Memo for Political-Development Conference

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I. Introduction

The term state-building has a "bad odor" in Washington, DC.¹ It generally refers to building effective, responsive, and durable institutions in states lacking them.² Despite spending US$6.4 trillion on the flagship state-building of the Global War on Terror in Afghanistan and Iraq, the United States left Iraq under the influence of Iran, a longtime US-rival in the region, and is withdrawing from Afghanistan, leaving the country mostly back in the hands of its enemy, the Taliban.³ At least 801,000 have died in the war zones of the two countries and 21 million have been displaced.⁴

Experiencing nearly twenty years of failure at state-building since 2001 has prompted policymakers across the political spectrum to ask whether it is even possible by outsiders. But widening the lens by a decade – to thirty years – it becomes apparent that donors have achieved some success, albeit muted. In the 1990s, Western governments and multilateral organizations, such as the United Nations and the World Bank, bankrolled successful socio-economic reconstruction across countries as varied as Bosnia, El Salvador, Guatemala, Mozambique, Uganda, and Rwanda.

Why have Western donors been more effective at state-building in some countries than in others? My research shows they and the recipients of their aid had more significant incentives to prioritize state-building in the 1990s than during the War on Terror (or the Cold War). In general, leaders of weak states have incentives to divert income to satisfy local stakeholders and hold on to power.⁵ Unless donors can change these incentives, their aid is likely to fuel corruption. During the War on Terror (and the Cold War), the United States could not credibly threaten to withdraw support from many governments in the Global South despite rampant corruption. Their potential fall posed a threat to U.S. national interests. As a result, U.S. state-building efforts did not stop leaders from diverting aid to their own purposes and instead exacerbated corruption. In short, the critical challenge for state-building in Afghanistan and Iraq was perhaps not lack of donor know-how or local capacity, but lack of incentives among both Westerners and the new governments to undertake state-building in the first place.

⁴ Watson Institute, “Costs of War,” https://watson.brown.edu/costsofwar/.
⁵ Weak states are typically defined as countries where the national government lacks capacity to offer security, basic services, or rule of law. See, for example, Jeremy M. Weinstein, John Edward Porter, and Stuart E. Eizenstat, On the Brink: Weak States and US National Security (Washington, DC: Center for Global Development, 2004) and Robert I. Rotberg, State Failure and State Weakness in a Time of Terror, 2003.
This memo first lays out the argument and then describes the evidence. It concludes with policy implications.\textsuperscript{6}

\section*{II. The Argument}

To start, I assume that leaders of weak states (as politicians in general) seek to stay in power. As a result, they view income as crucial. They want as much revenue as possible with as few strings attached as possible because they want to spend freely on activities that help them stay in office. In weak states, such activities include paying off supporters, co-opting potential rivals, and strengthening the security apparatus to monitor and thwart dissidents, all of which requires income.

Dominant sources of income in weak states include: (1) \textit{natural resources}, (2) \textit{strategic foreign aid}, and (3) \textit{non-strategic foreign aid.}\textsuperscript{7}

\subsection*{a. Natural Resources}

For a leader trying to maximize income with minimal strings attached, having access to natural resources is optimal. The leader can extract these resources in partnership with international or domestic companies and collect rents (i.e., income minus production costs). The leader can eschew any aid agreement calling for spending on broad-based development, which is equivalent to giving up access to the resource revenues. They will welcome the aid cash but will then "take the money and run."\textsuperscript{8}

\subsection*{b. Strategic Aid}

The next-best revenue source is strategic aid, which is aid from donors seeking to achieve geopolitical goals. Strategic aid is similar to resource rents. On paper, it aims to foster state-building. It comes with conditions (i.e., terms) that require political and economic development. But in reality, the aid is substantially a bribe, a windfall comparable to resource rents that continues regardless of whether the aid program stays on track.\textsuperscript{9} Threats to stop the aid are not credible because following through would risk the donor's national security. In a word, the donor is trapped.\textsuperscript{10}

For example, Afghan officials in the 2000s calculated (correctly) they could divert their aid to patronage and the United States would not respond by closing the spigot on future aid flows. They realized that preventing the Taliban from overthrowing their government was ultimately more important to the United States than state-building. Indeed, U.S. officials lamented they could not say reform "or else" despite blatant corruption – as put by a U.S. Ambassador to Afghanistan

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\textsuperscript{7} In this memo, “aid” and “donors” refers to Western aid and donors unless otherwise specified. On revenue sources in weak states, see OECD, “Domestic Revenue Mobilisation in Fragile States,” Fragile States 2014 (OECD-DAC International Network on Conflict and Fragility, 2014).
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You know that scene in the movie ‘Blazing Saddles,’ when Cleavon Little holds the gun to his own head and threatens to shoot himself?... The argument that we could pull out of Afghanistan if [Afghan President Hamid] Karzai doesn’t do what we say is stupid...we couldn’t accomplish what we’ve set out to do. And Karzai knows that.\(^{11}\)

One might ask: what about the incentive to gain popularity across a broad swath of the population by improving their welfare? Unfortunately, the logic of self-interest drives leaders of weak states away from state-building. Again, state-building refers to assembling representative and accountable institutions that protect fundamental rights and offer essential services. It requires leaders to steer money away from the very patronage structures that secure their support and from the coercive tools that dissuade dissenters.\(^{12}\) State-building is therefore risky for their political survival. Even a visionary leader who wants to improve the general welfare risks losing power by spending on development. They could lose support from elites who will turn to another who secures their interests better. So, if leaders can avoid state-building, they do.

c. Non-Strategic Aid

For leaders without strategic importance or natural resources, the remaining alternative (short of taxing their citizens) is non-strategic aid. On paper, non-strategic aid looks identical to strategic aid: both are official development assistance and come with terms calling for political and economic development. What differs between them is whether the donor can enforce the conditions in the aid agreement. Unlike the donor of strategic aid, the donor of non-strategic aid can credibly threaten to withdraw in the face of non-compliance. Shutting off the aid valve would not risk national security.

When leaders need non-strategic aid, they honor their aid agreements – but only just enough to secure future aid flows. Cheating is possible because foreign actors lack the monitoring capacity to prevent it entirely. Because leaders manage to divert some of their aid, their state-building is lackluster.

In sum, leaders who rely on non-strategic cannot be expected to build a postwar Germany. But they can be expected to achieve more state-building than those who depend on a windfall from natural resources or strategic aid.

III. Evidence

The argument implies that lower windfall income from natural resources or strategic aid is associated with socio-economic reconstruction, one aspect of state-building. I tested the hypothesis with data on infant mortality rates – a metric of broad-based development – following 89 civil wars ending between 1970 and 2009.

Focusing on post-conflict countries makes sense because civil war correlates with low state capacity and because more precise measures of state capacity over time were lacking when I conducted the study.\(^{13}\) Consistent with the hypothesis, increasing aid in low-windfall countries

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from US$10 per capita (Chad in 1995) to US$25 per capita (Laos in 1993) was correlated with decelerating infant mortality by 0.48% on average. A corresponding increase in aid to high-windfall countries was associated with accelerating infant mortality by 0.23% on average. Thus, the same increase in aid had opposite effects depending on the recipient’s income structure.

To trace the mechanism linking income and post-conflict reconstruction, I compared Angola to Mozambique, two countries with remarkable similarities but differing revenue sources when their civil wars ended in 2002 and 1992, respectively. Both are in southern Africa, both gained independence from the Portuguese in 1975, both established socialist governments backed by the Soviet Union, and both suffered devastating losses during their civil wars.

However, Mozambique experienced a faster decline in infant mortality than Angola. Five years after their respective civil wars ended, Angolans remained "as poor as ever"14 while Mozambicans experienced an economic expansion that a senior World Bank official described as "a dream."15 Post-conflict, Angola emasculated its civil service. Corruption mushroomed and spending on health and education stagnated. But Mozambique administered a national reconstruction strategy that delivered essential services throughout the country and income to the urban poor. The government also liberalized the economy and expanded small-holder agriculture.

Why did the government of Mozambique reconstruct its country while the government of Angola did not? Consistent with the argument, their revenue sources differed at their respective ceasefires. Angola's president at the time, Eduardo dos Santos, was rich in rents from oil and diamonds and strategic aid from China. When Western donors asked him to invest in broad-based development in exchange for future assistance, he stonewalled them, welcoming any money but then refusing to comply.

In contrast, Mozambique's president at the time, Joaquim Chissano, was desperate for income and turned to non-strategic aid. His government worried donors would disengage in the face of non-compliance. As a Mozambican legislator put it to me in an interview, "[Donors] have their matrices, and any time we don't meet one of their metrics, there are discussions as to why and whether the government itself is responsible, and funding can be withheld."16 Other senior officials made similar remarks, including Chissano himself, who explained his government's compliance (to an audience at the time) this way: "We are totally dependent on inputs from outside...There was no other way to go."17

In sum, the different revenue sources in Angola and Mozambique shaped their governments' incentives toward Western state-building. Mozambique's Chissano depended on non-strategic aid and complied with aid agreements to secure future flows. Meanwhile, Angola's dos Santos was flush with windfall and was reluctant to comply. Aid then translated into socio-economic reconstruction in Mozambique and corruption in Angola.

Other differences between the two countries may have, of course, confounded the findings. I therefore also examined a single country over time: Uganda. In the mid-1990s, Uganda suddenly changed from a low to a high windfall country due to unexpected shifts in its international environment. Consistent with the argument, Uganda experienced the dynamics of Mozambique during its low-income stage and the dynamics of Angola during its high-windfall phase.

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16 Author interview, September 2005, Mozambique.
Uganda and Mozambique had about as much capacity as Afghanistan and Iraq in the early 2000s. And donors in the 1990s had nearly as much (if not less) know-how. But unlike Afghanistan and Iraq, Uganda and Mozambique had incentives to use aid toward reconstruction.  

IV. Policy Implications

State-building is daunting but not impossible. It requires the recipient have the incentive to comply with conditions on aid agreements, which requires donors have the incentive to enforce the terms in the first place. Whether donors have the incentive depends on whether they view the recipient as strategically important.

Today, the strategic value of many weak states to the United States seems uncertain. On the one hand, the War on Terror has waned to the point that U.S. President Barack Obama sought to pivot away from the Middle East, a region central to the War. Similarly, U.S. President Donald Trump seems eager to leave Afghanistan.

As the strategic importance of these aid recipients declines, the window of opportunity to strictly enforce conditions on aid agreements with them may open. For example, Afghan officials may feel more pressure to demonstrate good stewardship of aid flows today than at any point since 2001 because the United States views the country as less strategically important today.

On the other hand, a Great Power rivalry is evolving that may increase the strategic cost of withdrawing from certain weak states. In such countries, U.S. leverage over development policy may remain low, as in Afghanistan and Iraq in the 2000s (and the Global South during the Cold War).

But as long as the strategic value of weak states remains unclear, Western donors should take steps to maximize their leverage, especially if the recipient needs the donor for its protection more than the donor needs the recipient for its security. The donor has a chance to extract policy concessions that could improve living conditions in such weak states.

State-building has a poor reputation in Western countries, with many asking whether it is possible after twenty-years of failure. But widening the lens to include the 1990s, an era when most developing countries lacked strategic importance to donors, successful state-building comes into view. A comparison of failures to successes reveals the crucial role of incentives. Moving forward, donors hoping to achieve state-building should focus on crafting incentives for compliance before investing their resources.

\[18\] Consistent with the argument here, a prominent recent study shows that aid fostered more durable peace following civil war in countries lacking strategic importance or natural resources: Aila M. Matanock, *Election: Peace: From Civil Conflict to Political Participation* (New York, New York: Cambridge University Press, 2017). In addition, a growing body of evidence demonstrates that aid has fostered economic growth and democratization when recipients have lacked strategic importance to donors. For a review, see Desha Girod, “The Political Economy of Aid Conditionality,” in *Oxford Research Encyclopedia of Politics*, ed. James A. Caporaso (2018).