



USAID
FROM THE AMERICAN PEOPLE

FRAGILE STATES STRATEGY



U.S. Agency for International Development
January 2005

PD-ACA-999

FRAGILE STATES STRATEGY

U.S. Agency for International Development



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Foreword

Events of the last few years have tragically brought home the reality that situations unfolding on the other side of the world—governments collapsing, criminal and terrorist networks, humanitarian crises, and grinding poverty—can have global ramifications. Weak states tend to be the vector for these destabilizing forces, manifesting the dark side of globalization, and pose a very difficult kind of national security challenge.

“When development and governance fail in a country, the consequences engulf entire regions and leap around the world.”

USAID, *Foreign Aid in the National Interest*, 2002

The phenomenon of weak or fragile states is not new, but the need to address their weakness is more critical than ever. The President’s 2002 National Security Strategy made that clear when he elevated development to be the “third pillar” of our foreign policy—on a par with defense and diplomacy. The strategy recognizes that a root of the national security threat to the United States and the broader international community is the lack of development, which can’t be addressed by military or diplomatic means alone. In countries that lack the ability, or will, to provide basic services or protection, we can no longer choose to look the other way. We need to en-

gage in a coordinated and strategic manner to address the core issues of poverty and underdevelopment.

The United States has a long history of providing assistance to other nations and advancing development. Fragile states, however, pose a particularly thorny development challenge due to their overall weaknesses, particularly of their governance institutions. For development to succeed—in almost any context—we know we need to take the long view and stay engaged for the long haul. There are no quick fixes to strengthen governance or build a country’s ability to improve the lives of its citizens.

While USAID has had a long and successful record of responding to humanitarian crises, postconflict situations, and advancing long-term development, we can and must do better. This strategy outlines our vision of how the Agency can more effectively respond to the far-reaching challenges posed by fragile states in the 21st century. It is guided by the overarching principle that we need to engage carefully and selectively. It recognizes that there are countries where our assistance may not be able to make a difference, and it directs us to focus our efforts on those countries where we will be able to have the greatest impact.

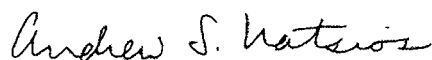
The strategy also clearly recognizes that we are only part of the U.S. Government and that effective response will require close coordination between

a broad range of agencies and actors. The recent creation of the Office of the Coordinator for Reconstruction and Stabilization at the State Department, and its mandate to improve and coordinate the civilian response, is a strong step in the right direction.

USAID's strategy outlines four major elements to meet the unique demands of fragile states: better monitoring and analysis, priorities responding to the realities on the ground, programs focused on the sources of fragility, and streamlined operational procedures to support rapid and effective response. Achieving success in fragile states requires a clear understanding of the problems which, in turn, points to priorities—such as stability, security, reform, and institutional capacity—and programs more closely targeted on the causes of the fragility rather than the symptoms. These

are not revolutionary ideas, but taken together they have the potential to revolutionize USAID's work on the ground.

Much has been learned over the past 50 years of foreign assistance, but we need to adapt and tailor those lessons to today's challenges. Fortunately, there is great momentum now focused on the challenges of fragile states, both within the United States and internationally. I hope that USAID's strategy contributes to the critical debate as we move to making development—including the stabilization and development of fragile states—a central component of our national security strategy.



Andrew Natsios
USAID Administrator
December 2004

A New Vision for Strengthening Fragile States

Fragile states have posed a growing problem since the end of the Cold War, but they are now recognized as a source of our nation's most pressing security threats. There is perhaps no more urgent matter facing USAID than fragile states, yet no set of problems is more difficult and intractable. Twenty-first century realities demonstrate that ignoring these states can pose great risks and increase the likelihood of terrorism taking root. At least a third of the world's population now lives in areas that are unstable or fragile. This poses not only a national security challenge but a development

and humanitarian challenge. As a result, the overall level of assistance to fragile states has increased since the end of the Cold War so that in 2003, excluding Iraq, almost one-fifth of USAID's overall resources were spent in such settings.

Driven by several key factors, the imperative to improve our response in fragile states has taken on a new urgency:

- First, the events of September 11, 2001, profoundly demonstrated the global reach of state failure and focused attention on their drivers and products—weak governance, poverty, and violent conflict. USAID's *Foreign Aid in the National Interest* summarized this dynamic: "When development and governance fail in a country, the consequences engulf entire regions and leap around the world." The September 11 events prompted a reassessment of the role of development which, along with diplomacy and defense, is now recognized as a core U.S. national security objective.¹
- Second, the United States has an interest in reducing poverty and advancing development. Fragile states pose a special challenge because they are frequently unable to achieve any forward development momentum and can generate enormous human

Definitions

- USAID uses the term **fragile states** to refer generally to a broad range of failing, failed, and recovering states. However, the distinction among them is not always clear in practice, as fragile states rarely travel a predictable path of failure and recovery, and the labels may mask substate and regional conditions (insurgencies, factions, etc.) that may be important factors in conflict and fragility. It is more important to understand how far and quickly a country is moving from or toward stability than it is to categorize a state as failed or not. **Therefore, the strategy distinguishes between fragile states that are vulnerable from those that are already in crisis.**
- USAID is using **vulnerable** to refer to those states unable or unwilling to adequately assure the provision of security and basic services to significant portions of their populations and where the legitimacy of the government is in question. This includes states that are failing or recovering from crisis.
- USAID is using **crisis** to refer to those states where the central government does not exert effective control over its own territory or is unable or unwilling to assure the provision of vital services to significant parts of its territory, where legitimacy of the government is weak or nonexistent, and where violent conflict is a reality or a great risk.

¹ *The National Security Strategy of the United States of America* (The White House: Washington, D.C., 2002).

suffering. The most significant shortfalls in meeting the widely supported Development Goals of the Millennium Declaration will likely be in fragile states.

- Third, there is a clear recognition that foreign assistance in the twenty-first century needs to be more effectively tailored to the context in which it is being used, and that maximizing effectiveness of assistance in fragile states is an urgent challenge.²

This strategy lays out a vision for how USAID can most effectively respond to fragile states. *The strategy's overall goal is to guide USAID's efforts in reversing decline in fragile states and advancing their recovery to a stage where transformational development progress is possible.*

The strategy identifies the ways that fragile states differ from those that are stable and able to pursue long-term development. It also identifies strategic priorities for fragile states and initial directions for USAID programming. Finally, the strategy focuses on management and administrative changes needed and outlines a new business model for USAID's operations in fragile states.

Due to the increasing importance of improving our approach to fragile states, USAID is issuing two related

The strategy's overall goal is to guide USAID's efforts in reversing decline in fragile states and advancing their recovery to a stage where transformational development progress is possible.

policies to address conflict and internally displaced persons (IDPs). Although conflict is not limited to fragile states, the propensity for a fragile state to experience violent conflict is high. For that reason, the new conflict policy, and its accompanying tools, will be a critical part of this effort.

Effectively addressing the complex challenges of fragile states clearly goes far beyond USAID. It will require a coordinated U.S. Government approach, particularly in conflict situations, to ensure that diplomatic, security, and military efforts are mutually reinforcing and that USAID's assets are integrated with those of the departments of State, Defense, Treasury, Justice, and others. The recent creation of the Office of the Coordinator for Reconstruction and Stabilization (S/CRS) at the Department of State is a strong indicator of the increased understanding of the need for a more coordinated U.S. Government response to postconflict and stabilization efforts.

S/CRS was established to coordinate the U.S. civilian response to countries in conflict or civil strife. The office will focus on improving civilian response capability and leading interagency teams to initiate planning and response efforts in a limited number of crisis and postconflict countries of national strategic interest. USAID is working closely to

support the new office with staff and technical expertise; the Agency is likely to serve as a principal operational arm for the office and is also providing input to its monitoring efforts. However, USAID will continue to focus on a much broader spectrum of fragile states.

In addition to stronger U.S. Government coordination, close partnerships and coordination with other donors and international organizations are essential for successfully responding to fragile states. The United Nations and its specialized agencies, the World Bank, other international organizations, and donors all bring critical resources and perspectives to bear on the challenges facing fragile states. When paired with the commitment of local actors to address the sources of fragility, this coordinated approach stands the greatest chance of moving states forward and improving prospects for long-term development.

² See USAID's White Paper: *U.S. Foreign Aid: Meeting the Challenges of the Twenty-First Century* (Washington, D.C., 2004). PD-ABZ-322. This paper identifies five core operational goals for foreign aid: promote transformational development, strengthen fragile states, provide humanitarian relief, support strategic states, and address global and transnational issues and other special, self-standing concerns. It calls for resources, results, and measures of aid effectiveness to be differentiated for each of these goals.

A Strategic Approach to Fragile States

To guide USAID in its efforts to move fragile states to a stage where transformational development is possible, the Agency can turn to its extensive experience—and that of other donors—in crisis, conflict-ridden and postconflict situations (see Annexes 1 and 2). Analysis of that experience and identification of gaps in current responses to the large and complex challenges posed by fragile states make clear that a different and more strategic approach is needed and will require

- analysis and monitoring of the internal dynamics of fragile states
- priorities reflecting the realities of fragile states
- programs focused on those priorities and the sources of fragility
- an Agency business model that allows for timely, rapid, and effective response

Analyzing and Monitoring Fragile States

Timely, strategic, and integrated analysis is vital in responding to fragile states. It enables an informed assessment of risk, strategic priority-setting among and within countries, and targeting assistance on the sources of fragility. Such analysis also improves USAID's ability to respond early to vulnerability and

design programs for optimal impact in both vulnerable and crisis situations.

Research indicates that the instability associated with fragile states is the product of ineffective and illegitimate governance.³ Effectiveness refers to the capability of the government to work with society to assure the provision of order and public goods and services. *Legitimacy* refers to the perception by important segments of society that the government is exercising state power in ways that are reasonably fair and in the interests of the nation as a whole.⁴ Where *both* effectiveness and legitimacy are weak, conflict or state failure is likely to result.

Legitimacy and effectiveness are most affected by perceptions of governance in the security, political, economic, and social domains. The criteria of effectiveness and legitimacy and their relation-

3 USAID's research experts include Jack Goldstone, George Mason University; Robert Bates, Harvard University; Jonathan Haughton, Suffolk University; and Karol Sultan, Clifford Zinnes, and Dennis Woods, University of Maryland. The work was conducted with the support of USAID/PPC under the University of Maryland's IDEAS contract and was summarized in *A Strategy Framework for the Assessment and Treatment of Fragile States*.

4 The use of the term *legitimacy* in this document is in no way intended to imply any conclusions with regard to the question of whether the United States recognizes a particular government as the legitimate government of a country. That conclusion is made by the Department of State, as warranted by facts and circumstances in a particular country, and the president offers diplomatic recognition of and to a government according to certain well-developed criteria of public international law that are not addressed in this document.

Table 1. Analyzing Governance in Fragile States: The Fragility Framework

	Effectiveness	Legitimacy
Security	Military and police services that secure borders and limit crime	Military and police services that are provided reasonably, equitably, and without major violation of human rights
Political	Political institutions and processes that adequately ensure response to citizen needs	Political processes, norms, and leaders that are acceptable to the citizenry
Economic	Economic and financial institutions and infrastructure that support economic growth (including jobs), adapt to economic change, and manage natural resources	Economic institutions, financial services, and income-generating opportunities that are widely accessible and reasonably transparent, particularly related to access to and governance of natural resources
Social	Provision of basic services that generally meet demand, including that of vulnerable and minority groups, is assured	Tolerance of diverse customs, cultures, and beliefs

Note. The illustrations of effectiveness and legitimacy are indicative and will be refined based on pilot testing in the field.

ship to these four areas are presented in a “Fragility Framework” (table 1).

In addition, a number of other important factors need to be monitored. Of particular concern is anticipating and ameliorating economic instability, food insecurity, and violent conflict, all of which are usually symptoms of the failure of governance in fragile states. Likewise, differentiating the impact of fragility on women and men is central to our understanding, as data show a strong correlation between state fragility and inequitable treatment of women.

Other areas to examine include the degree of trust and social capital in society, demographics (such as the size of the youth population), regional and substate conflict, polarization and splintering of societies, environmental degradation, limited or exclusive access to natural resources, and extremist

education. Domestic triggering events include succession crises and contested elections. Externally generated shocks, such as a sudden fall in primary commodity prices or a natural disaster, can be equally culpable in undermining stability. Ironically, the sudden inflow of external revenues that distorts market signals can be just as unsettling, unless actions are taken to manage and invest these windfalls wisely.

When deterioration in effectiveness and legitimacy combine with violent conflict, protracted state failure is highly likely. Avoiding this scenario is a high priority because these states often become trapped in a deadly cycle of repeated failure and recovery.

While in many fragile states more than one pathway of failure is evident, common pathways include

- democratic collapse (e.g., Nigeria in 1983)
- succession or reform crisis in authoritarian states (e.g., Soviet Union in 1991)
- high levels of state-sponsored corruption (e.g., Philippines in 1996)
- regional or guerilla rebellion (e.g., Colombia in 2000)
- violent ethnic conflict or genocide (e.g., Rwanda in 1994)
- economic collapse (e.g., Zaire in the early 1990s) or hyperinflation (e.g., Argentina in the early 1980s)

USAID will continue to refine its understanding of fragile states through improved analytical frameworks that provide integrated analysis across sectors, including further development of the Fragility Framework. Relevant elements

from other assessment frameworks—e.g., those for conflict and democracy and governance—will be integrated in this process. The analysis will aid in identifying fragile states, sources of fragility and recovery, and strategic and program priorities. It will also assist in evaluating the effectiveness of response. USAID’s Conflict Mitigation and Management Office (CMM)⁵ will be integral to this initiative. In each instance, external sources of information will guide this analysis.

To improve monitoring, USAID/CMM is also developing a strategic tracking system for fragile states that will provide for the timely identification of states: 1) showing initial signs of vulnerability to failure; 2) transitioning between vulnerable and crisis stages; and 3) exhibiting susceptibility to violent conflict, food insecurity, and other particularly pernicious symptoms of fragility. While the system will be grounded in the Fragility Framework, it will rely on multiple sources. USAID’s strategic tracking system will also provide results that can be shared with other agencies within the U.S. Government and the broader NGO and donor community. As such, it can serve as the foundation for more effective coordination of activities in fragile states.

Strategic Priorities in Fragile States

USAID will pursue four interrelated priorities to strengthen fragile states:

- *Enhance stability*, addressing the sources of stress and conflict in

the political, economic, and social spheres. In some cases, lack of political will to foster greater effectiveness and legitimacy of government institutions may be driving fragility. Supporting reformers outside the government may contribute to political instability in the short term, but may, in the medium to long term, avoid violent conflict and state failure. Support for economic activities that lead to job creation, improved family incomes, and better functioning markets can, in most cases, contribute to greater economic stability.

- *Improve security*, providing an environment that enhances personal safety, but also establishes the conditions under which serious outbreaks of generalized violence are averted.
- *Encourage reform* related to the conditions that are driving fragility and that will increase the likelihood of long-term stability. While governance is clearly a linchpin to recovery, reforms may well be required early on in multiple sectors, such as the critical social and economic areas.
- *Develop the capacity of institutions* that are fundamental to lasting recovery and transformational development. Building the capacity of institutions that serve key social and economic sectors—such as those providing healthcare, education, and financial services—will reduce stress and vulnerability, especially among poorer populations. Viable institutions will also speed recovery from conflict.

Given the uniqueness and inherent complexity of these environments, each fragile state will require careful analysis

of the specific situation to determine the most appropriate combination of strategies for averting crisis and mitigating the impact of conflict and crisis.

Strategic Programming in Fragile States

Programming in fragile states will be governed by the following four principles:

- *Engage strategically*. Not all fragile states provide opportunities for constructive USAID engagement. This is particularly true of those regimes that lack international legitimacy. Outsiders are far better equipped to address effectiveness deficits than to promote legitimacy. The decision to engage will be based upon a country’s importance to U.S. foreign policy, as well as the ability of assistance to affect constructive change. Strong donor coordination is particularly critical in these situations. Multilateral or other bilateral agencies may be better positioned to advance stabilization or governance reforms in the early stages. Once USAID is engaged in a fragile state, assistance must be strategic in terms of sequencing and programmatic mix.
- *Focus on sources of fragility*. To the extent possible, programming in fragile states should focus on the underlying sources of fragility—the governing arrangements that lack effectiveness and legitimacy—rather than the symptoms. It is important to take into account issues such as ethnic and religious tensions that polarize and divide societies. It is only by addressing these dysfunc-

⁵ See <www.usaid.gov/our_work/cross-cutting_programs/conflict/>.

tional arrangements that conditions will be established for stable, long-term growth. The different impact of fragility on women and men should also be taken into account.

- *Seek short-term impact linked to longer-term structural reform.* Experience demonstrates that without short-term, visible impact, a fragile situation is likely to continue to deteriorate. Because those living in fragile states cope with instability and uncertainty by focusing on the near term, short-term measures are critical to meeting their immediate needs and promoting an environment of security. At the same time, the urgent need for short-term measures should also be considered in the context of longer-term efforts required to advance stability, reform, and institutional capacity.
- *Establish appropriate measurement systems.* Expectations are often set too high for what can be accomplished in fragile states, and are geared more toward traditional development situations. Accurate assessment of progress and effectiveness in fragile states must be based on appropriate goals and targets, reflecting realities on the ground.

These principles will take different shapes, depending on whether a state is vulnerable or in crisis.

When a state is vulnerable, the strategic focus will be to prevent crisis and advance recovery to a stage where transformational development is possible. Addressing effectiveness and legitimacy issues will be a priority. These approaches will be closely coordinated

with related U.S. Government policy and program initiatives.

- *Opportunities will likely be greatest where effectiveness deficits are paramount.* In many cases, USAID may want to focus on bolstering institutions, providing essential social services, security,⁶ and the rule of law. Strengthening health and education systems, expanding markets and economic opportunities, and improving legal systems are examples of areas where USAID has significant experience. Security deficits require engaging a broad range of host-country government institutions—including the executive, legislative, and judicial branches—as well as civil society actors and, in some cases, the security forces.
- *Where legitimacy is an issue, options generally narrow, and programs often shift to nongovernmental and private sector actors.* Indeed, efforts at boosting effectiveness are unlikely to succeed without legitimacy. Where local political will to address legitimacy problems is lacking, assertive and

effective diplomatic initiatives and donor coordination will be essential to send unified messages and coordinate approaches.

Table 2 presents illustrative programmatic options for responding to effectiveness and legitimacy issues in states that are vulnerable and highlights political, economic, social, and security priorities. Because these states are not yet in crisis, the range of program options may look similar to those applied in transformational development situations. However, these programs are clearly directed to the sources of fragility and preventing a slide into crisis.

When a state is in crisis, if USAID decides to engage, the strategic focus will be on stabilizing the situation, mitigating the impact of conflict where it exists, and targeting key local actors to support reforms oriented to what is driving the crisis. *Many postconflict countries are within the crisis range, due to their likelihood for returning to conflict.* When appropriate, USAID will coordinate closely with S/CRS in these settings. If U.S. military forces are engaged, close coordination between civilian and military actors is essential.

Lack of security plays a particularly critical role in crisis and postconflict settings. Achieving some basic level of stability is often a prerequisite to further stabilization and reconstruction efforts and requires coordination among all relevant parts of the U.S. Government. USAID will work within the broader U.S. Government effort, focusing particularly on supporting community policing

⁶ The security sector includes the armed forces, the police, judicial and penal institutions, civil servants, and elected and appointed civil authorities with responsibility for control and oversight (e.g., legislative bodies, the executive branch, and civil servants). The sector also includes civil society actors engaged in security issues—such as the media, watchdog groups, academia, special commissions, community policing, and human rights groups and research institutes. Security sector reform describes the transformation of the security sector to include all these actors working together to manage and operate the sector in a manner more consistent with democratic norms and sound principles of good governance. This contributes to a well-functioning security framework. The definition is taken primarily from the OECD/DAC's *Security System Reform and Governance: Policy and Good Practice* <www.oecd.org/dataoecd/8/39/31785288.pdf>.

Table 2. Illustrative Programmatic Options for Vulnerable States

Political	<ul style="list-style-type: none"> • Where possible, support reforms within government institutions, particularly those responsible for the rule of law, core social services, and food security. • Support reformers outside government, particularly those advocating improvements in security, human rights, core services, food security, natural resource management, and anticorruption. • Strengthen oversight institutions, such as legislative and parliamentary committees. • Encourage formal means of political competition, for example, by supporting free and fair elections and other political processes. • Encourage private sector/NGO/political party reform alliances that include the perspectives of traditional identity groups. • Develop the professionalism of the media, particularly in investigative journalism, and expand access to information.
Economic	<ul style="list-style-type: none"> • Foster institutional and policy development that promotes economic growth and effective management of natural resources. • Improve revenue generation/tax systems and expenditure.
Social	<ul style="list-style-type: none"> • Reform and build the technical and administrative capacity of those parts of the civil service responsible for economic management, core services, and food security. • Assist the government to ensure the provision of public health and basic education.
Security	<ul style="list-style-type: none"> • Develop and strengthen civilian control of the military. • Establish a capable police force, particularly at the community level.* • Strengthen courts and other forums for resolving disputes.

* According to FAA Sec. 660 (b) (6), USAID may only do this type of work in a postconflict environment for the restoration of host-nation infrastructure. Other exceptions to 660 are fairly limited.

and building local institutions with a role in promoting security, such as strengthening civilian oversight of the military and working with legislative and executive branches, media outlets, and civil society organizations.

- *In crisis and conflict cases*, programs will focus on providing basic humanitarian assistance, establishing security, supporting rapid job creation and income generation, and returning children to school.

- *In postconflict settings*, USAID may implement concurrently a broad range of humanitarian, transition, and development interventions. Specific program choices will be made based on what is driving fragility and conflict. As in vulnerable states, rapid response and short-term, visible impacts will be central.

Table 3 presents illustrative programmatic options for states in crisis and in postconflict situations.

Key elements affecting successful state recovery from crisis, particularly due to armed conflict either before or after complete failure, include the following:

- The nature and length of the failure and the degree of physical and institutional damage, for example, the extent of ethnoreligious partitioning or cleansing, exodus of the educated citizenry and middle class, and existing resources from which local actors can currently draw. Perceptions of

Table 3. Illustrative Programmatic Options for States in Crisis

<p>In crisis and conflict</p>	<ul style="list-style-type: none"> • Deliver humanitarian assistance that responds to basic needs, focuses aid on victims, and does not undercut local capacity or distort the local economy. • Establish basic security and protect human rights. • Support job creation, income generation, and school enrollment where possible, but with a special focus on underserved populations and IDPs. • Increase governance and peacemaking capacity within key groups to strengthen the likelihood of a shorter, more lasting recovery period.
<p>In early recovery and postconflict*</p>	<p><i>Political</i></p> <ul style="list-style-type: none"> • Support transitional justice and transitional governance arrangements at all levels, as well as transitional elections and political processes. • Advance a national dialogue and tangible progress toward the country's future, the reconstitution of society, and implications for the future (new constitutions, legal reform, structure of government, symbols of national unity). • Support the establishment of a functional national government, as well as subnational and local-level governance entities. • Assist independent indigenous media outlets to provide unbiased reporting, expand access to information, and reinforce messages of peace and reconciliation. <p><i>Economic</i></p> <ul style="list-style-type: none"> • Focus on reviving the economy, with particular attention to basic infrastructure, job creation, income generation, early market reform, natural resource management, independent central banks, and tax codes. • Distribute seeds, fertilizers, and tools, provide related training, and rehabilitate farm-to-market roads. • Advance transparency of resources, particularly in countries rich in natural resources and where profits from these resources are used to fuel conflict. <p><i>Social</i></p> <ul style="list-style-type: none"> • Reintegrate or resettle IDPs into viable communities, provide protection and care for children separated from their families, and reunite such families. • Establish basic health and education services, with particular attention to previously underserved populations. <p><i>Security</i></p> <ul style="list-style-type: none"> • Focus on the establishment of public security and security sector reform, including demobilizing and reintegrating ex-combatants and establishing civilian oversight and community-level policing. • Monitor respect for human rights and support abuse-prevention initiatives.

* The Center for Strategic International Studies' publication *Winning the Peace* provides a comprehensive framework of programmatic priorities and options for postconflict reconstruction. Robert C. Orr, ed., *Winning the Peace : An American Strategy for Post-conflict Reconstruction* (Washington, D.C.: CSIS Press, 2004).

For lasting recovery to take hold, a number of key factors must be in place, which, in turn, have important implications for how to sequence assistance.

unfair control of natural resources are often an exacerbating factor.

- In postconflict situations, the nature of the settlement is pivotal, for example, whether there is a victor, stalemate, or formal peace accord.
- The influence of neighboring countries and other international actors (e.g., the level of international commitment to speed recovery).
- Potentially volatile recovery issues (e.g., treatment of past crimes and abuses and access to natural resource wealth and commodities).

For lasting recovery to take hold, a number of key factors must be in place, which, in turn, have important implications for how to sequence assistance. The central factor is physical security that allows for movement of people and commerce. A sufficiently acceptable form of national government must also be in place, one that includes a working relationship between civilian and military leadership. There must also be agreement on a process that will result in the formulation and ratification of a basic law or constitution. A certain level of economic predictability is also important, including a central banking authority, government agencies able to collect and distribute revenue, and macroeconomic stability. Clear rights to property, including land and other

natural resources, are integral to economic recovery.

A Fragile States Business Model: From Vision to Action

To bring this vision to reality and achieve greater strategic coherence and precision in USAID's response will require important operational changes. While USAID has substantial experience in complex emergencies and postconflict response that will inform these changes, the Agency will need to expand its capabilities to engage with fragile states and with other U.S. Government agencies and the donor community.

At the core of this strategy is a new Agency business model for fragile states response, which will be further elaborated in subsequent guidance. Its main features include better integrating and sharpening USAID's response in strategic planning, reporting, budgeting, operational response, and administrative procedures; as well as exercising greater leadership within the U.S. Government and broader donor community. A few elements of the strategy are already underway. Ultimately, the business model will ensure that all Agency functions are appropriate to the realities and challenges of operating in fragile states.

Integrate and Sharpen USAID Responses

Responding effectively to fragile states will require concerted, coordinated, and sustained efforts by all parts of the Agency. This will necessitate integrating analysis, strategy development, and implementation perspectives; and ensuring that the broadest range of flexible instruments is made available to USAID staff implementing programs in fragile states.

As an important first step, the Agency has created a Fragile States Council, chaired by the Agency counselor and composed of senior managers from all bureaus. The council will play a facilitative role, reviewing and monitoring the strategic tracking system, providing recommendations on the Agency's response in fragile states, identifying resources, and ensuring that implementation is timely and well coordinated. The council will also provide a critical coordination link to broader interagency efforts on fragile states.

For strategic planning, reporting, and budgeting, some of the key steps required to increase flexibility include the following:

- Adopting strategic priorities consistent with the situation in crisis countries.
- Encouraging shorter planning horizons and adapting programs to changing environments and targets of opportunity.⁷

⁷ While current USAID interim strategic guidance does not require specific planning timeframes, there remains a tendency to adopt longer-term traditional development planning horizons.

- Modifying reporting requirements so they are appropriate for conditions in crisis countries.
- Increasing flexibility within the overall budget to move funds to respond to changing priorities within and across countries. Consistent with the goal of aligning funding sources with foreign assistance goals as a country shifts from being a transformational development country to a more fragile status, the Agency could shift to funds designated for fragile states. USAID will seek both to improve the use of existing resources in fragile states and greater flexibility for those funds, for example, removing restrictions such as earmarks and expanding the timeframe available to obligate funds.

To improve the *implementation* of programs overseas, actions include the following:

- Increasing the capacity of regional missions to service nearby fragile states, especially those with difficult environments. These regional platforms would allow staff to get closer to problem areas without being subjected to the hardships of living in insecure environments fulltime.
- Developing the capacity to deploy and support Fragile States Quick Response Teams⁸ for those few instances when 1) USAID will need to estab-

lish an immediate and robust field presence in response to a major crisis, and 2) missions require additional support to respond to fragility. These teams would ensure that situations are analyzed and strategies developed to address the political, security, economic, and social deficiencies that contribute to a state's fragility.

Critical reforms are also needed in the Agency's *management and administrative functions*, especially procurement and human resources. Options include

- tailoring procurement systems such as contracting mechanisms to the demands of fragile state environments and enhancing the flexibility to contract regionally and locally
- seeking "notwithstanding" authority in specific, limited cases to expedite implementation

Within the *personnel* system, a number of initiatives are currently underway:

- USAID has just established a new foreign service backstop for work in conflict situations, and will need to aggressively expand its efforts to recruit, assign, and promote officers working in these challenging situations. Providing appropriate training and incentives for working in fragile states will be critical to this effort.
- The Agency is expanding its on-call reserve capacity of experts on contract to bring the requisite technical, country, and language skills necessary for both rapid and effective response.
- USAID is examining means for deploying its talented foreign service national staff to fragile states.

Exercise Leadership and Advance Partnerships in the U.S. Government and Donor Community

Within the U.S. Government, a systematic plan and processes for monitoring fragility and developing effective strategies are currently being developed by S/CRS. USAID is a key participant in these interagency efforts focused on monitoring and contingency planning. In addition, USAID will also likely play a major operational role for S/CRS once it actively engages in coordinating postconflict response in a limited number of high-priority countries. USAID is also exploring the use of the Joint State-USAID Policy Council as a forum for coordinating assistance in the broader range of countries where S/CRS is not engaged. More broadly, USAID is working closely with the Department of State on the reform agenda for fragile states, and with both the departments of State and Defense on security sector matters. USAID will also consult more closely with the Department of Treasury on fragile states concerns related to trade, debt relief, and international financial institutions.

Within the donor community, a clear consensus has emerged around the necessity to respond more effectively to fragile states. Doing so requires donors to better understand what is required to arrest negative trends, the limits of absorptive capacity, and the necessity of harmonizing policies and sequencing interventions. The Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD/DAC) has played a lead role in bringing together interested

⁸ Fragile States Quick Response Teams are not intended to supplant Disaster Assistance Teams (DARTs) or other mechanisms designed to respond to humanitarian crises. Of course, there may be occasions when a fragile state is also facing a humanitarian crisis. In those instances, it is expected that these teams will work together closely, if not merge.

bilateral and multilateral donors, including the United Nations and World Bank, to develop better policies and responses to fragile states. The DAC has also been leading an effort to forge international consensus on an approach to security sector reform. USAID has been closely involved in these efforts, and will continue to seek partnerships and position itself to provide leadership among donors to accelerate research on assistance strategies to advance lasting recovery in fragile states.

Conclusion

Fragile states have long posed a problem for the United States and are now recognized as a source of our nation's most pressing security threats. Driven by a dramatically changed landscape, responding more effectively to fragile states has moved to the center of the foreign aid agenda.

USAID has extensive experience in fragile states, but clearly a more strategic approach is necessary. This strategy sets out a vision for USAID's response to fragile states, including those in post-conflict situations where conditions do not provide sufficient foundation for long-term development. Given their clear differences from stable developing countries, fragile states require new ways of conceptualizing, delivering, and evaluating the impact of assistance.

This new strategy responds to the challenge posed to U.S. national security by acknowledging the importance and difficulty of addressing the problems posed by fragile states and offering a vision for meeting those challenges. It calls for a better understanding of the

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sources of fragility and for setting priorities—stability, security, reform, and capacity—appropriate to the realities of fragile states. It calls for early action when fragile states show vulnerability. It also calls for a focused response with programs strategically oriented to the sources and symptoms of fragility. Finally, the strategy offers an operational approach—a fragile states business model—that provides for rational strategic planning, budgetary flexibility, responsive administrative systems, and greater staff expertise. Guided by committed leadership, the strategy provides a roadmap for USAID, as part of a broader U.S. Government effort, to respond more effectively to the enormous challenges posed by fragile states.



Annex I. USAID Experience in Fragile States

Since its inception, USAID has worked in fragile states. The Agency has been a leader in humanitarian and postconflict response, and has drawn from the lessons of this work to innovate programmatically and, in particular, fill the breach between relief and development. The overall level of assistance to fragile states has increased since the end of the Cold War so that in 2003, excluding Iraq, almost one-fifth of USAID's

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overall resources were spent in such settings. Recent examples of USAID programs include support to Indonesia and Peru, as they moved through vulnerable political transitions; to Sudan, with ongoing crisis; and to Afghanistan and Iraq, as they embark on highly fragile recoveries. While these are promising examples, significant challenges remain.

Illustrative Cases

Crisis States

- *Sudan*. Sudan has been torn by conflict for all but 10 of its years as an independent nation. The longest-

running civil war has been the north-south divide, but this conflict has, over time, fueled a series of ethnic and racial conflicts. USAID continues to be at the forefront of sustained international engagement to end Sudan's long civil war. Notably, USAID has worked intensively with the Department of State, other donors, and the United Nations to bring an immediate humanitarian ceasefire and political solution to the new conflict in western Sudan. With a north-south peace agreement concluded, USAID and other donors are poised to help southern Sudan begin the recovery process with programs that build on many years of USAID humanitarian assistance and capacity building initiatives in conflict resolution, governance, and social service delivery.

- *Afghanistan*. Approximately 35 percent of Afghanistan's population—much of it agrarian and rural—lives within 50 km of the Kabul to Kandahar highway. USAID's signal achievement in 2003 was the rebuilding of the 389 km road. Plans are now being implemented to extend the highway to Herat, where it will then arc back and reconnect with Kabul in one complete circuit. Restoration of the road has been one of President Harmid Karzai's overriding priorities. Without it, Afghanistan's civil society and economy would remain

moribund. The internal development of the country that the road makes possible will contribute to unity and security in Afghanistan.

- *El Salvador.* The Government of El Salvador and the representatives of the Farabundo Marti National Liberation Front signed comprehensive peace accords in January 1992, ending 12 years of civil war that caused enormous loss of life, destroyed a significant portion of the country's infrastructure, and halted productive activity in and substantially depopulated a major portion of the country's land area. USAID helped sow the seeds of future growth by reconstructing damaged infrastructure, financing land and titling for ex-combatants and civilian refugees, providing training and credit, increasing civic participation in the identification of priority infrastructure needs, broadening the role of NGOs in service delivery to rural communities, and attending to the special medical needs of the war disabled. In addition, USAID was engaged in a wide range of other programs—promoting macroeconomic reforms; strengthening municipal governments; reforming the judicial system, electoral processes, and institutions—that played an important and complementary role in supporting the reconstruction process. This support is broadly credited with playing a critical role in assisting the successful transition from war to peace.
- *Sierra Leone.* It has been well documented that illegal diamonds have helped finance warfare in Sierra Leone, Liberia, the Democratic

Republic of Congo, and Angola. Smuggling these diamonds drains a significant revenue stream from governments that could be used to finance development programs. It also encourages and feeds widespread corruption. In 1998, USAID's Office of Transition Initiatives and the Department of State developed a strategy for dealing with this scenario in Sierra Leone. The strategy called for USAID to provide technical assistance to the government to evaluate its mineral resources (particularly diamonds, gold, and rutile) and improve systems for gaining maximum fiscal benefit for the government from the legitimate exploitation of minerals. In late 1999, USAID began working with the Government of Sierra Leone to develop new diamond policies and establish new mining and exporting operations, with special attention paid to the problem of conflict diamonds. The two primary objectives of USAID diamond-related activities in Sierra Leone have remained fairly constant over the years: 1) bring diamonds (and other valuable mineral resources) under Government of Sierra Leone control so that the government and people could benefit from the revenues that a greater legal trade would generate, and 2) cut the trade in conflict diamonds to diminish the financing of warfare.

Vulnerable States

- *Indonesia.* In May 1998, Indonesia's prospects for a peaceful transition to democratic rule appeared tenuous in the face of widespread rioting, divisions among opposition groups,

strikes, the Asia-wide economic crisis, and the highest levels of ethnic and religious strife in decades. Against this backdrop, the P.L. 480 Title II food aid-supported Transitional Authority Program (TAP) served as an effective entry point for promoting peace, especially among Indonesia's urban poor, who are often recruited by extremist groups using cash payments to encourage participation in street protests. The TAP undermined efforts to recruit for radical purposes by providing job opportunities for the unemployed through food-for-work projects. In Java, in an area prone to sectarian conflict, interfaith committees used the project's resources to rehabilitate markets, athletic centers, and other community sites.

- *Macedonia.* Fighting broke out between the Macedonian military and a newly formed Albanian insurgent group in late February 2001. Six months later, an estimated 30,000 civilians were displaced, a once expanding economy was in decline, and ethnic tensions remained high. In August 2001, parties signed a peace agreement, ending hostilities and promising political reform. However, socioeconomic pressures for violence persisted, with unemployed youth part of the problem. USAID created short-term employment opportunities for 2,000 of Macedonia's youth that focused on repairing public works in all 124 municipalities. The program increased economic security for returnees, the internally displaced, and others affected by conflict. Ethnic tensions were reduced, and confidence in the peace process was raised.

- *Serbia-Montenegro*. Former President Slobodan Milosevic's policies of stirring ethnic hatred, and his assault on Kosovo and failure to submit to the terms of the Rambouillet Accords led to NATO air strikes that lasted until mid-June 1999. Even though USAID had to evacuate, high-impact activities oriented to the November 2000 elections were still supported from outside the country. Massive get-out-the-vote campaigns, an independent parallel vote count, and support to parties and independent media helped check the election's massive fraud. Critical USAID assistance provided to student youth group Otpor

and other fledgling organizations enabled them to contest rigged election results, forcing Milosevic from office and handing him over to the UN War Crimes Tribunal. Moreover, Milosevic's allies were increasingly marginalized by the broadly inclusive 18-party coalition of the Democratic Opposition of Serbia.



Annex 2. Lessons and Current Gaps

Over the years of working in fragile states, USAID recognized that its traditional ways of doing business were not adequate to the challenges and needs of fragile states. The Agency implemented important internal reforms, including 1) creating the Office of Transition Initiatives and the Office of Conflict Management and Mitigation and integrating them (along with the Agency's disaster and food assistance operations and democracy and governance programs) into one cohesive bureau; and 2) setting up, as needed, field and Washington multidisciplinary response teams to integrate USAID's response to crisis.

Despite these reforms, the magnitude and complexity of fragile states, lessons from past experience, and analysis of remaining gaps in USAID's current response make clear that a different approach is needed. Key lessons and gaps include the following:

- Security is a sine qua non for progress toward goals relating to fragile states. Currently, USAID is constrained in working on a range of security-related issues that are central to fragile states. These issues include demobilization, protection and reintegration of IDPs, community-level policing, and civilian oversight of the military.
- Weak governance, particularly in the context of a country in transition

from one political system to another (e.g., autocracy to democracy), is usually at the heart of fragility.⁹ However, Agency resources going to fragile states mostly address the symptoms of fragility (such as famine and humanitarian crises), instead of the sources (such as weak governance).

- Weak institutions with limited capacity to perform their core functions contribute to weak governance in many fragile states. USAID's governance work, however, tends to be oriented to policy reform rather than institution building.¹⁰
- More needs to be understood about strategies for arresting negative trends in these contexts.¹¹ USAID should lead the call for more thorough analysis of what advances turnaround in fragile states and the most catalytic role for donors in this process.

9 Jack A. Goldstone, Ted Robert Gurr, and Jay Ulfelder, *It's All about State Structure—New Findings on Revolutionary Origins from Global Data* (Arlington, Va.: George Mason University Institute for Humane Studies, 2004) <<http://www.theihs.org/pdf/materials/736.pdf>> and Robert Bates, *Prosperity and Violence* (New York: W.W. Norton, 2001).

10 Limited institutional capacity, within as well as outside government, is a key issue. There are areas, however, where only government can be responsible, such as defense, provision of internal security, certain legal functions, and the enabling environment for economic stability.

11 It is known that assistance effectiveness is dependent upon commitment of interest groups within fragile states, better targeting of assistance programs at these groups, and integration of policies within the U.S. Government and across the donor community aimed at these concerns.

- Infrastructure deficits in many fragile states are profound. These deficits include broken transportation systems, absent telecommunications, and a lack of other basic means to integrate society and spur economic growth. Only with recent responses in Afghanistan and Iraq is USAID building up its surge capacity to respond to these deficits.
- A system for early strategic warning that prompts rapid response to fragile states showing vulnerability to failure is vital. USAID lacks a predictable system and processes for identifying the sources of fragility.
- Integrated analysis, response strategies and operations, and shared responsibility for decisions are required. USAID's attempts at integration and shared responsibility have varied from crisis to crisis, and some opportunities have been missed.
- The complex challenges of fragile states demand coherence among the various departments and agencies of the U.S. Government and partnership with other donors. To respond to the increasing complexity of fragile states, consistent interagency (and, where possible, interdonor) venues for integrated monitoring and action are required.
- Fragile states require a response that is simultaneously robust and flexible. This response requires a stable funding source as well as flexibility in deploying funds. It also must include staff, implementation capabilities, and field platforms specific to fragile states. An integrated plan to assure this robust and flexible response is currently lacking.

Editorial and design assistance was provided by IBI—International Business Initiatives,
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