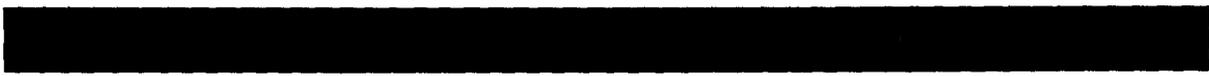


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**Council Report – Issue Overview****(page 1)**

Council Name: GAC on Fragile States

States suffering fragility are those states where the national public authority is not providing the basic public goods that allow their societies to live in peace and improve their prospects for the future. These are states that do not provide (1) accountable and effective security and social protection; (2) predictable and enforced laws that are generally accepted as legitimate; (3) revenue collection and management of external aid to ensure the delivery of basic social and economic services to society; (4) mechanisms of accountability of state authorities to society.

These states are vulnerable to both internal and external shocks and thus their populations are likely to suffer the most from the vagaries of climate change and the impact of droughts and flooding, regional insecurity, and regional and international economic crises. They are marked by low food security, high crime rates and high youth unemployment and are susceptible to the mobilisation efforts of entrepreneurs of violence of all sorts. In all these respects they represent the weakest links in the global community.

The causes of state fragility are varied and historically and context specific, so action by the international community needs to be based on an understanding of the particularities of each fragile situation. While not all states marked by poverty and underdevelopment are fragile, almost all fragile states are poor and underdeveloped, so international action needs to be concerned with the reduction of poverty and the creation of wealth in these societies.

The past half century of experience underscores that reforming the institutions and organisations of the state in fragile states is a decadal, possibly even generational challenge. The international community must consider what needs to be done today or tomorrow to create the stability and breathing space that will allow these longer term efforts to take root and flourish

In recent years the international community has increasingly recognised that to ensure a prosperous and secure global community there is a need to increase foreign assistance to fragile states and to support processes of state-building. We follow the OECD in recognizing that state-building is "an endogenous process to enhance capacity, institutions and legitimacy of the state driven by state-society relations".

Important analytical work on understanding the conditions of fragility and the requirements of external assistance to state-building has been undertaken by the OECD, the World Bank and the International Monetary Fund and by individual bilateral development agencies. The Council wishes to build on these initiatives, avoid duplication and draw attention to areas that have not received enough attention.

**Council Report – Summarized Proposal(s)****(page 2)**

Council Name: GAC on Fragile States

**Innovating in Governance in fragile states: A New System of Mutual Responsibility in Delivering Basic Economic and Social Services**

In fragile states, there is a challenge to meet the urgent needs of the population through the delivery of essential social and economic services, while building sustainable and accountable systems of public authority. Often states are heavily dependent on external resources to finance such services and the challenge is to put these to good use without undermining incentives to raise domestic revenue that can eventually replace external assistance. Donors in a hurry to see that funds are spent effectively often channel them outside state systems, which can undermine or pre-empt the consolidation of viable and accountable state organisations. At the same time, for understandable reasons, donors are cautious about budget support, where blank cheques are written to governments without assurances that accountability standards will be met.

The existing tools of development assistance, however appropriate for delivering aid to poor but stable and relatively well functioning states, are not adequate for confronting the conditions of state fragility:

- where people have a deep distrust of states
- where states are often weak and repressive
- where societies nonetheless have considerable resilience

The costs of donor mistakes in delivering aid are high everywhere, but in fragile states the costs can be catastrophic, leading to state collapse, violence and in the worst cases regional instability and war.

The existence of fragile states compels us to look for imaginative solutions.

An innovative approach will ensure:

- Mutual responsibility between donors and states in spending public resources
- Accountability to local communities in how public resources are spent
- Building upon existing local capacities and drawing on capacities at the regional and national levels
- Delivering resources in ways perceived as equitable and just
- Long term commitment by donors that matches the long term task of overcoming fragility

Objectives:

A New Aid Delivery Mechanism would:

1. Allow for domestic resources to be collected and donor moneys channelled according to a set of accountability mechanisms that would be transparently measured and reported upon; and
2. Key policies and services to be implemented through "National Programs" that would implement specific functions at the appropriate level of governance, through a system of implementation within state systems, thereby avoiding the creation of parallel organisations outside the state and instead contributing to developing state systems that can eventually replace external aid with domestic revenue;
3. Ensure that representative organisations in society have the opportunity and means to participate in, monitor and supervise the exercise of power and dispensation of public resources.

Means:

1. A set of Accountability Standards across the key state functions should be agreed, and the state required to report on and make transparent all revenues, procurement and licensing decisions, asset disposal and acquisition, budgets, expenditures, accounts and audits.
2. The integrity of spending would be guaranteed through a dual-oversight agency where responsibility is shared between state authorities and external funders. A range of instruments could be deployed, including IMF/ World Bank monitoring, trust funds that pool donor resources against these standards, and linking of use of the sovereign guarantee to a government's meeting those standards. GEMAP in Liberia provides one example.
3. A set of National Programs should be designed and launched through a partnership of government, civil society and international oversight, whereby the ministry provides the policy framework; the trust fund and / or domestic revenue provides the funding flow; monitoring and oversight by the civil service in partnership with international representatives; and implementation by the combination of communities, private sector, NGOs and civil service appropriate to the context and the available

capacities. The National Solidarity Program and other national programs in Afghanistan provide examples of such mechanisms.

4. Establish regular reporting on activities to representative organisations however constituted through domestic political processes (inclusive of all regions and social groups).
5. A consortium of Private businesses could be established to link investment to meeting of Accountability standards.
6. As a country develops capacity to raise revenues to replace external aid the shared responsibility with donors can pass to shared responsibility between the state and its citizens (through parliamentary committees and the like), while states developed also shared responsibility in their regions.