudan, one major donor had a programme to reduce carbon
emissions. Similarly, in Yemen the IFI reform programme included ten major components all to be done within two years. One was radical reform of the civil service, a task that would scarcely have been feasible in that timescale even in a society that was not fragile. The reform programme was aborted because the state collapsed through rebellion triggered by one of the reforms. Such overloading accentuates failure and demoralisation.

Second, programmes do not take into account that this group of fragile states lack effective power to enforce citizen compliance. In consequence, policies that work well in states that have such capacities can be detrimental. For example, a standard IMF tax recommendation in OECD societies is to implement VAT. Consequently, the IMF recommended VAT for the DRC, but the result was a fall in tax revenues. VAT is a complex tax, including both payments and rebates: in corrupt environments, the introduction of a rebate system creates new opportunities for plundering the state. The same happened in several other fragile states.

Third, political programmes assume that the same system that now confers legitimacy on an OECD government in the eyes of its citizens will do so in fragile societies. Hence, support is routinely conditioned on early multi-party elections. Yet until the state has built a sense of shared identity, political parties are likely to be organised on the basis of ethnic or religious identities and political discourse hardens these identities, thereby making it more difficult to build shared identity. For example, President Nyerere prioritised building a common Tanzanian identity and judged that a phase of elections
within a single national party was necessary. Research shows that he succeeded in creating a shared identity.  ^\textsuperscript{21}

Fourth, states are required to meet the economic performance criteria used for emerging market countries. This is too demanding. For example, IFC support to firms entering fragile states is conditioned on exactly the same ESG requirements as in countries that find it much easier to attract business. The distinctive priority for fragile states is to persuade firms to generate jobs. Similarly, the distinctive priority of budgets in fragile states is that extra liabilities should be matched by additional productive economic infrastructure, such as power generation and roads.

Fifth, the conventional strategy is conceived as a direct leap to a common-interest state with good policies, rather than a sequence of gradual transformation. For example, in Somalia, donor insistence on holding a national election pre-empted all leadership attention from 2014–17, yet resulted in a token election held at the airport with only 14,000 voters. The same requirement is now imposed for 2020 as a condition of support, which the Prime Minister has publicly promised, but which ministers privately describe as another damaging diversion. In contrast, we see the escape from fragility as a gradual process. At the risk of excessive precision of a process that will differ according to context, the sequence most likely begins with groups and leaders negotiating new checks and balances on the abuse of individual and group power that are credible to citizens. The next stage is for the state to promise a few easily achieved and visible improvements, and deliver them quickly. Having gained a modicum of trust, national leaders are then in a position to begin to promote new narratives of national purpose, reinforced by credible signalling actions. Gradually, as new common norms become adopted, the key sinews of the state become more effective and it can start to deliver the essentials needed for job creation to thrive.

In summary, the conventional strategy has not been fitted to the situation, and as a result is unrealistic. Recognising this, the best staff of international agencies vote with their feet to avoid working on fragile states and thereby damaging their careers.

Nuanced security strategies

Most fragile states face security problems, but the nature of those problems differs according to the distinction between those states that lack enough security capacity even to enforce compliance with policies that are entirely reasonable; and those states that have considerable security capacity but choose to use it abusively against some of their own citizens.

States that lack adequate power of enforcement

This group of fragile states have never acquired adequate power of enforcement (e.g. DRC), or have eroded the power which they had in the past (e.g. Somalia, Mali, and the Duvalier family in Haiti).
In the short-term these societies need international or regional peacekeeping forces to protect citizens from the risk of violent disorder. There is reasonable evidence that peacekeeping works, and is good value relative to the enormous costs of state collapse. But in testimony to the Commission, experienced practitioners suggested that external peacekeepers tend to become unwelcome after seven to ten years. In effect, the investment in peacekeeping buys time during which functional domestic security forces need to be built. Building such domestic security forces is both inherently difficult and costly. As to difficulty, the challenge is to provide security that is effective over the territory, yet not itself a source of menace to citizens.

As to effectiveness, in fragile states the main threat to security is often organised private violence, quasi-criminal in nature. Since there are powerful scale economies in such violence, the most effective strategy may often be to nip it in the bud, before the capacity for violence becomes substantial. This suggests that there is a premium upon early intelligence rather than massive state fire-power, so that a gendarmerie that provides eyes and ears, either locally organised or national, might be more effective than a large army.

Preventing security forces themselves becoming a source of insecurity is a specific instance of the larger agenda of building checks and balances on the abuse of power. Solutions must reflect the prevailing reality: often of intense distrust of national security forces. For example, it may often be important that the security forces who police an area and interact with citizens day-to-day are local to the area. Analogously, to build trust in national security forces it is likely to be essential that the force is reconstituted so as to be representative of the national population. For example, as part of the peace process in Northern Ireland, the existing security force, the Royal Ulster Constabulary, was dissolved. Reflecting our emphasis upon common purpose, part of the approach is for any new security force to be inculcated with a new sense of professionalism so that its members come to define their job as protection of citizens, take pride in that role, and hold each other to account for it.22

The domestic provision of security is likely to be considerably less costly than international provision, but it is still liable to be costly relative to the fiscal resources of the country. In those fragile states with large territories but low incomes, there can be no presumption that the provision of adequate security can pay for itself. It may take decades for the economy to grow to the level at which security becomes self-financing. In the meantime, it is both less costly and less intrusive for donors to finance domestic security forces, subject to the provision of adequate checks and balances on abuse, than to fund long-term international peacekeeping. Security will often be a necessary claim on aid budgets.
States where enforcement power is being abused

As previously, we exclude situations in which the abuse of power results in such effective repression that fragility is only latent. In the group of states we consider, repression is only partially effective, with spasmodic open conflict an endemic response to state abuse.

Breaking the syndrome of conflict
Conflict between groups, whether active or repressed, generates mutual fears. Social scientists have established that people are hardwired for loss-aversion: a loss is felt much more strongly than the equivalent gain (see Box on pg. 64). Hence, if the political game is perceived as zero-sum, the fear of loss to other groups will predominate over hopes of gaining from them. The priority of each group will be to avoid an enemy group having the power to inflict a catastrophic loss upon it.

Since each group fears violence by other groups, the rational action for each individual group is to build its own capacity for violence. Defensive preparations by each group create a mutual spiral of building the capacity for aggression, generating a quasi-arms race that drives the society deeper into fragility.

We consider the exit from this dysfunctional equilibrium in three phases. In the first, the objective is to induce the government and other interests to accept that they must share power. In the second, the objective is to organise that power-sharing. In the third, the objective is for power-sharing to morph from the negative agenda of checks and balances that address fears, to the positive agenda of common purpose.

Getting started: persuading the government and opposition groups to accept power-sharing
Sometimes there is little or nothing that international actors can do to persuade an abusive state to share power with opponents. For example, the North Korean state is highly abusive, but it is unrealistic to imagine that power-sharing is an attainable goal. International actors should recognise their own limitations and not dissipate their resources on situations with little realistic prospect of success.

The scope for international pressure varies considerably according to context. In Gambia, a tiny state, pressure from large West African neighbours was sufficient to force the President not merely to share power, but to cede power. In some other contexts, such as Libya and South Sudan, state revenues are highly dependent upon access to the international oil market, which would be relatively easy to close off. DRC may provide another instance of ready opportunities to bring pressure for change. In such situations, international actors need to develop norms of coordinated pressure that leave the parties to the conflict little option but to share power. There may also be pivotal moments, such as a change of leader, when it is relatively easy to bring pressure for power-sharing: Zimbabwe may currently be in such a situation.
Loss aversion suggests power sharing to make settlements a non zero-sum game

In societies characterised by prolonged economic stagnation and deep divisions, each group is likely to see politics as a zero-sum game: one group can only gain if another group loses. The only purpose of cooperation with any other group is to build the strength needed to defeat or frustrate other groups. The default presumption is that other groups are enemies. Social scientists have established that people are hardwired for loss-aversion: a loss is felt much more strongly than the equivalent gain. Hence, if the political game is perceived as zero-sum, the fear of loss to other groups will dominate over hopes of gaining from them in shaping political actions. The priority of each group will be to avoid an enemy group having the power to inflict a catastrophic loss upon it. Escaping this dysfunctional equilibrium is a coordination problem. An honest broker is likely to be necessary to orchestrate the coordination needed to unwind the spiral of defensive aggression and broker a power-sharing agreement. The purpose of power-sharing is primarily to allay mutual fears, with each group able to block change that crosses its red lines. The Good Friday peace agreement in Northern Ireland is a concrete demonstration of designing political institutions to allay mutual fears of conflicting groups.

A change of leadership is important not simply because the new leader may come with different interests. More important, it is common knowledge that the new leader may have different interests and so, by clever use of signals, he can rapidly change citizen expectations. This is an opportunity not open to an existing leader.

Credible signals can reset expectations

The theory of signalling explains how actions taken by the informed side of the market can potentially address market failures characterised by asymmetric information. In the context of fragile states, signalling refers to actions taken by policy actors, for instance leaders in fragile states, to demonstrate an intention to break with past policies. But for signalling to work these leaders face the challenge that their citizens, rightly so, often do not find these actions credible.

Fortunately, there are always viable signalling actions that are open to a new government, and usually some that can work even for an existing government that wishes to change direction. Signalling shared belonging can be achieved by bringing excluded people into government and giving them a seat in the most important decision-making bodies. A good example of this is President Museveni’s early ‘big tent’ cabinets in Uganda. Cancelling extravagant projects provides a means of achieving a visible sacrifice. A good example was when Rwandan ministers were stripped of their government vehicles. Credibility can also be enhanced when governments make a public show of disciplining allies who breach rules. A good example was when Lee Kuan Yew jailed his main financial backer for corruption. In all cases, the signal has to be visible and costly.
Making power-sharing work
Once a government has agreed to share power with opposition groups, different options of design may make it work more or less smoothly. Formulas which introduce a degree of automaticity as to which faction gets which positions can reduce the scope for unresolvable frictions and continuous negotiations. A reasonably successful example is the process adopted in Northern Ireland. A formula was used which automatically allocates ministerial positions according to the votes received in an election, but with winner-take all outcomes suppressed. Such an approach also has the advantage of giving representation to all factions able to attract votes, whether or not they have built military capabilities.

Durable political settlements require involvement of all relevant actors: the case of Yemen
Following the 2011 uprising in Yemen, the UN Secretary General’s Special Advisor on Yemen, with support from the Gulf Cooperation Council (GCC) and the UN Security Council, brokered a power-sharing agreement that put an end to the tensions, with former president Ali Abdullah Saleh handing over power to his Vice President Abdrabboh Mansour Hadi, and forming a consensus government split in half between his political party (GPC) and the coalition of opposition parties (JMP). The new government was tasked with leading a transitional period with a national dialogue, a new constitution, and parliamentary and presidential elections at the end of it.

The GCC agreement only included the two parties, GPC and JMP, in the power-sharing arrangement, and did not include key groups in Yemen such as the Houthi movement and the Southern secessionist movement, envisioning including these groups later in the transitional period through the national dialogue process. This led to the two parties in power having unbalanced access to state resources vis-a-vis the other groups excluded from power, allowing them to have more influence over the direction of the transitional period. Despite their inclusion in the national dialogue, the Houthi movement and the Southern secessionist movement continued to complain about their exclusion from power and the continued control of traditional power centres over the direction of the country. By September 2014, the Houthi movement had built enough military and political power to attack and control the capital, and force the government to resign. By April 2017, the Southern Transitional Council was formed and now yields de facto control over large areas of southern Yemen.
Power sharing can ease emergence from fragility, as in Lebanon

A practical example of such a design that ended prolonged conflict is the peace in Lebanon. Not only did the society have a history of inter-group violence, but the groups are defined by fundamental religious differences: for the foreseeable future, there is no realistic prospect that any shared identity could surmount these salient differences. Yet peace has been maintained. One component is a power-sharing agreement in which each of the three groups wields an effective right of veto. The veto is made credible in part by each group holding a specific important position in the state that is irrespective of electoral majorities. The Sunnis hold the Office of Prime Minister, the Christians the Presidency, and the Shias the Speaker of the Parliament. During the recent crisis on the resignation of the Prime Minister involving Saudis, it was striking that the non-Sunni groups came out on the streets in protest: the maintenance of the veto system was popular with the other groups because it was recognised as essential. But the decision-veto process has been reinforced by each group maintaining recourse to its own military forces, and by each of them having a powerful external military supporter willing to intervene should the red lines of its group be crossed.

Initially, all parties are likely to behave opportunistically, and so it may be premature to lock into a permanent constitution. The Commission was impressed by the testimony of a lawyer regularly used by the UN to draft constitutions in such situations. Her work strongly suggests that attempting such a goal is premature until there has been a prolonged period during which fears have subsided. Premature constitutions merely become a new instrument in the zero-sum struggle between groups. The role of an international honest broker is useful, a successful example being the Unity Government of South Africa. But the broker’s role is not to build a common-interest state, but simply to enable the parties to move on from stasis.

The broker establishes the forward-looking fears of each group. This should be clearly distinguished from the aspirations of each group which are likely to be radically incompatible. The lure of a large ‘peace dividend’ in the form of donor largesse, may at this stage be counterproductive. Although it encourages each group to participate in the form of the process, it inclines them to game it by focusing on pleasing the donors during the negotiation, rather than genuinely allaying the fears of other groups post-settlement. In these highly opportunistic environments, the leaders of the most powerful groups will assume that if they can get to signature on a settlement, they can then revert to the objective of winning the struggle for power, now with the old fears of other groups supplemented by the new hopes of capturing the post-settlement resources. In other words, the prospect of a donor peace dividend risks turning the process of brokering a settlement into theatre. By focusing only on fears, the broker forces attention on how they can be allayed.

Having established the fears, the decisive step it to build commitment technologies that reassure each group. These include the mechanics of decision procedures, such as giving each group veto power. They are very likely to need external guarantees, most likely the same threats that brought the parties to the table. This is the stage that Lebanon has been in for the past 25 years.
Institutions can provide credible commitment mechanisms
Modern political economy highlights the importance of institutions for providing commitment mechanisms to deal with the problem of time inconsistency\(^2\) - changes in the preferences of a decision maker between an initial policy promise and a later policy decision. Credible commitment refers to decision makers tying their own hands against future discretionary abuse of state institutions.

Moving to a positive agenda of common purpose
It may take years for intensely oppositional identity groups to build sufficient trust to graduate from the negative agenda of checks and balances on the abuse of power, to the positive agenda of common purpose. One approach to this transition is gradually to build shared identity around shared purpose. In Rwanda, there is evidence that official narratives of shared identity have already reduced the salience of sub-national identities barely two decades after genocide. The other approach is to decentralise governance to each identity group, building institutions and norms at that level. Belgium, Canada, and Switzerland all followed this route, accepting that distinct language groups made it difficult to build sufficiently potent common national purpose.

Decentralisation can reduce fragility but can backfire
Decentralisation can potentially help reduce conflict, improve the quality of governance, and develop citizen trust in government in fragile states, examples include Ethiopia after Eritrean independence, Indonesia after Suharto’s fall, Uganda after the civil war of the 1980s, Rwanda after 1994, and Cambodia during the 1990s.

But decentralisation can also backfire in reinforcing conflict and in opening the door to elite capture and discrimination against local minorities. Decentralisation in Ethiopia seems to have contributed to recent political conflict by encouraging ethnic groups to organise politics along ethnic lines. The context, design, balance of power among players, and the levels of capacity at central and local levels determine the impact of decentralisation. Devolution, empowered elected local governments, can deliver but can be too demanding to build in many fragile and post-conflict situations and can sometimes sap formation of central capacity and promote secession. De-concentration, transfer of central functions to local units but with upward accountability, can be a sensible option for many post-conflict countries either as a sufficient measure or as an intermediate step. De-concentration can potentially work for areas like local service delivery and community policing.

For decentralisation of any form to work, the central government does need to have an appropriate role and adequate capacity to manage the enforcement of power-sharing agreements, and attempt to make or negotiate changes if needed as conditions evolve. But if the control of central government is too tight it can lead to resentment and backfire. Functions that are sensible for the central government to continue delivering include infrastructure planning, financial regulation, and governance controls.\(^2\)
How these strategies differ from standard international practice

International actors have put too much faith in building states that have institutions that look like those of Western democracies. When societies are riven by deep identity divisions, this inevitably fails.

New leaders
International actors are typically very hopeful of new leaders and consequently give them the benefit of the doubt in providing new finance. The British Government welcomed the younger Bashar al-Assad as being far better than his father; the World Bank gave President Afwerki of Eritrea the highest per capita aid inflow in Africa. It may well be sensible to wipe the slate clean, for example by granting early debt relief, but new finance, as opposed to cleaning the slate of unmet obligations, may inadvertently make it more difficult for a new leader to signal the need for a phase of collective sacrifice.

Changing incentives of existing leaders
The standard short-term strategy of getting to peace tends to emphasise the concept of the peace dividend, which focuses on possible future gains, rather than implementing policies that inflict current losses, which the evidence on loss aversion implies would have more traction.

The standard strategy thereafter is to build the institutions of Western democracy immediately, most notably by insisting on early elections. This impedes power-sharing: since elections produce a winner and a loser, any power-sharing is seen as transient. Some international actors have belatedly recognised this: for example, in the immediate aftermath of the most recent election in Afghanistan, US Secretary of State Kerry flew into Kabul to urge the rival leaders to agree to a long-term power-sharing structure before they counted the votes.

Inadvertently, the international community has arrived at a strategy of insisting that a fragile society must hold an election, and then insisting that it should not count the votes. This is, perhaps, a fitting point on which to conclude our report: the time has arrived for an independent rethink.
Endnotes

1. As Paddy Ashdown noted of his experience heading the post-conflict situation in Bosnia, ‘what I needed was not doctors without borders, but accountants without borders’.


3. The academic literature has discussed these issues at length beginning with the seminal contribution of North and Weingast (1989). Acemoglu and Robinson (2011) refers to inclusive institutions and Besley and Persson (2011) to cohesive institutions as the set of arrangements that deliver common interests. On the concept of a common-interest state see Besley and Persson, 2011, Pillars of Prosperity, Princeton University Press. Acemoglu and Robinson, 2012, Why Nations Fail, Profile Books, propose a similar concept: a centralised and inclusive state. There is also a tradition of work on implications of different electoral systems for number of parties or increased/decreased incentives for ethnic or other factional parties, e.g., Cox, 2008, Making Votes Count, Cambridge University Press; Shugart and Carey, 1992, Presidents and Assemblies: Constitutional Design and Electoral Dynamics, Cambridge University Press.


5. These ideas have roots in Locke and other social contract theorists; a major tradition in political philosophy; post-war political science in the “modernisation” and “civic culture” veins, such as Almond and Verba, 1963, The Civic Culture, Sage Publications; or Rogowski, 1974, Rational Legitimacy, Princeton University Press. See also Levi, 1989, Of Rule and Revenue, California Series on Social Choice and Political Economy; and Levi, 1997, Consent, Dissent and Patriotism, Cambridge University Press.


8. See Sánchez, in a background study for the Commission, and Roessler, 2016, Ethnic Politics and State Power in Africa: The Logic of the Coup-Civil War Trap, Cambridge University Press. They argue that DRC is a strong state in the sense of having capable and organised presidential guards and capacity to crush demonstrators, but no political incentive to use these powers to provide impartial security for citizens.


15. On the challenge of attracting investment to fragile states, see Collier, 2013, *Aid as a Catalyst for Pioneer Investment*.


17. On recent evidence that public policy has reduced ethnic divisions in Rwanda, see Blouin and Mukand, 2015, *A Bridge over the Ethnic Divide? Nation Building and Erasing Ethnicity in Rwanda*.


21. See Miguel, 2003, as cited above.


Appendix 1
Credits

The Commission would like to thank the following witnesses who provided evidence across the different themes investigated.

Establishing security and reducing conflict
- Jamal Benomar, Special Adviser to the UN Secretary-General
- Betty Oyella Bigombe, Former Senior Director for Fragility, Conflict and Violence, World Bank
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- Jean-Marie Guéhenno, President and CEO, International Crisis Group
- Anke Hoeffler, Research officer at the Centre for the Study of African Economies, University of Oxford
- Andrew Mackay, Co-founder, Complexas

Building legitimate government
- Keith Biddle, Former Inspector General of Police, Sierra Leone
- Pravin Gordhan, Member of Parliament, South Africa
- Jonathan Jackson, Professor, London School of Economics
- Hedi Larbi, Former Minister of Economic Infrastructure and Sustainable Development in Tunisia
- Christina Murray, Professor, University of Cape Town
- Tom R. Tyler, Professor, Yale Law School

Generating effective state capacity
- Sir Michael Barber, Founder and Chairman, Delivery Associates
- Sanjeev Gupta, Deputy Director of Fiscal Affairs Department, International Monetary Fund
- Ifueko M. Omoigui Okauru, Managing Partner, Compliance Professionals Plc and former Executive Chairman of Nigeria’s Federal Inland Revenue Service
- Lant Pritchett, Professor, Harvard University
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Promoting private sector development

- **Merli Margaret Baroudi**, Director of Economics and Sustainability, Multilateral Investment Guarantee Agency
- **Erik Berglof**, Professor, London School of Economics
- **Paddy Docherty**, CEO, Phoenix Africa
- **Hisham El-Khazindar**, Co-Founder and Managing Director, Qalaa Holdings
- **Neil Gregory**, Head of Thought Leadership, International Finance Corporation
- **James Mwangi**, Managing Director and CEO, Equity Group Holdings Plc
- **Diana Noble**, Former CEO, CDC Group

Building resilience to shocks

- **Jan Willem Gunning**, Professor, Vrije Universiteit Amsterdam
- **Debbie Hillier**, Senior Humanitarian Policy Adviser, Oxfam
- **Herbert M’cleod**, Country Director, IGC Sierra Leone and IGC Liberia
- **Stephen O’Connell**, Professor, Swarthmore College
- **Peter Sands**, Research Fellow, Harvard University
- **Clare Shakya**, Director of the Climate Change Group, International Institute for Environment and Development
- **Albert G. Zeufack**, Chief Economist for Africa, World Bank

Innovations in fragile environments

- **Hassan Al-Damluji**, Head of Middle East Relations, Bill & Melinda Gates Foundation
- **Owen Barder**, Vice President and Director for Europe, Center for Global Development
- **Jamie Drummond**, Co-Founder & Executive Director of Global Strategy, ONE
- **Mats Granryd**, Director General, GSMA
- **Osman Haneef**, CEO and Managing Director, MILVIK Mobile Pakistan
- **Claire Leigh**, Director of International Development in UK Policy, Advocacy and Campaigns Division, Save the Children
- **Nir Marom**, Head of Business Development and Co-Founder, Greenlet Technologies and SunIsrael
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Appendix 2
Background studies


6. Lydia Sizer, State Collapse in Libya: What can be done about persistent fragility?, Background Study for the Commission.


9. William Jones and Sally Murray, 2017, Consolidating peace and legitimacy in Rwanda, Background Study for the Commission.


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