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State Building and the Reconstruction of Iraq's Budgetary Institutions

The fiscal history of a people is above all an essential part of its general history. . . . In some historical periods the immediate formative influence of the fiscal needs and policy of the state on the development of the economy and with it on all forms of life and all aspects of culture explains practically all the major features of events; in most periods it explains a great deal and there are but a few periods when it explains nothing. . . . Our people have become what they are under the fiscal pressures of the state.

Joseph A. Schumpeter

On Valentines' Day 2007, President George W. Bush evaluated the political and economic progress taking place in Iraq by pointing to one significant accomplishment. "The other day," Bush announced, "the Iraqi government passed a \$41 billion budget, \$10 billion of which is for reconstruction and capital investment. There's a lot of talk in Washington about benchmarks. I agree – 'benchmarks' meaning that the Iraqi government said they're going to do this; for example, have an oil law as a benchmark. But one of the benchmarks they laid out, besides committing troops to the Iraqi security plan, was that they'll pass a budget in which there's \$10 billion of their own money available for reconstruction and help. And they met the benchmark. And now, obviously, it's important they spend the money wisely."¹ Bush's pronouncement on the status of Iraqi budgeting came at a time when Baghdad's government and the American-led occupation verged on collapse, overcome by waves of violence that engulfed Iraq. Insurgents bombed the Golden Mosque of Samarra the preceding year, igniting sectarian assassinations, suicide attacks, and roadside bombings that killed as many as thirty-eight hundred Iraqis a week between September 2006 and January 2007, the pinnacle of civilian deaths experienced since the

¹ George W. Bush, "Iraq and Iran: The President's Press Conference," Manassas, Virginia, February 14, 2007, PresidentialRhetoric.com, www.presidentialrhetoric.com/speeches/02.14.07.html/.

overthrow of Saddam Hussein.² At that moment when the occupation appeared to be most vulnerable, Bush's reference to the Parliament's approval of the budget could be regarded as a desperate search for good news. Bush's statement, however, reflected the reality that by 2007 the Coalition's strategy for countering the violence and reconstructing the Iraqi state centered not only on a surge in American military forces but also on rebuilding the Iraqi government's ability to budget.

The Coalition's emphasis on Iraqi budgetary capacity was actually quite understandable. Iraq, in one sense, is no different from any other state; it needs to budget in order to function. After deposing Saddam's regime, the American-led Coalition struggled to reconstruct the Iraqi state as a way of countering the rising insurgency, and this meant rebuilding the state's budgeting capacity. The insurgency directly attacked Iraq's infrastructure, blowing up and destroying power grids, petroleum production facilities, bridges, roads, water works, and government buildings. These attacks threatened Iraqi lives and security, crippled the government's ability to provide basic services to its people, and contributed to the country's staggering unemployment. Most notably, the delivery of electricity, the provision of potable water, the production of foodstuffs, and the extraction of petroleum continued to fall below their preinvasion levels. The failure to provide these services encouraged civil discontent and unrest, promoted broad disaffection with the government, and furthered the ambitions of the insurgency. As the insurgency and the violence it generated spiked in late 2006, Coalition officials concluded that the Iraqi state's ability to offer these services required the reconstruction of an effective budgetary system.

How, and with what effect, did the Coalition attempt to reconstruct Iraq's budgetary institutions as a core element of its state-building and counterinsurgency strategies? How did budget execution become the overarching metric for evaluating many of the Coalition's capacity-building programs? Which of Saddam's budgetary institutions proved to be susceptible to change and which proved resistant? Under which circumstances did the Iraqis take ownership and employ the Coalition's budgetary institutions to help govern their country? By answering these questions, this book attempts to fill existing gaps in the literature on the Coalition's invasion, occupation, and state-building efforts in Iraq. As Schumpeter suggests, budgeting helps tell the fiscal history of a people. In the case of Iraq, assessing these budgetary reconstruction activities sheds new perspectives on the general problem of "outsiders" attempting to build states, contributes to a more comprehensive evaluation of the American experience in Iraq, addresses the question of why Iraqis took ownership of some Coalition-generated institutions and not others, and helps explain the nature of institutional change.

This book argues that the Coalition's efforts at reconstructing the Iraqi government's budgetary system played a critical role in building the Iraqi state. Although much of the public attention paid to Iraqi budgeting came with the rise

² Keith L. Shimko, *The Iraq Wars and America's Military Revolution*, New York: Cambridge University Press, 2010, 191.

of the insurgency and the establishment of the 2007 benchmarks, American interest in this area predates the 2003 invasion. American prewar planning did consider the structuring of Iraqi budgetary institutions and organizations, how they should function, and what role they should play in a post-Saddam Iraq. After the invasion, Coalition officials contacted and worked with appropriate Iraqi ministries to engage in stabilization “triage budgeting” to pay civil servants and pensioners. Coalition officials drafted Iraqi budgets, imposed new budgetary rules, and established new budgetary processes. Ambitions for building Iraqi budgeting ran deeper than fighting the insurgency. In addition to reconstructing the capacity of the central state, the Coalition viewed budgeting as a way to promote federalism at the provincial and municipal levels by empowering these governments with the authority to make budgets, select projects for funding, and encourage local participation in the decision-making process.³ In this way, Coalition officials expected that a reconstructed budgetary system would contribute to the creation of a meaningful federal system and the rise of democratically engaged civil society, all as a part of Iraqi state building.

To fulfill these ambitions, the Coalition committed substantial financial resources and the efforts of numerous American agencies, including the Departments of Defense, State, and Treasury; the Agency for International Development (USAID); and the Office of Management and Budget (OMB); as well as agencies from the United Kingdom and Australia. A host of private contractors complemented these agencies, and international organizations that included the World Bank and the International Monetary Fund (IMF) provided their own solutions for building budgeting capacity. An indicator of the Coalition’s concern for Iraq’s budgeting capacity is found in one of the eighteen benchmarks established in 2007 for evaluating progress in Iraq. The 17th Benchmark measured the Iraqi government’s capacity for “Allocating and spending \$10 billion in Iraqi revenues for reconstruction projects, including delivery of essential services, on an equitable basis.” “Allocating” referred to success in preparing and adopting a budget; “spending” referenced the ability to execute a budget’s spending requirements. Preparing and adopting the budget demonstrated the Iraqis’ technical ability to draft a viable budget document and engage in democratic parliamentary deliberations. In this context, Bush addressed Iraq’s ability to allocate its budget in August 2007, saying that “Iraq’s government still has more to do to meet many of its legislative benchmarks. . . . The parliament has passed about sixty pieces of legislation, including a \$41 billion budget. Despite the slow progress in the Iraqi Parliament – here’s the evidence – Iraq as a whole is moving forward.”⁴

³ On the importance of budgeting as a tool to build civil society and public participation in governmental affairs, see Anwar Shah (ed.), *Participatory Budgeting*, Washington, DC: World Bank, 2007.

⁴ George W. Bush, “President Bush Addresses the 89th Annual Convention of the American Legion,” August 28, 2007, <http://www.whitehouse.gov/news/releases/2007/08/print/20070828-2.html/>.

Spending the budget's allocated funds served as the overriding metric for assessing progress in constructing capital projects, providing basic services, and judging the Coalition's state-building ministerial and provincial capacity development programs. All of this, the Americans reasoned, would contribute to the Iraqi government's legitimacy, strengthen the economy, contribute to bureaucratic effectiveness, and reduce the level of violence as part of an overall counterinsurgency strategy.

Evaluations of the 17th Benchmark indicate the Coalition achieved some degree of success in its budgetary rebuilding efforts, particularly given the many bleak assessments that are commonly offered of the occupation and reconstruction of Iraq. The U.S. Government Accountability Office (GAO) found only three of the eighteen benchmarks met, and four partially met, but one of those partially met was the 17th.⁵ As Bush suggested, the Iraqis did indeed allocate their budget. Nonetheless, half of the benchmarks clearly remained unfulfilled. The actual downstream spending of these allocations proved far more challenging and elusive as a result of the diminished capacity of the Iraqi bureaucracy, ongoing violence, and massive corruption. The central government's inability to spend its budget, for example, reflected a dysfunctional bureaucracy unable to engage in the basic administrative acts of contract management and procurement. The struggle to build Iraqi budget execution consumed Coalition capacity-building activities at the ministerial and provincial levels. Not infrequently, the Iraqis resisted Coalition and donor training and advice, which often suffered from the lack of clear goals, standards, coordination, and sensitivity to the expressed needs of the Iraqis. At the same time, however, this focus on budget execution and spending money overwhelmed efforts to build systems that promoted transparency and accountability in the use of government funds. Thus, the 17th Benchmark pointed to the accomplishments as well as the setbacks and failures experienced by the Coalition in Iraq.

As the following sections of this chapter indicate, this study is informed by several bodies of scholarly literature. First, consistent with the postconflict, fragile state, failed state, peacekeeping, and foreign assistance literatures, this research views effective public budgeting as a necessary condition of successful state building. Second, this project relies on theories of historical institutional change to explain the institutional transformation taking place in Iraqi budgeting. Third, as some state-building and foreign assistance scholars suggest, the simple imposition of rules often proves to be insufficient in the creation of institutional change. Successful institutional change is highly contingent on aid beneficiary

⁵ There are evaluations of this period that find the CPA's oversight of the Iraqi economy to be more successful than examples of other American occupations. See James Dobbins, Seth G. Jones, Benjamin Runkle, and Siddharth Mohandas, *Occupying Iraq: A History of the Coalition Provisional Authority*, Santa Monica: Rand, 2009. Also see James F. Dobbins, "Towards a More Professional Approach to Nation-Building," in *International Peacekeeping*, 15 (2008) 1, 67–83.

ownership and buy-in. Consequently, from a broad, historical perspective, institutional change takes the form of layering, where the struggle to impose a new institutional layer is reflected in the pushback, resistance, and obstruction offered by those benefiting from existing institutions. Institutional change involves ambiguity, complexity, and contingency. The reduction and overcoming of this resistance is reflected in institutional ownership and stakeholding. Those changes that are most successfully adopted are, on the one hand, where the demands for change are highly visible, salient, and subject to a system of monitoring and sanctioning by external actors, and, on the other hand, where the outcome of change is least threatening and most beneficial to domestic actors. Institutional change, in other words, is most likely to occur where there is a coincidence of interests.

BUDGETING IN THE STATE-BUILDING LITERATURE

In the recent literature on state building, public budgeting plays a critical role in the development of good governance and effective administrative capacity. The origins of the contemporary practice and study of externally induced, donor-driven state building is commonly located in the late 1980s and early 1990s.⁶ Several very disappointing decades of relying on World Bank and IMF structural adjustment agreements and holding elections to bring warring parties together proved to be insufficient remedies for resolving conflict, creating legitimate government, promoting economic development, and preventing the growth in the number of failing and failed states. These failed states jeopardized the well-being of their own people while they threatened the stability and peace of the world community of states. International organizations and donors reached consensus that successful foreign assistance, peacebuilding, and postconflict operations depended on the introduction of functioning state institutions.⁷ These state-building efforts required external intervention by these

⁶ On the history and evolution of state building, see, for example, Roland Paris, "Peacebuilding and the Limits of Liberal Internationalism," *International Security*, 22 (1997) 2, 54–89; Mixin Pei and Sara Kasper, "Lessons from the Past: The American Record on Nation Building," Carnegie Endowment for International Peace, *Policy Brief*, 24 (May 2003), 1–6; Oisín Tansey, "The Concept and Practice of Democratic Regime-Building," *International Peacekeeping*, 14 (2007) 5, 633–646; Ian Johnson and Ethan Corbin, "Introduction – The US Role in Contemporary Peace Operations: A Double-Edged Sword?," *International Peacekeeping*, 15 (2008) 1, 1–17; Victoria K. Holt and Michael G. Mackinnon, "The Origins and Evolution of US Policy Towards Peace Operations," *International Peacekeeping*, 15 (2008) 1, 18–34; William Flavin, "US Doctrine for Peace Operations," *International Peacekeeping*, 15 (2008) 1, 35–50; David Chandler, *International Statebuilding: The Rise of Post-Liberal Governance*, New York: Routledge, 2010, 60–62.

⁷ On the limits of elections, see Dennis A. Rondinelli and John D. Montgomery, "Regime Change and Nation Building: Can Donor's Restore Governance in Post-Conflict States?" *Public Administration and Development*, 25 (2005), 15–23; Roland Paris and Timothy D. Sisk, "Understanding the Contradictions of Postwar Statebuilding," in Roland Paris and Timothy D. Sisk (eds.), *The Dilemmas of Statebuilding*, New York: Routledge, 2009, 1–20.

organizations and their practitioner agents, whose actions would be enforced through aid conditionality. To accommodate this intervention, more generous and elastic definitions of state sovereignty challenged traditional notions of state autonomy, thereby legitimizing the presence of international actors who attempted to fix failing states by building good governance.⁸ Good governance, in turn, is a function of a state's administrative capacity that is largely measured by the technical standards of international best practices. Good governance includes good budgeting.

Budgeting is a core state function. Effective budgeting enables the state to plan, prioritize, allocate resources, and manage the bureaucracy. Competent budgeting contributes to efficacious fiscal and macroeconomic policies. Budgeting and the government it serves can be transparent, participatory, and promote democratic decision making, or it can be opaque, hierarchical, and encourage authoritarian rule. Democratic budgetary institutions promote the rule of law, transparent decision making, a culture of bargaining and compromise, deliberation in the allocation of resources, civil society, and accountability in the management of public funds. Budgeting, as a central component of public finance, has long been regarded as a driving factor in the history of state formation.⁹ Consequently, Ashraf Ghani and Clare Lockhart see budgeting as the “linchpin of the state.” They identify ten key functions that must be fixed in failed states. Budgeting plays a role in two of these functions: the sound management of public finances and effective public borrowing. “The record of state activities lies most clearly in its budget,” they write, “which is both the medium and the message. The budget brings the rights and duties of citizenship into balance. . . . Thus, the discipline of preparation, implementation, and alteration of budgets allows the translation of public goals into measurable programs and projects. Public expenditure takes place through the rules for the procurement of goods and services, accounting, and auditing. Adherence to these rules is a

⁸ Chandler, *op. cit.*, especially chapter 3; Stein Sundstol Eriksen, “‘State Failure’ in Theory and Practice: The Idea of the State and the Contradictions of State Formation,” *Review of International Studies*, 37 (2011), 229–247.

⁹ In addition to the contemporary failed state, peacekeeping, and foreign assistance literature, budgeting and public finance have long been considered a foundational element in state building. See, for example, Fred W. Riggs, “Bureaucrats and Political Development: A Paradoxical View,” in Joseph LaPalombara (ed.), *Bureaucracy and Political Development*, Princeton: Princeton University Press, 1963, 120–168; Charles Tilly, “Reflections on the History of European State-Making,” in Charles Tilly (ed.), *The Formation of National States in Western Europe*, Princeton: Princeton University Press, 1975, 3–83; James D. Savage, *Balanced Budgets and American Politics*, Ithaca, NY: Cornell University Press, 1988; Margaret Levi, *Of Rule and Revenue*, Berkeley: University of California Press, 1988; John Brewer, *The Sinews of Power: War, Money, and the English State, 1688–1783*, Cambridge: Harvard University Press, 1990; Martin Van Creveld, *The Rise and Decline of the State*, New York: Cambridge University Press, 1999; Sheldon D. Pollack, *War, Revenue, and State Building: Financing the Development of the American State*, Ithaca, NY: Cornell University Press, 2009.

critical indicator of the state's effectiveness and accountability.”¹⁰ Graciana del Castillo recommends that when rebuilding “wartorn” states, “Ideally, the government, as the elected representatives of the people in postconflict situations, should be able to set up a consolidated national budget with all revenue and all expenditure, including those related to economic reconstruction... The national budget should thus include and prioritize all revenue (including grants) and all expenditure (including investment) in the country, making it the centerpiece of the government's reconstruction strategy.”¹¹ James Boyce and Madalene O'Donnell claim that “The capacity to mobilize, allocate, and spend domestic resources is crucial for the success of peacebuilding efforts.”¹² Proficient budgeting, they contend, ensures sustainable domestic funding to complement foreign resources, promotes government legitimacy through the provision of needed social services, and enhances government efforts to establish public security. The World Bank takes public finance management seriously enough to make half of all of its conditions for aid tied to reforms in public sector governance, especially changes desired in budgetary processes, financial management, and financial accountability.¹³

On-Budget versus Off-Budget Spending

Moreover, reconstructing a sustainable, coordinated domestic public finance system as part of a state-building exercise is necessary to break patterns of dysfunctional budgeting that occur when multiple sources of off-government budget donor funding compete with on-budget state funding as the provider of public services. The decision about when to distribute assistance funds through on-budget government institutions rather than rely on off-budget mechanisms directly controlled by donors is a perennial question in foreign assistance and peacekeeping operations. The channeling of donor funds off-budget reflects donor concerns that beneficiary governments lack the necessary political and administrative capacity to allocate and execute funds effectively and honestly. Budgetary state building involves building this capacity so that governments can indeed manage both donor funds and indigenous resources in a manner that

¹⁰ Ashraf Ghani and Clare Lockhart, *Fixing Failed States: A Framework for Rebuilding a Fractured World*, New York: Oxford University Press, 2008, 135–136. Also see Ashraf Ghani, Clare Lockhart, Nargis Nehan, and Baqer Massoud, “The Budget as the Linchpin of the State: Lessons from Afghanistan,” in James K. Boyce and Madalene O'Donnell (eds.), *Peace and the Public Purse: Economic Policies for Postwar Statebuilding*, Boulder, CO: Lynne Rienner, 2007, 153–184.

¹¹ Graciana del Castillo, *Rebuilding War-Torn States: The Challenges of Post-Conflict Economic Reconstruction*, New York: Oxford University Press, 2008, 286.

¹² James K. Boyce and Madalene O'Donnell, “Peace and the Public Purse: An Introduction,” in James K. Boyce and Madalene O'Donnell (eds.), *Peace and the Public Purse: Economic Policies for Postwar Statebuilding*, Boulder, CO: Lynne Rienner, 2007, 6.

¹³ World Bank, *Conditionality in Development Policy Lending*, New York, November 15, 2007, 5.

promotes transparency, accountability, and efficiency in public finance. According to Michael Carnahan and Clare Lockhart, problems occur during assistance efforts when nongovernmental donor organizations retain control over the distribution of their financial resources and operate parallel system of budgeting, rather than turn these resources over to the state for allocation.¹⁴ Donors manage their funds this way in order to ensure that their priorities are funded and because they lack confidence in the state to manage donor funds in a manner consistent with international best practices, particularly the state's ability to control corruption and financial malfeasance. The answer to the question of whether to allocate donor funds on- or off-budget is thus often a matter of the sequencing of events and capacity. "In some fragile states where efforts to bolster existing capacity are unlikely to yield desired outcomes, other channels for distributing foreign aid should be used," note Simon Feeny and Mark McGillivray. "These alternative channels by-pass recipient country governments and can therefore assist in relieving absorptive capacity constraints through reducing the administrative burden of foreign aid."¹⁵

Although these concerns may be and often are justified, Carnahan and Lockhart argue that over the long term the failure to build strong state-centered budgeting produces uncoordinated and inefficient spending that challenges the state's legitimacy as the deliverer of public services. For example, where the process of democratic public budgeting requires deliberation and political approval for setting spending priorities, the capital projects that emerge from these parallel funding sources may be solely determined by donors. These projects often lack recipient country buy-in and ownership of these investments, with the result that they are neglected or abandoned once donor funding ceases. The presence of parallel budgeting creates its own sets of loyalties and dependencies that undermines the state's legitimacy, conflicts with state funding priorities, encourages the state to remain dependent on donor contributions, and deters efforts at building state capacity. Thus, state building must have as one of its central goals the development of sustainable, effective, and accountable public budgets to provide essential services and thereby gain popular legitimacy.

Building this budgetary capacity is essentially a matter of providing technical assistance and training to those units of government that play critical roles in the

¹⁴ Michael Carnahan and Clare Lockhart, "Peacebuilding and Public Finance," in Charles T. Call (ed.), *Building States to Build Peace*, Boulder, CO: Lynne Rienner, 2008, 73–102. Also see Graciana del Castillo, "The Economics of Peace: Five Rules for Effective Reconstruction," *Special Report*, No. 286, United States Institute of Peace, September 2011.

¹⁵ Simon Feeny and Mark McGillivray, "Aid Allocation to Fragile States: Absorptive Capacity Constraints," *Journal of International Development*, 21 (2009), 629. On this point, also see James F. Dobbins, who writes, "While donors may initially finance the resumption of government services, it is important to reconstruct quickly the host's capability to allocate that funding and oversee its expenditure, and to expand its capacity to collect its own sources of revenue." James F. Dobbins, "Towards a More Professional Approach to Nation-Building," *International Peacekeeping*, 15 (2008) 1, 79.

budgetary process. This assistance is typically offered by small numbers of technical advisors who are embedded at ministries of finance and planning. These advisors may be deployed, for example, from the U.S. Treasury's Office of Technical Assistance, the United Kingdom's Department for International Development, the World Bank, or the International Monetary Fund, or, frequently, they are contractors. This assistance tends to focus on helping governments formulate their budgets, which may include training ministry staff in developing the economic assumptions employed in the drafting of their budgets. Technical assistance may also be offered in other aspects of running a finance ministry, such as training the government's treasury in cash management techniques, setting up a chart of accounts, and aiding revenue collection units in strengthening tax compliance. Another common ambition of technical assistance is building an automated financial management information system.

Obstacles to Budgetary State Building

Assessments of foreign assistance and state-building efforts point to the staggering obstacles that must be overcome in building capacity in poor, postconflict, and failing states.¹⁶ Paul Collier, for example, asserts that "How governments spend money is at the core of how they function." However, the world's poorest countries continue to fail despite massive amounts of financial and other forms of assistance. "At present," he says, "spending by the governments of the bottom billion is often atrocious."¹⁷ To help remedy this abuse, Collier calls for a "Charter for Budget Transparency" that would identify international best practices to promote the scrutiny of budget formulation and execution, including the publication and the comparison of budgets across governments. Building budgetary transparency is particularly vital "in the resource-rich countries [where] effective public spending is the vital route to development."¹⁸ He contends that spending aid assistance on-budget is acceptable only in the "better-governed countries." Large amounts of donor assistance spent on-budget in weak states may actually induce instability, as rebels and antigovernment forces may seek to control government funds. Collier recommends that because of the weak performance of assistance and state-building programs, the ambitions of such assistance be limited. "Capacity building is too slow a process to meet the acute needs for skills that arise in the early years of the postconflict period. . . . Capacity building within the public sector is, of course, necessary. However it

¹⁶ Mixin Pei and Sara Kasper noted the limited success of U.S. state-building efforts: "Whereas a strong, indigenous state capacity is almost a requirement for success, building this capacity may be a challenge beyond the capacity of even the most well-intentioned and determined outsiders." "Lessons from the Past: The American Record on Nation Building," *Policy Briefs*, Carnegie Endowment for International Peace, 24, May, 2003, 5.

¹⁷ Paul Collier, *The Bottom Billion: Why the Poorest Countries Are Failing and What Can Be Done About It*, New York: Oxford University Press, 2007, 149.

¹⁸ *Ibid.*, 141.

should probably attempt neither to recreate the civil service as it was nor even to create a conventional structure of ministries.”¹⁹ Collier's prescriptions for developing better-governed countries from bad governments and boosting the potency of foreign assistance thus include providing technical training and international standards to guide spending decisions.

William Easterly, another noted skeptic of interventionist foreign assistance and state building who declares that “outsiders” “don't have a clue” about “how to create institutions,” argues that undemocratic rulers receive massive amounts of aid funds with little accountability for their use.²⁰ “What we see happening is that aid shifts money from being spent by the best governments in the world to being spent by the worst. What are the chances that these billions are going to reach poor people?” Donor beneficiaries are often corrupt, and the governments they lead are incompetent. “So donor bureaucracies remain stuck with the recipient government bureaucracy when they try to implement their aid projects, even when that bureaucracy is not customer-friendly to the poor.”²¹ Highly critical of unfocused capacity-building programs and the IMF, Easterly argues that for all of its aid conditionality and fiscal monitoring, the agency is ineffective in ensuring that “bad rulers,” “bad governments,” and “deadbeat governments” use their loans and donations properly. The IMF best functions as a bailout creditor. Consequently, donors should avoid rewarding bad governments with financial assistance that simply enables their corrupt ways. Still, Easterly concedes that “Official aid agencies and national government bureaucracies should remain on the list of possible vehicles for delivering development services . . . [and] giving advice on good macroeconomic management.”²² This assistance would presumably contribute to moving bad governments into Easterly's category of good governments, which do operate with functioning budgetary institutions and systems. Thus, for Collier and Easterly, legitimate, functioning, transparent, and accountable budgetary institutions are desirable for and even a necessary condition of good governments, but they consider it unlikely that such institutions can be introduced in dysfunctional governments through existing assistance and state-building practices. Bad governments would be largely left to fend for themselves, or left with far more limited technical advising and guidance than are currently offered by donors and international organizations. The incentive for these governments behaving well would be acceptance into the international community.

¹⁹ Paul Collier, “Postconflict Economic Policy,” in Charles T. Call (ed.), *Building States to Build Peace*, Boulder, CO: Lynne Rienner, 2008, 111–112.

²⁰ William Easterly, *The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good*, New York: Penguin, 2006, 77, 133. A similar view is expressed in Daron Acemoglu and James A. Robinson, *Why Nations Fail*, New York: Crown Publishers, 2012, 446–455.

²¹ *Ibid.*, 134.

²² *Ibid.*, 370, 369.

Sequencing in Budgetary State Building

This debate about whether to fund assistance on or off the government's budget points to the deeper issue of sequencing in state building.²³ In the very long what-to-do checklist of state building, what policies, assistance programs, and institution-building activities should take priority, and in what order should they be pursued? Peacekeeping, postconflict, and state-building practitioners and scholars have developed extensive lists, hundreds of items long, regarding the sequencing of humanitarian, stabilization, reconstruction, and development intervention and assistance.²⁴ A not uncommon list begins with establishing security and providing emergency medical relief. Then the list becomes more complicated, particularly as the focus shifts to economic stabilization and reconstruction, even within the narrower task of budgeting. The best practices for budgetary reconstruction offered by international organizations commonly include the development and promotion of effective budget rules, formulation, execution, oversight, and cash management, to name just a few items of financial concern. Optimally, these systems would be successfully installed and activated simultaneously. Many of these reforms assume the existence of a relatively intact state, one with a functioning administrative apparatus. This rarely occurs in postconflict situations. Should reconstruction spending therefore be withheld until the necessary institutional capacity is established? Collier and Easterly's answer that donor money should be spent off-budget, if at all, reflects the frequent lack of indigenous administrative capacity to spend these funds wisely, effectively, and honestly. The consequence of spending large amounts of money quickly where institutional accountability is insufficient is often fiscal waste, mismanagement, and corruption, resulting in a subsequent loss of public confidence in the broader state-building operation. Yet, del Castillo urges that "The

²³ The notion of sequencing, templates, and lists of task is common in state building. See, for example, Marina Ottaway, "Rebuilding State Institutions in Collapsed States," in Jennifer Milliken (ed.), *State Failure, Collapse and Reconstruction*, Oxford: Blackwell, 2003, 245–266; Richard Allen, "The Challenge of Reforming Budgetary Institutions in Developing Countries," WP/09/96 Washington, DC: International Monetary Fund, May 2009; Dennis A. Rondinelli and John D. Montgomery, "Regime Change and Nation Building: Can Donors Restore Governance in Post-Conflict States?" *Public Administration and Development*, 25 (2005), 15–23; and Andrew S. Natsios, "Time Lag and Sequencing Dilemmas of Postconflict Reconstruction," *Prism*, 1 (2009) 1, 63–76. For sequencing in budgeting, see World Bank, *Public Expenditure Management Handbook*, Washington, DC: World Bank, 1998; Tony Addison and Alan Roe, "Introduction," in Tony Addison and Alan Roe (eds.), *Fiscal Policy for Development*, New York: Palgrave Macmillan, 2004, 1–23; and Adrian Fozzard and Mick Foster, "Changing Approaches to Public Expenditure Management in Low-Income Aid-Dependent Countries," in Tony Addison and Alan Roe (eds.), *Fiscal Policy for Development*, New York: Palgrave Macmillan, 2004, 97–129.

²⁴ One U.S. Army preinvasion study identified 135 tasks involved in rebuilding the Iraqi state, including six in public finance. Conrad C. Crane and W. Andrew Terrill, "Reconstructing Iraq: Challenges and Missions for Military Forces in a Post-Conflict Scenario," Strategic Studies Institute, U.S. Army War College, January 29, 2003.