# Understanding State-Building from a Political Economy Perspective

## An Analytical and Conceptual Paper on Processes, Embedded Tensions and Lessons for International Engagement

**Report for DFID's Effective and Fragile States Teams**

Verena Fritz and Alina Rocha Menocal

Overseas Development Institute

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# Executive Summary

## Why state-building?

In the new millennium, state-building has become a leading priority for the international development community. Today, almost every major bilateral and multilateral donor identifies state-building as a key objective, particularly in 'fragile states'. Donors understand state-building efforts as being a broader and more complex engagement than their traditional work on capacity-building and other development challenges in more 'normal' settings. The growing commitment of donors to state-building in fragile states is reflected in the expanding sets of activities being carried out in settings ranging from Afghanistan and Iraq to a number of countries in sub-Saharan Africa, Asia, the Pacific and Latin America.

The concern about the need to build more effective states has grown out of the confluence of several factors over the past two decades: the emergence of a number of new states (the Balkans, the former Soviet Union, East Timor), a number of which have remained weak and unstable; the recognition that poverty and reaching the MDGs has remained most intractable in fragile, conflict-affected and post-conflict states; the negative regional and global spill-over effects of state fragility; and a more general recognition that good institutions are crucial for sustained development progress. As part of this process of change, an emphasis on the respect for state boundaries and sovereignty has given way to a much more explicit concern about the problems generated by fragile states, and thus on the right and duty to intervene.

In many ways, the state-building agenda has evolved from the governance agenda. However, with its emphasis on 'foundational' issues, it is a more holistic as well as a more ambitious approach. State-building is about constructing the foundations of the very (government) edifice within which governance ought to operate. Without the construction of this edifice, governance interventions cannot have an impact. At the same time, ensuring the quality and integrity of government is an important dimension of the state-building process, including generating the legitimacy of a new or re-emerging state and contributing to the creation of a 'nationwide public' and a shared sense of the public realm.

## Key arguments in brief

This paper seeks to contribute to a more conceptually informed understanding of state-building, adopting a political economy perspective. Very schematically, our main arguments can be summarised as follows:
- State-building is now a major issue of concern, but it lacks conceptual clarity, including in language.
- There is a broad understanding that state-building is about controlling violence, establishing legitimacy and building capable and responsive institutions so as to foster a shared sense of the public realm. These are all long-term and potentially conflict-ridden processes.
- State-building is a leading priority in fragile (and mostly post-conflict) settings, but ongoing state-building challenges persist in states in comparatively more 'normal' developing settings.

- There has been much debate in international policy circles about state functions in terms of outputs such as social service delivery, economic management and the delivery of justice. While achieving outputs are the key rationale for supporting state-building, it is important to pay sufficient attention to the core or constitutive dimensions of the state – including the political settlement, security and basic administrative structures. If these constitutive domains remain weak, states are not able to deliver output functions in a sustained and reliable way.
- This should form the basis for thinking about prioritisation, sequencing, state functions etc.

In addition, we suggest that donors face (at least) three significant challenges in their engagement with state-building. These include political economy challenges, such as corruption and neo-patrimonialism, which can fundamentally hamper the state-building process; a knowledge gap about what works in providing external support for various state-building domains; and tensions embedded in the state-building model that the international community is currently pursuing. In what follows, we elaborate on the different elements of our argument and lay out the lessons and recommendations that emerge from our analysis.

## Expanded summary of sections and arguments

Section 1 of the paper sets the scene, explaining why state-building has become such a prominent objective on the international agenda. Section 2 lays out the conceptual and historical foundations of the state and state-building (complemented by Annex A, discussing related terms, and Annex B on historical trajectories of state-building). We argue that many states may contain considerable variation in terms of institutional capacity and quality across various sectors, regions, and/or issue areas (see also Annex C). Furthermore, we underscore that state and nation-building are distinct processes. Conflating these terms seems to entail policies that neglect important issues in creating a nationwide public that need not be ethnically or culturally based.

State functions are a fundamental concern, and these are addressed from both a conceptual and a more immediate state-building perspective in Section 3. The debate about state functions was originally an ideological one, focused on whether a 'smaller' or more 'expansive' role of the state was preferable. In the context of state-building situations, in contrast, the focus has shifted toward the range of state functions that should be supported by external donors, and in what sequence. We emphasise the need to distinguish between 'constitutive domains' of the state (political settlement, security/establishing a monopoly of violence and the rule of law, and building an administrative and fiscal system) and 'output domains', i.e. the range of public services that a state provides (some of which are discussed in further detail in Annex F).

Ultimately, the rationale for having states derives from expected outputs and services, so these are very important (see Section 3.4). However, for states to generate a reliable supply of services and other public goods, they must have a solid foundation in the 'constitutive domains'. Thinking predominantly about state functions in terms of outputs can lead to a relative neglect of these constitutive domains. Our key message in this discussion is that the priority should be to start a process of institution-building in the constitutive domains, and to take a basic approach to output domains. In concluding, Section 3 emphasises that sequencing *within* domains rather than *between* domains is crucial.

Two further issues that we explore in Section 3 include, first, the need to distinguish between different types of state-building trajectories and contextual situations and, second, the roles played by domestic versus international actors in state-building processes. Domestic actors are crucial, but their perspectives on state-building and the incentives and constraints that they face in such situations have thus far received only limited attention. For external actors, one of the key challenges (explored further in Annex D) is that of coordination – especially where a particularly wide range of external actors is involved (foreign military, INGOs, development donors, international mediators, etc.) The question is how to maximise their positive and minimise their harmful impacts.

Section 4 analyses three overarching challenges to international efforts to promote state-building. A first challenge is how certain political economy factors like corruption, competition for power and neo-patrimonial structures can hamper state-building projects in fundamental ways, especially in fragile and poor countries. Such risks are a concern across the constitutive as well as the output domains of the state, and need to be addressed alongside the concern for 'making things work'. A second challenge is that evidence-based knowledge about 'what works' in building and reforming states is surprisingly limited, despite the numerous 'public administration reform' and 'capacity-building' projects that donors have supported. There is a very uneven base in terms of a systematic 'state of the art' for those engaged in state-building situations to draw on.

Finally, there are concerns about the viability of the state-building model that the international community has promoted. This model understands the building of capable and effective states not only in terms of state-building in the narrow sense but also in terms of the promotion of democratic regimes based on liberal market economic systems. There are major constraints to the articulation of alternatives to this model. Nevertheless, the tensions between the three 'change processes' that it brings together need to be more fully recognised and addressed.

## Lessons and recommendations

Based on the analysis of this paper, which understands state formation and state-building as long-term, tumultuous and conflict-ridden processes that are also deeply political, we draw the following insights, lessons and recommendations.

**1) There is a need for greater conceptual clarity with regard to 'state-building', 'fragile states', 'nation-building' and related terms, especially in policy usage:** Within policy circles, there has been a tendency to conflate certain key concepts. State-building, nation-building, governance and democratisation should be understood as processes that, while overlapping in several respects, are nevertheless distinct. Conceptual clarity can be important to practice, as concepts inform action, often in subtle ways.

**2) While state formation and state-building trajectories have varied considerably over time, lessons from historical experiences are relevant and should inform thinking about current and future state-building trajectories:** Current state-building processes constitute a distinct 'wave', in the sense that they take place in territories that have been marked as independent states or been part of other states at least since the 1970s; they are not cases of 'state formation' *ex novo*. A historical perspective reminds us of how complex, political, conflict-driven and time-consuming successful state-building experiments have turned out to be. It also serves as a

reminder that current expectations that state-building processes will be highly participatory are not consistent with historical experience.

**3) State-building efforts need to be shaped and led from within if they are to be legitimate and sustainable:** If state-building efforts are to be legitimate and sustainable over time, the international community (including donors) needs to let domestic actors take centre stage. International actors have a role to play in accompanying and facilitating state-building processes, but they need to provide sufficient space for domestic actors to develop their own policies. Among other things, this calls for a greater understanding of the political economy of state-building, including a greater appreciation of the incentives, challenges and opportunities that various domestic actors face.

**4) Within the international community, it is essential to elaborate a more encompassing, holistic and realistic approach to state-building that focuses on the constitutive domains and the creation of a nation-wide public:** Given the long-term, complex and non-linear process of state-building, donors and other external actors need to develop an encompassing and holistic concern for overall state-building over the long term. This implies a considerable need for further thinking, and improved policy and operational work in several directions.

In terms of a hierarchical ordering, the constitutive domains – i.e. the political settlement, security and the rule of law, and public administration sitting at the heart of the state-building effort – need to receive comprehensive attention. If these can be made to work, they will lay the foundations for generating a shared sense of the public realm and fostering more constructive and legitimate linkages between state and society. The establishment of these constitutive domains also lies at the heart of enhanced performance in output domains, including economic management, service delivery and access to justice. Crucially, however, this virtuous circle cannot be taken for granted.

A more realistic approach to state-building would consist of: i) setting less ambitious, but attainable goals; ii) avoiding an overload of reform demands and fragmented capacity-building efforts; and iii) monitoring and managing political economy and governance risks on a continuous basis. In terms of 'doing no harm', there is a need to reduce the 'cannibalisation' of public sector staff by donors, and avoiding undermining tax morale through extensive tax privileges of external actors and their contractors.

**5) Building on the above, donors need to be more fully aware of dilemmas and trade-offs:** State-building is a highly complex undertaking, and there are no easy or straightforward answers. Some of the difficult choices that donors confront include:
- Achieving a balance between strengthening the central structures and institutions of the state and promoting decentralisation and the empowerment of local leaders and government entities.
- Achieving a balance between meeting short-term needs and not undermining longer-term goals (e.g. service delivery vs. capacity-building).

**6) Donors need to be much more aware of the tensions that may be embedded in the state-building model they are seeking to promote** (in which state capacity and institution-building are linked to democratisation and marketisation): While the fundamental aims of this three-legged state-building model are worthy, it is essential to recognise that the three processes do not

always work in mutually reinforcing ways, especially in early phases of state-(re)building. As such, donors need to pay much closer attention to the viability of this model and to how it relates to the actual outcomes achieved in recent externally supported state-building efforts. In particular, they should think very carefully about how to prioritise and sequence their different interventions, being mindful of the context and specificity of any given setting, while drawing on existing experiences and insights.

**7) There needs to be greater congruence between the ambitiously interventionist agenda embraced by the international community and the resources it is willing/able to commit to such transformative state-building efforts:** In general, donors have developed a rather ambitious interventionist or 'transformative' state-building agenda on a global scale in failed and weak states. But this is not matched by the organisational and financial resources provided, or by a concomitant commitment to remain engaged over the long term. In addition, time horizons and trade-offs between short and long-term goals need to be reconsidered if state-building efforts are to be able to take root and make a useful contribution.

**8) Knowledge gaps and the constraints that impede donors from acting on lessons learned must be addressed more fully and honestly:** There has been relatively little systematic knowledge and lesson-sharing across different aspects of the state-building agenda among leading international actors. At the same time, part of the problem appears to stem not from a poverty of knowledge as such but rather from a lack of ability to assimilate lessons learned into donor policies and practice. Donors therefore need to become much better at promoting innovation from within and at recognising and changing internal incentives that act as barriers to change.

# 1. Introduction: Rediscovering the State

## 1.1    Donor engagement with state-building in the new millennium

In the new millennium, state-building has become a leading priority for the international development community. Today, almost every major donor identifies state-building as one of its key objectives, particularly in 'fragile states'.[1] Donors also understand state-building as being much broader and more complex than their more traditional work on development challenges in more 'normal' settings. The intensity of donor engagement with state-building can be seen in the expanding sets of activities being carried out in settings ranging from Afghanistan and Iraq to countries in sub-Saharan Africa (SSA), Asia, the Pacific and Latin America.

There has not always been such concern about the need to build capable, effective and responsive states. In fact, the (re)discovery of the state as one of the keys to development and poverty reduction is relatively recent (Fritz and Rocha Menocal 2007). The renaissance of the state is remarkable in light of the anti-statist stance of the development paradigm under the aegis of the Washington Consensus. This was followed in the 1990s by the rise of the 'good' governance agenda. In its initial incarnation, this tended to be dominated by a depoliticised, technocratic approach, and was also relatively anti-statist. The Millennium Development Goals (MDGs) themselves, a central rallying point for the international community, are devoid of any kind of understanding of the central role that the state may play in development (or lack thereof).

The shift in emphasis, and the growing awareness of the need to build more effective states, surfaced from the confluence of several factors, including the emergence of new states (the Balkans, the former Soviet Union, East Timor), some of which have remained weak and unstable, and the recognition that an exclusive focus on the MDGs was insufficient to address complex development challenges. In addition, as mentioned above, there is increasing concern about the negative impact of fragile states, in terms of not only domestic issues but also conflict, instability, terrorism, trafficking, organised violence and other undesirable spill-over effects (see Cammack et al. 2006).[2] As the Rt Hon David Miliband MP highlighted in a speech in July 2007, capable and effective states are needed in the fight against terrorism and other security challenges. The new consensus is that institutions are crucial to promote development, and that states are a critical hinge in achieving the transformations necessary to achieve and sustain the MDGs. As part of this process, a once rigid approach to sovereignty (at least formally) in international relations has given way to a more flexible paradigm based on the right and duty to intervene.

However, the establishment and strengthening of institutions remains an enormous challenge, both conceptually and in practice – not only in fragile but also in more 'normal' developing settings. The level of success of state-building interventions has remained relatively low, ranging from disaster (thus far) in Iraq, to more or less stable but poorly governed states (Cambodia, Bosnia-Herzegovina). Furthermore, despite growing international engagement, state-

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[1] There is no firm consensus within the international community on exactly what constitutes a 'fragile' state. However, there is general agreement on some key characteristics, including weak institutions and fundamental lack of state capacity and/or political will to fulfil basic functions, often as a result of conflict.

[2] It should be emphasised that not all current state-building processes involve external actors; or at least not necessarily in a particular 'state-building mode'. In the former Soviet Union (e.g. Montenegro), external actors have largely been involved in regular 'development assistance mode' providing loans and technical advice.

building does not yet constitute a coherent agenda. For example, despite the fact that domestic factors are now largely considered indispensable to any state-building project (see OECD DAC, 2007a), much of the recent literature and research analysis on state-building has focused more on external interventions than on inner logic. Most current thinking and conceptualisation of what state-building is emanates from the North/West, with very few contributions from Southern researchers and policymakers.

In addition, there are clear limits to the resources – financial, human and diplomatic – that developed countries are willing and able to mobilise to engage in state-building abroad. The resources needed even for limited interventionism in large countries (e.g. the DRC – Democratic Republic of Congo, Afghanistan) can be quite substantial. As will be discussed on in this paper, state-building processes of the more interventionist nature tend to be slow, long term and very involved. However, even if they are committed to such long-term goals in principle, many donors tend to have short time horizons and prefer to focus on short-term goals and quick results so as to be able to disengage sooner rather than later.

## 1.2 Structure of the paper

This paper seeks to provide a conceptually and historically grounded analysis of state-building, one which is also practice-oriented. It looks at the concept from both a historical approach and its current interpretation in the international assistance community, especially in post-conflict and otherwise fragile settings. Given the extensive range of aspects that need to be covered, the paper aims for breadth rather than depth. The emphasis is on highlighting insights and identifying aspects that may be neglected in existing reports, rather than on seeking to provide an exhaustive account. The focus is also state-centric. We are fully aware that state actors and institutions are not the only domestic agents involved in contemporary state-building and the creation of a shared public realm. However, owing to time and space constraints, our emphasis is on the edifice of the state itself, and not on parliaments, political parties or civil society *per se*.

Beyond this introduction, the paper is divided into four sections. Section 2 lays out the conceptual and historical foundations of the state and state-building. Section 3 provides a review of state functions and of what state-building efforts consist of today, disaggregating the overall process into several 'domains'. This section focuses on the engagement of the international community with fragile (and largely post-conflict) states, looking in particular at what we define as the 'constitutive' domains of state-building. However, it should become clear from the analysis that many of the challenges identified in these settings (precarious political settlements, weak bureaucracies, etc.) afflict other, supposedly more effective, states in the developing world.

Section 4 turns to three overarching challenges that the international assistance community currently faces in its state-building efforts: managing governance and political economy challenges; narrowing several 'knowledge gaps'; and rethinking the viability of the model it is attempting to pursue. The latter may be the most fundamental. The paper finishes with a conclusion aimed at highlighting some of the key insights, issues and lessons derived from the analysis. The paper is supported by six annexes: Annex A on key terms related to state-building; Annex B on the history of state-building from a comparative political economy perspective; Annex C on state typologies; Annex D on the coordination of external actors; Annex E on paradigms of international engagement with fragile states; and Annex F on a further discussion of relevant issues related to state-building domains.

# 2. Key Concepts

## 2.1    Internal and external dimensions of the state

*Internal dimensions of the state*

Max Weber and Charles Tilly both developed classic definitions of the state. According to Weber (1966), '[t]he state is a human community that (successfully) claims the monopoly of the legitimate use of physical force within a given territory […] If the state is to exist, the dominated must obey the authority claimed by the powers that be.'

Tilly (1975) argues that '[a]n organization which controls the population occupying a defined territory is a state *in so far as* (1) it is differentiated from other organizations operating in the same territory; (2) it is autonomous; (3) it is centralized; and (4) its divisions are formally coordinated with one another'.

Both definitions stress the structural and organisational aspects of the state. They do not mention any state functions (apart from the monopoly of violence in Weber's definition). However, both focus very much on the importance of some kind of centralised form of authority. For Weber in particular, the ideal type modern state is underpinned by a 'rational-legal' bureaucracy.

Michael Mann (in Hall 1994) adds another important dimension to the concept of the state in his elaboration on 'infrastructural' power. Infrastructural power refers to the actual penetration of societies by state bureaucracies and state-sponsored programmes, such as public education, and the ability to enforce policy throughout the state's entire territory.[3] A defining characteristic of the 'modern' state in the tradition of Weber, Tilly and Mann is that 'political power becomes progressively depersonalised and formalised' (Chesterman et al. 2005).

A range of typologies is available distinguishing among different aspects and fundamental forms of the state. These tend to characterise the state in terms of a specific dimension – be this political economy or scope (e.g. World Bank 1997), or (internal) strength and capacity – or of a particular kind of state type (e.g. failed states, developmental states, etc.)[4] While it is essential to recognise the multidimensionality of the state and avoid assessing it along a linear strong-weak continuum, as will be discussed in greater detail throughout this paper, many states in the developing world, in particular those emerging from conflict or otherwise identified as fragile, often fail to meet many of the basic criteria highlighted by Weber, Tilly and Mann. These kinds of states tend to have only tenuous control of their population beyond the centre, and their infrastructural capacity (presence of state bureaucracy and services) is often minimal, up to the point where the quality of being a state becomes questionable (see Herbst 2000).

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[3] Mann contrasts infrastructural power with 'despotic powers' of the ruler to take decisions arbitrarily or autonomously, and especially decisions about 'life and death'. Pre-modern states – as well as rulers in highly despotic countries in the 1960s and 1970s – were often marked by considerable despotic powers but weak infrastructural powers.

[4] For greater detail on these typologies, please see Annex C.

*The external dimension of the state*

The state is characterised not only by the internal dimensions mentioned above but also by an important external dimension. Since the peace of Westphalia (1648), the state has been the central organisational structure in international relations and the concept of 'sovereignty' has underpinned relations among states.[5] The principles of sovereignty, legal equality and non-interventionism were furthermore enshrined in the United Nations (UN) system as it originally emerged after World War II (see Herbst 2000; Jackson 1990). Since then, a state has been considered sovereign and autonomous at the international level once the UN recognises it as such, regardless of whether or not it meets any of the criteria laid out by Weber, Mann and others. In a seminal article on quasi-states in the developing world, Robert Jackson (1990) forcefully highlighted the contradiction between the domestic and the external aspects of stateness, pointing to states that possess external judicial statehood but only very limited internal state capacity.[6]

## 2.2    State legitimacy: state-society relations and the social contract

The issue of legitimacy is at the core of state-society relations and the nature of the 'social pact' between state and society. It refers to acceptance, however reluctant, of a governing regime deemed to have the right and capacity to exercise its authority. Without a minimum degree of legitimacy, states have difficulty functioning (Brinkerhoff 2007).

On the other hand, legitimacy is a very complex concept which includes many different dimensions. It can, therefore, be difficult to measure it empirically. As Margaret Levi (2006) has put it, 'no one – including Weber himself – has successfully sorted out which of the various elements [of legitimacy] are necessary or how to measure indicators or their interaction.' With that caveat in mind, we can see how, historically, states have relied on a combination of one or more methods to establish their legitimacy and authority over those they rule.

Some of the most common ways of establishing and sustaining legitimacy over time include one or more of the following:
- Provision of public goods and services, including social security (e.g. the modern welfare state – see Esping-Andersen 1990).
- Economic performance (e.g. the so-called East Asian Tigers – South Korea, Taiwan, Singapore and Hong Kong – as well as China and Vietnam).
- Ideology and/or nationalism (e.g. Cuba and Iran).
- Populism (e.g. Perón in Argentina and, more recently, Chávez in Venezuela).
- Liberal democratic representation, which includes respect for fundamental civil and political rights, and accountability (namely, advanced/highly developed industrial countries, but also Costa Rica and India).

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[5] International relations theorists have identified the Peace of Westphalia as having several key principles, which explain its significance and impact on the world today: i) the principle of the sovereignty of states and the fundamental right of political self determination; ii) the principle of (legal) equality between states; and iii) the principle of non-intervention of one state in the internal affairs of another state.

[6] There is a growing discussion as to whether the state continues to be the most significant organisational unit at the international level in an increasingly integrated world (Strange 1996). Despite the ongoing debate, however, the general perception among academics and policymakers alike is that 'states still matter', domestically and internationally (Weiss 1998). Many analysts have also argued that, while economic globalisation does restrict state power, transnational capital needs capable states as much or more than domestically oriented business (Evans 1997). Moreover, a well-functioning state can enable a society to prosper in a globalised world.

Since the 1990s, with the global triumph of democracy, the form of legitimacy that tends to be emphasised is that based on democratic representation and accountability (see Brinkerhoff 2007, among others). This kind of legitimacy is meant to be normative rather than instrumental. That is, the legitimacy of the state should not derive from its ability to produce outcomes (including economic growth and service delivery), but rather rest on a principled commitment to the democratic process (Przeworski 1991).

However, legitimacy based on democratic processes and accountability can be extremely difficult to achieve, especially in early phases of state-building where democratic political as well as state institutions are weak and/or malfunctioning. At times, a population may come to prefer order and performance over the perceived disorder that can accompany processes of state-building-cum-democratisation (cum-marketisation) (e.g. Russia since 2000). As the recent experiences in Latin America and elsewhere in the development world further illustrate, whether warranted or not, there is a growing disenchantment with democracy in these settings regarding what is perceived as a failure to produce tangible economic benefits (Rocha Menocal 2006). The effect has been a further undermining of democratic institutions that are quite weak to begin with, and the considerable erosion of state legitimacy.

## 2.3    State-building as a concept

In its simplest formulation, state-building, especially as understood by the international community since the 1990s, refers to the set of actions undertaken by national and/or international actors to establish, reform and strengthen state institutions where these have seriously been eroded or are missing (Caplan 2005). Key goals of state-building include provision of security, establishment of the rule of law, effective delivery of basic goods and services through functional formal state institutions, and generation of political legitimacy for the (new) set of state institutions being built (Brinkerhoff 2007).

As can be inferred from the above definition, state-building and governance are closely related terms.[7] They both share a concern about similar issues, especially on how to make institutions work better. However, in many ways, state-building is an antecedent task. State-building is a more all-encompassing/holistic endeavour, and the term can imply a more explicit awareness of the political nature of institution-building. Put differently, state-building is about constructing the foundations of the very (government) edifice within which governance ought to operate; without prior construction of this edifice, governance interventions are likely to have only limited impact. At the same time, as we discuss in Section 4.1 ensuring the quality and integrity of government is an important dimension of the state-building process, including generation of the legitimacy of a new or re-emerging state.

It is essential to highlight that state formation and state-building are inherently dynamic and ongoing processes (see also Section 3).[8] As is discussed in Annex B, state formation and state-building have emerged as long-term, non-linear, tumultuous, inherently violent and conflict-ridden processes that are also deeply political.

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[7] Annex A addresses the concept of governance in greater detail.
[8] At some points in this paper, we refer to 'early phases' of state-building; this would be the first five to seven years after independence or after the start of state-rebuilding in a post-conflict situation.

The OECD DAC has elaborated a rather ambitious vision of state-building with a strong focus on state-society relations. This is set out in the Principles on Good International Engagement in Fragile States and Situations (2007a), expressing the current – somewhat cautious – degree of international consensus.[9] Principle 3 is as follows:

> **Focus on state-building as the central objective.** States are fragile when state structures lack political will and/or capacity to provide the basic functions needed for poverty reduction, development and to safeguard the security and human rights of their populations. International engagement will need to be concerted, sustained, and focused on building the relationship between state and society, through engagement in two main areas. Firstly, supporting the legitimacy and accountability of states by addressing issues of democratic governance, human rights, civil society engagement and peace-building. Secondly, strengthening the capability of states to fulfil their core functions is essential in order to reduce poverty. Priority functions include: ensuring security; promoting and providing access to justice; mobilizing revenue; establishing an enabling environment for basic service delivery, strong economic performance and employment generation. Support to these areas will in turn strengthen citizens' confidence, trust and engagement with state institutions. Civil society has a key role both in demanding good governance and in service delivery.

While emphasising its importance, the principles do not provide a clear conceptual definition of state-building. Furthermore, this vision tends to conflate a number of processes that may not automatically work in unison. Section 4.3 of this paper will provide a more detailed discussion of the tensions embedded in the current model of state-building as reflected *inter alia* in OECD DAC's Principles, as well as within the international community more broadly, that is, a model that is based on the (re)construction of market-based, liberal democracies.

Importantly, current policy discussions of state-building refer to what may more precisely be termed either state-*re*building (in post-conflict situations) or state strengthening (i.e. increasing capacity in fragile and weak states), usually combined with efforts to make states more responsive and accountable. Since roughly the 1970s, almost all the world's territory has been formally organised as states in some form; crucially, initial state-building efforts ultimately failed in a number of places. In this sense, the current usage of 'state-building' can refer to several types of situations. Section 3.1 spells out three main types of trajectories.

Furthermore, when talking about state-building, there is a host of other terms that are closely related. This aggregation of concepts – including 'governance' as highlighted above but also 'nation-building', 'peace-building', and 'institutions', among others – may lead to confusion. It is therefore important to spell out the similarities and differences between them more clearly, a task that we undertake in Annex A. At this stage, in addition to the distinction drawn between state-building and governance, it seems useful to highlight one key point regarding nation-building and the sense of a shared public realm.

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[9] Note that this emphasis on the state-society relationship became even stronger between the 2005 and 2007 versions of the principles. See: http://www.oecd.org/dataoecd/59/55/34700989.pdf (2005) and http://www.oecd.org/dataoecd/61/45/38368714.pdf (2007).

Crucially, state-building is a process distinct from nation-building – despite a growing tendency in policy usage to equate the two.[10] Nation-building refers to the process of constructing a shared sense of identity and common destiny, usually in order to overcome ethnic, sectarian or communal differences and to counter alternative sources of identity and loyalty. Historically, states have played an instrumental role in nation-building, usually in order to create nation states or nations that coincide with state boundaries (see Gellner 1983; Weber 1976).[11]

Even though nation-building may be difficult and possibly filled with conflict if pursued without due respect to a variety of linguistic, regional, ethnic and other identities, fostering at least a loose sense of a common (national) public space seems to be an essential component of creating effective states and an effective state-society relationship. This is what Ghani et al. (2005) refer to as a 'nationwide public', which need not be rooted in a unified 'nation' based on cultural and linguistic unity, but may well take the form of a more civic identity (as in the case of the US). The creation of a country-wide public identity need not destroy ethnicity – it may well be possible to foster more than one common identity so that people can at once feel like they belong to a local community as well as to a larger entity that can be thought of as the nation state. The important issue is that all citizens see themselves as Nigerians or Tanzanians as much as or more than as Igbo or Nyamwezi. Therefore, it seems important to make a clearer distinction between state-building and nation-building in policy debates. In particular, this is in order to draw greater attention to the issue of whether in fact a sense of a shared public realm exists.

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[10] See especially the policy usage of the term nation-building within the US government to refer to its activities in Afghanistan and Iraq, although these are much more clearly related to state-building.

[11] Some states, like France and Mexico, have been more successful in promoting a sense of nation than others. As discussed in Clapham et al. (2006) and Herbst (2000), state-led nation-building efforts have been considerably weaker in much of SSA, where tribal identities have remained much stronger and sturdier than any kind of affinity with the state as such. On the other hand, it should also be possible to identify with more than one identity – for example at the sub-national, national and supranational level. The Basque country in Spain has been discussed as a successful example of the coexistence of multiple identities, where (despite the radicalisation of limited segments of the population) people identify themselves as Basques as well as Spaniards and more widely as 'European' as well.

# 3. From Concepts to Dynamics: State-Building in an Age of Increasing International Involvement

As set out above, state-building refers to the process of establishing the key institutions for a functioning state. And, as highlighted in the discussion in Annex B, such processes have historically been driven predominantly by internal actors. In current parlance, in contrast, state-building is more often used to refer to efforts with various and sometimes far-reaching degrees of external involvement, especially since the 1990s. These (international) efforts also have a particular vision of what constitutes an effective functioning state, namely, one that is democratic and market-based. Some of the tensions embedded in this model are addressed in Section 4.

Given that much of the recent academic and policy-oriented literature on state-building tends to focus on fragile (particularly post-conflict) states, a primary focus of this paper is on such cases.[12] However, it is essential to keep in mind that state-building is not a challenge exclusive to these more extreme contexts. As Grindle (1996), Evans (1995) and others have emphasised, variation within a given state in terms of capacity and quality across different institutions, issue areas and regions may be considerable.[13] In a number of low and middle-income countries, there is a sharp difference between the quality of public services delivered in capital cities and of those in remote rural areas, or among rural areas with different constituencies and with economic bases. Fragile states (especially those emerging from conflict) are likely to display substantial weaknesses and capacity deficiencies on most fronts. On the other hand, state-building processes may remain uneven in developing countries that confront more 'normal' developmental conditions.[14] In such states, state capacity may remain weak; there may be substantial pockets of the population or territory that central government cannot reach or where it cannot fully exercise its authority (e.g. northern Uganda, certain areas of Colombia). In such settings, successful state-building may require further state-society integration and legitimacy as a platform for broader development. Above all, the discussion in this section as well as in Section 4 highlights how complex and deeply political the task of state-building is (in fragile as well as more 'regular' settings), and also how many of its key dimensions are long-term goals.

Section 3.1 proposes how to distinguish different state-building trajectories. Section 3.2 then discusses the various contextual factors that shape specific state-building situations. Section 3.3 gives a very brief summary of the respective roles of domestic and external actors in current state-building processes. Section 3.4 then embarks on a discussion of state-building domains, arguing that greatest attention has to be paid to 'constitutive domains' (political settlement, security, rule of law and rebuilding a public administration) but also to how the state-building process is embedded in a wider social and structural context. Section 3.5 then draws out the pertinent question of sequencing, suggesting that sequencing *within* the various domains should be the main consideration (rather than sequencing between domains).

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[12] Key studies on post-conflict state-building include Brinkerhoff (2007); Chesterman et al. (2005); Dobbins et al. (2007); and Rosser (2006). Research is carried out by the Clingendael Institute Security and Conflict Programme, the International Peace Academy, and the Research Partnership on Post-Conflict State-Building, among others.

[13] As Mick Moore stressed (at the DFID-SOAS workshop on Governance and Growth, July 2007), even in 'developmental states', only some (key) ministries were outstanding, while there was often a good deal of patronage and ineffectiveness in other parts (e.g. the Japanese postal system as compared with the Ministry of International Trade and Industry).

[14] Examples would include Bolivia, Kenya, Peru, Uganda and Yemen, among others.

## 3.1 Distinguishing trajectories

Challenges in state-building vary in terms of starting points and contextual factors. While this is recognised in parts of the literature (see, for example, Call and Cousens 2007), others lump together a very wide and diverse range of state-building and state reform and strengthening processes.

Where the starting point and conditions are broadly favourable, states may become fairly well established within a relatively short period of time – a decade or so (e.g. Slovakia after the break-up of Czechoslovakia). On the other hand, where conditions are poor and the starting point unfavourable, the emergence of a state (as a result of independence, for example) may be followed by decades of state instability, fragility and even failure (e.g. Afghanistan, DRC).

As depicted in Graph 1, we propose to distinguish between three types of state-building interventions (designated as Type I, II, and III).

**Graph 1: Model of state-building trajectories**
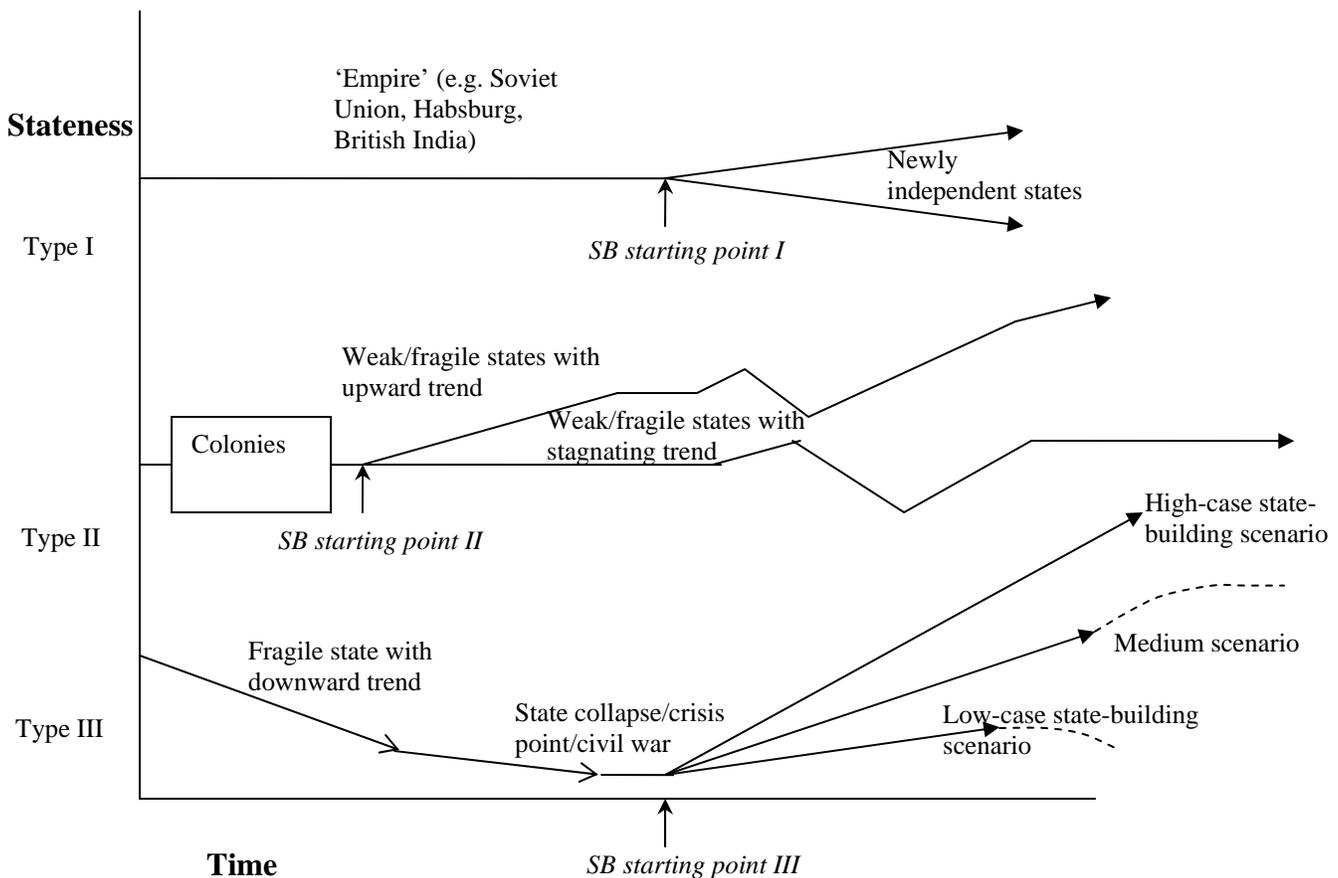


Type I includes cases of state-building following the dissolution of an empire where, prior to independence, the empire built considerable state capacity. Type II trajectories are those of post-colonial state-building where relatively little state capacity existed prior to independence. The starting point of state-building in these cases usually now lies several decades in the past (1960s

or 1970s for most African countries), but the challenge of sustaining an upward trajectory of increasing state capacity continues to be relevant for many.

Type III trajectories are those where there is the most extensive erosion of the state (with respect to its internal dimensions) and consequently the strongest rationale for external state-building support. Some Type III cases will previously have been Type II, then entering a sharp decline (e.g. Sierra Leone, Liberia, DRC, Afghanistan). As such, current efforts are directed at rebuilding previously existing states. Other Type III cases are those where more recent independence has been associated with civil war, hence creating a similar situation of fundamentally eroded institutions (e.g. East Timor, Bosnia-Herzegovina).[15] Further state-building cases of all three types may emerge in future.[16]

The challenges involved and the external interventions that are required and/or take place in Type I, II and III cases show considerable differences (e.g. in most countries of the former Soviet Union, the international community was primarily involved in regular 'development' interventions and not in specific 'state-building' ones). Furthermore, external actors are frequently involved in states where it is not entirely clear whether they are on a stagnating (i.e. lower Type II) or a downward trend (i.e. the downward slope of trajectory III before the starting point of state (re)building), with an emphasis on preventing state collapse and strengthening weak state institutions.[17]

The situation in a stagnating or downward slope case differs in important respects from that of the initial situation after the state-building 'starting point' of the Type III trajectory. When states re-emerge after civil war and/or other forms of collapse (e.g. invasion – Afghanistan), there is the most intense international involvement (possibly a transitional authority), and often considerable funding (even if actual funding falls short of initial pledges). Stagnating and downward slope countries receive relatively less attention and funding (with substantial case by case variation – e.g. Haiti vs. Chad vs. Nepal and Yemen). Moreover, there are also important domestic differences: in these latter countries, a more or less dysfunctional regime is often entrenched, while in situations of far-reaching state collapse and subsequent rebuilding, internal power dynamics tend to be more fluid. This includes *inter alia* that there is often an opportunity for international actors to organise democratic elections – even if these may not ultimately result in successful democratisation (see Section 3.4 and Section 4.3 below).

## 3.2   Contextual factors

In this section, we consider what contextual factors are relevant for shaping the success of state-building strategies and the role of external actors in such cases. Some of these are clearly most relevant for Type III state-building trajectories. Others – in particular background conditions, economic opportunities and aid – are factors that affect the whole range of state-building trajectories. Matrix 1 below spells out a range of relevant factors along which state-building situations can be differentiated. While many of these are basic and well known, they are sometimes forgotten or glossed over in discussions about state-building.

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[15] While these territories did not previously possess formal statehood (external dimension of the state), they were integrated into states with usually at least some degree of modern stateness, but one which experienced serious erosion during the move towards independence.

[16] See the interesting discussion in public affairs magazine *Monocle* (2007).

[17] E.g. Nepal, Chad, Yemen.

**Matrix 1: Categorisation of state-building contexts**

| Issue | Range/examples | (Potential) implications |
|---|---|---|
| **Nature of starting point** | | |
| **Starting point of state-building: type of trajectory and peace/conflict** | *Type I – (largely) peaceful*: secession/collapse of former USSR<br><br>*Type I – with conflict* – secession/collapse of empire (conflict): former Yugoslavia; East Timor<br><br>*Type II – (largely) peaceful*: Ghana<br><br>*Type II – with conflict*: DRC<br><br>*Type III – internal conflict* – internal collapse of state/civil war: Somalia; Liberia; Sierra Leone<br><br>*Type III – internal conflict cum occupation*: Iraq, Afghanistan | Post-conflict state-building requires specific attention to peace-building; conflict itself makes SB success more challenging |
| **Peace restored?** | Fairly stable peace arrangements: Mozambique<br><br>Tense but stable: Kosovo<br><br>Low key fighting: Afghanistan; DRC<br><br>Civil war: Iraq | Rapid restoration of peace is advantageous for SB<br><br>Dynamics between peace and state legitimacy |
| **Range/depth of external engagement** | 'Regular' development assistance<br><br>Limited peace-keeping operation<br><br>Occupation<br><br>Transitional authority | Dynamics of internal and external actors |
| **Legacies** | | |
| **Degree of pre-conflict stateness/ presence of state as service provider** | (Very) low: Afghanistan<br><br>Reasonably high: Kosovo; Iraq<br><br>High/very high: Germany; Japan | High previous stateness generally advantageous but also implies higher expectations |
| **Previous regime** | Highly oppressive: Iraq<br><br>Authoritarian: former Yugoslavia<br><br>Feeble democratic: Solomon Islands | Collapse of previous highly oppressive regime – can bring out long-suppressed conflicts<br><br>Previous democratic experience assumed to be advantageous |
| **Background conditions** | | |
| **Specific risk factors** | Narcotics production or trading<br><br>Natural resources (especially oil and diamonds)<br><br>Unstable/destabilising neighbourhood: West Africa; Iran/Iraq | Especially narcotics can have a highly pernicious impact (cannot be turned into a legal activity) |

| Structure of society | Divided into a few fairly well defined 'blocs': Iraq?; Kosovo | Presence of a least a proto-national consciousness is advantageous |
|---|---|---|
| | Ethnically diverse (many ethnic/linguistic groups): Papua New Guinea | Urbanisation may contribute to greater awareness of a 'country-wide' public |
| | Ethnically relatively homogenous/ethnic divisions not decisive | |
| | Sense of national public: established, weak, absent | |
| | Degree of modernisation and urbanisation | |
| Geography | How difficult or easy is the territory to control? How densely is the country populated? | Difficult territory (mountains; jungle) offer greater opportunities to spoilers |
| Geopolitics/ neighbourhood | What are the interests of external actors in stabilising/destabilising the state – in particular neighbouring countries and 'big powers'? | External actors with an interest in undermining stability can be a threat to SB |
| **Economic opportunities and aid** | | |
| Economic opportunities | What are the opportunities for economic revival? Distance to the sea and/or to major export destinations; economic assets (e.g. mining; attractiveness for tourism; opportunities for integration into regional production networks; labour costs, etc.) | Greater economic opportunities can ease SB challenges |
| External assistance | The amount of aid forthcoming and its phasing over time; capacity to absorb and manage aid | Hoeffler and Collier (2002): high pay-off of aid to post-conflict countries if properly phased (see also Surke et al. 2005) |

Post-conflict or otherwise fragile state-building cases are likely to be marked by a combination of difficult contextual factors – many of which contributed to the conflict and to the erosion and breakdown in the first place. In designing a state-building strategy, it is important to address at least some of the key problem factors and try to get to their roots (e.g. ethnic fragmentation, narcotics production or transport and/or management of natural resources). Legacies – in terms of the previous history of stateness and the previous political regime – cannot be changed of course. However, it can be important to keep in mind what kind of expectations such legacies may have generated or left in people's minds (e.g. is the state traditionally seen as an adversary and as unreliable?) Overall, thinking about initial conditions and contextual factors can be helpful, especially in terms of informing the planning of external interventions and assistance.

Crucially, in a (post-conflict and/or fragile) state-building situation, prior institutions have become seriously eroded. The primary concern in such cases is to re-establish institutions (Fritz 2007). The state-building starting point (state collapse/civil war; independence) is generally marked by a very low level of institutional effectiveness (anomie – lawlessness). This involves a range of challenges. One is that, despite appearances, there is usually no institutional *tabula rasa*. Today, any territory in which a state-building process takes place is likely to have been previously incorporated into some kind of a state – however feeble or dysfunctional. Whatever institutional legacies exist often constitute important reference points. These are not immutable, but taking them into account can facilitate the institution-building process. This is often something that international actors fail to do, importing instead a medley of institutional

templates that do not always fit well together or that are poorly suited to systems with weak human and fiscal capacity and infrastructure. For example, as Andersen et al. (2007) suggest, and as stated in DFID policy, in a setting with a weak formal judicial sector, combining formal/modern and traditional forms of delivering justice may be a better model than exclusively trying to promote the establishment of an exclusively modern/formal system. In addition, building institutional systems is also challenging because the different components are interdependent: building a justice system (laws, courts) will only have an impact if the police and the penal system also work reasonably well.

## 3.3    Roles of internal and external actors

*Primacy of domestic actors*

Even though external actors have become increasingly involved in contemporary state-building, especially since the 1990s, it is essential to underline that such efforts will remain limited in their transformative capacity unless they can build on a considerable base of internal support and unless key domestic actors are committed. As Chesterman has argued, '[s]tates cannot be made to work from the outside' (Chesterman et al. 2005). Without ownership of the state-building process by key stakeholders (both at the elite and the broader social level and within and outside the realm of 'government') and strong internal political leadership, state-building efforts are not likely to be legitimate and sustainable over the long term (see Brinkerhoff 2007, among others).[18]

In many post-conflict and fragile settings, the scarcity of an indigenous political leadership committed to state-building has emerged as a crucial factor in hindering ongoing efforts. Problems with adequate political leadership are evident in Iraq, as well as in the DRC and in Bosnia, for example. This may not always be a question of political will as much as a question of the institutional framework and the political economy situation within which political leaders operate. The opportunities, constraints and incentives domestic leaders face may constrain their ability to act and implement decisions. Interestingly, despite the critical importance of internal actors in state-building efforts, the fragile states literature has focused in considerable detail on external actors (e.g. Patrick and Brown 2007), whereas domestic/internal actors and their interests are less frequently and deeply analysed (especially in comparative perspective).

*International actors*

Since the 1990s, there has been sustained international engagement with state-building efforts, especially in post-conflict and other fragile settings. A wide diversity of external actors is involved. These include bilateral and multilateral donors, INGOs, humanitarian organisations, and military and diplomatic actors.

Given the primacy of internal actors emphasised above, the potential for external state-building interventions to establish well functioning states is likely to be more limited – especially if suitable domestic leaders cannot be identified. However, external influence and impact, both positive and negative, can still be quite substantial. International actors should therefore focus on

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[18] Despite highlighting the primordial importance of domestic actors, especially political, economic and social elites, we are acutely aware that this paper does not discuss these actors in the detail that would be desired. This owes in large part to the relative dearth of existing available literature/research on internal as compared with external actors, as well as to the fact that the paper intends to focus on the state-building role of the international (donor) community. There is a profound need for greater field work and analytical research on domestic dimensions of state-building.

minimising unintentional harm and on facilitating domestic processes, providing resources and creating the space for domestic actors to start engaging with the difficult challenges of building strong and resilient institutions in the long term.

The role of international donors can vary considerably. It can range from relatively limited (e.g. the UN in Haiti) to considerably more forceful (e.g. Australia in the South Pacific). The most involved type of state-building intervention refers to international administrations, where the UN has played a key role (in East Timor and Kosovo, for example; see Chesterman et al. 2005). While such 'transitional authorities' under UN auspices (re)emerged as a *modus operandi* in the 1990s, international administrations still remain relatively rare. Among other things, they are highly controversial in some quarters because they are perceived as 'neo-colonial', and they are also extremely expensive (ibid).

Within the international community, the broad array of actors engaged in state-building efforts implies *inter alia* a scale of coordination-cum-harmonisation-and-alignment challenges that is even more substantial than in developing countries with established states. Annex D provides the broad outlines of the issues involved in this area. Annex E discusses the different foreign policy paradigms on which external interventions in fragile states are based.

In addition to coordination problems, another challenge that confronts international actors, especially donors, is that they frequently lack the financial and institutional capacity that an agenda as ambitious as that entailed by the state-building one. As Chesterman et al. (2005), Ghani et al. (2005) and others have pointed out, the promised funds for state-building and reconstruction frequently fail to arrive Moreover, funding is often erratic and poorly coordinated, making aid predictability an issue of fundamental concern. In addition, the quality of the staff within donor organisations deployed to the field is not always even. There is often little regard for finding the best suited staff; staff may lack the relevant background and language skills. As suggested by an anonymous source within the World Bank's Independent Evaluation Group (IEG), incentives within donor organisations may not make it easy for the best suited and/or most qualified personnel to go to post-conflict and other fragile countries. This owes in large part to the fact that staff are often evaluated on their performance and ability to produce results, which may be considerably more difficult to identify/achieve in fragile contexts.[19]

## 3.4    State functions and state-building domains

*Overview*

**State functions** refer to the scope of the state and the types of tasks a state assumes.[20] As the 1997 World Development Report (WDR) argues, there are certain core functions that any state

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[19] Conversation with the source at the high-level conference on Engaging with Fragile States: Challenges and Opportunities, organised by the IEG in cooperation with Norad and UNECA in Addis Ababa on 24-5 July 2007.

[20] Historically, there have been important shifts in the perception about what the state is for, and what functions it ought to fulfil (see also World Bank 1997). Against a backdrop of severe economic crises and inefficient state intervention in many regions of the developing world, especially in Africa, Latin America and Eastern Europe, from the 1980s onwards, there has been an emphasis within the international community on 'containing' and downsizing the state and also on changing how states exercise their functions in developing countries (see Fritz and Rocha Menocal 2006). However, reducing the scope of the state as such did not yield the hoped for development results. The reappraisal of the importance of states, and the challenges associated with state-building have triggered a new debate about state functions.

should perform as a minimum. The report defines minimal functions as: the provision of security, the administration of justice (including the rule of law), and the provision of public health. Since then, there has been a proliferation of ideas about what indispensable state functions should be (DFID, OECD, NEPAD, Millennium Declaration etc). Ghani et al. (2005) have proposed a list of 10 state functions which has received considerable attention.[21] While comprehensive and informative, this list represents one option among many of delineating state functions.

Recently, the OECD DAC Principles for Good International Engagement in Fragile States stipulated that in fragile states the international community should focus essential functions, because trying to establish too broad a set of functions is likely to distract attention and resources from key issues. These include 'most basic security, justice, economic and service delivery functions'.[22] In addition, the Principles emphasise that a 'minimalist' approach to state functions in weak and fragile states is less a matter of 'ideological' choice (more liberal vs. more social democratic) and more a choice related to capacity and quality. In addition, it is important to keep in mind that state functions can be exercised in many ways, from a state acting as direct manager and provider with strong national-level guidance, to approaches that are more regulatory and arms-length and/or more decentralised.

No international consensus on any list of state functions has emerged, or is likely to emerge. In theory, though, it may be useful for donors to agree on principles, e.g. an urgent need for prioritising state functions, while agreeing that the actual choice of functions is best left for decision in-country, guided by the mix of state capacities and policy preferences as well as the political process.

Based on this need to identify 'priority functions', we aim now to disaggregate actual state-building experiences into different **state-building domains**. These domains (as well as donor engagement with them) are represented in Graph 2 below.[23] As can be appreciated from the graph, all domains are 'embedded' in social and structural contexts.

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[21] These include: i) legitimate monopoly on violence; ii) administrative control; iii) management of public finances; iv) investment in human capital; v) creation of citizenship rights and duties; vi) provision of infrastructure; vii) market formation; viii) management of state assets; ix) effective public borrowing; and x) maintenance of rule of law.

[22] See http://www.oecd.org/dataoecd/59/55/34700989.pdf. Global integration 'adds' new requirements to lists of state functions. Examples are the need for inspections of imports such as medicines (desirable even in relatively fragile states) and the capacity to negotiate trade agreements (more relevant in somewhat more capable states). While these are not 'major' state functions in terms of scale, they are important, require the employment of specialised staff (whether directly by the state or contracted), and can be quite costly. See Amsden et al. 1994.

[23] Again, it is important to keep in mind that there are different ways 'to cut the cake' and so, once again, no single listing of state-building components or 'domains' should be regarded as the ultimate one (see e.g. Dobbins et al.2007; and UNDP/USAID 2007).

**Graph 2: Domains and actors in the state-building process**
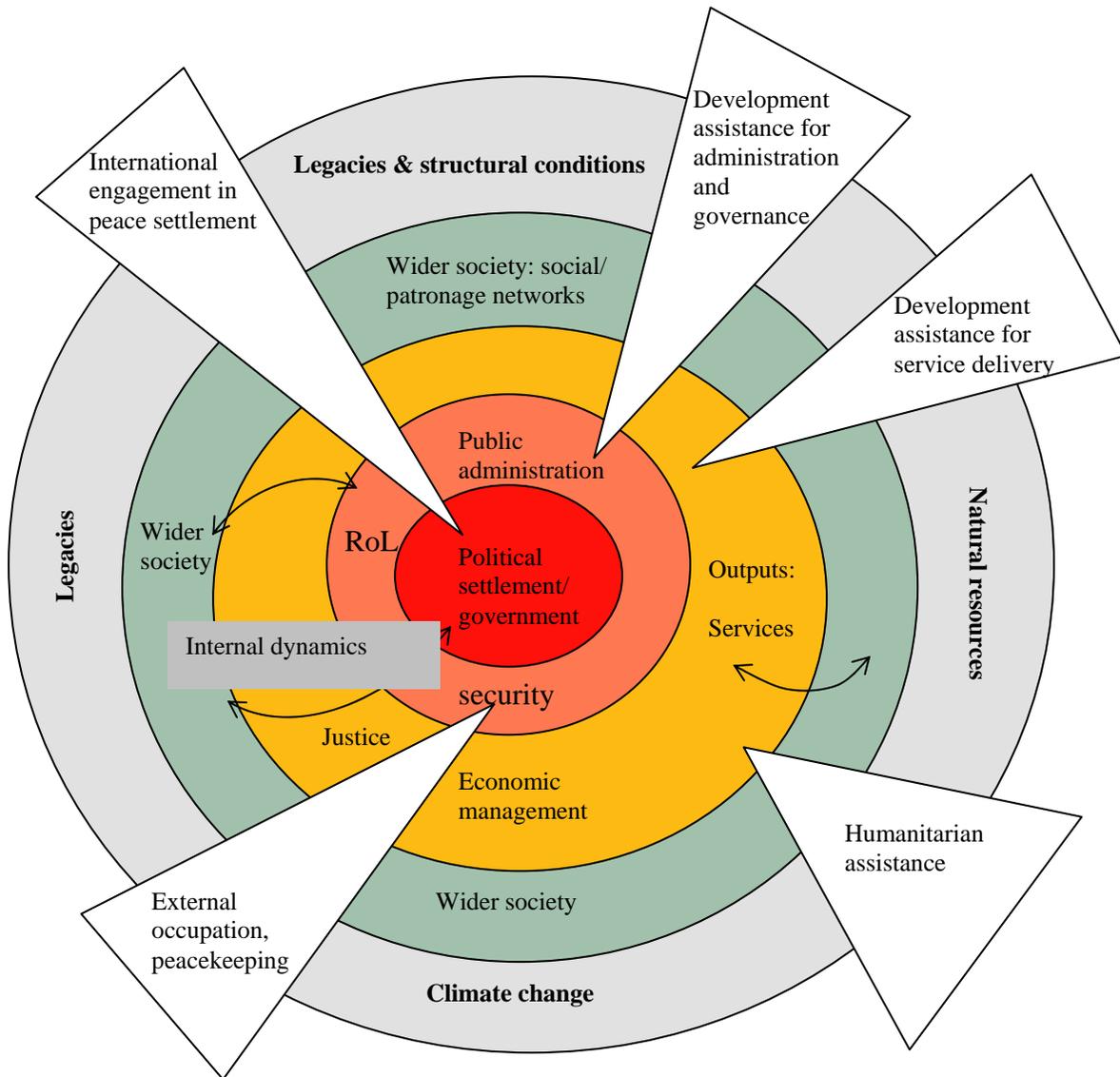


We start from the premise that, above all, state-building requires the creation of certain critical internal core (or 'constitutive') capacities that are the foundation of the state. The political settlement – including the restoration of a functioning and legitimate government and of constitutional rules – sits at the core of the state-building project. This is 'surrounded' by three core functions of the state: public administration, security through the establishment of a legitimate 'monopoly of violence', and the rule of law. Once this basic foundation is laid out other, more output-oriented, functions can be built upon it. This challenge of building the core of the state can be overlooked in a discussion about 'state functions' that is heavily focused on what the state should do (in terms of, for example, providing for citizens and for economic development) without adequately disaggregating such functions and prioritising tasks and

objectives both within and among them.[24] Thus, a key priority should be to start a process of institution-building in the constitutive domains, and to take a basic approach to output domains.

As can be seen in Graph 2, the next layer consists of those key public goods or outputs that a state should provide: justice (beyond the rule of law), management of the economy, and public services such as health and education. This 'realm of the state' is surrounded by the social realm. It is important to take into account the relationships between the social realm/society and the three layers of the state; they are essential in determining the quality of state institutions and governance structures. Finally, the outermost layer consists of contextual factors, such as state and political regime legacies (including colonialism), resource endowments (and associated risks), climatic and geographic factors, as well as 'geopolitics'.

On the other hand, it is essential to keep in mind that all domains are closely interlinked and that their relationship is dynamic and crosscutting (Diamond in Fukuyama 2006). Some processes across the various domains are likely to be positively reinforcing (e.g. progress with security and successful economic management), and some may be crucially dependent on the (pre-) existence of others if they are to prove meaningful or effective. Some areas within particular domains may constitute core functions and may themselves yield further outcomes. For example, as discussed below, security as a set of institutions is a core function of state-building, and it is also an output as a public good enjoyed by those who feel more secure. Access to justice is a key 'desirable' function or output of the state, but it is also logical to assume that some justice issues, especially in terms of the rule of law, are important within the political settlement and core function issues. Thus, one has to think about rule of law issues (to continue with the example) at every level of state-building, but the type of issue will differ.[25]

In addition, as is discussed at greater length in Section 4.3 below, external actors should not assume that progress made in one domain will automatically have positive ramifications for other domains. This is particularly during ongoing change processes, before the intended outcomes are (fully) realised (e.g. economic reforms which have not yet translated into growth, or which have led to growth benefiting only a few areas/groups; ongoing democratisation that has not yet resulted in effective and consolidated democratic governance). As a consequence, paying close attention to sequencing and contextual issues is crucially important (see Section 3.5).

Matrix 2 below provides a more detailed summary of the kinds of tasks/functions contained within the various domains of state-building. The matrix is intended as a guide. As highlighted earlier, no single listing of state-building components should be regarded as exhaustive (see Dobbins et al. 2007; UNDP/USAID 2007). In conceptual terms, such lists are tools to structure thinking and lines of inquiry. For policies and operational guidance, lists are useful as long as they are treated as devices needed to cope with complex realities, rather than as absolutes.

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[24] Clearly, there is a dynamic relationship between 'constitutive' functions/capacities of the state and highly desirable state functions or outputs such as access to justice. This point will be further touched upon below.

[25] For example, as will be discussed in greater detail in the remainder of this section, a durable political settlement is likely to entail some form of legal instrument, either a constitution or treaty that binds the parties. To be credible (and for the settlement to be durable), there has to be some form of institutional support to whatever instrument is involved. The 'survival' level of functionality is premised on being able to maintain order and also fund and implement basic policy (and the latter would have to entail some form of system for dealing with those who refuse to accept the state's writ in these areas). The 'highly desirable' functions of the state would include a much more developed approach to rule of law that includes access to redress.

**Matrix 2: List of key domains**

| Constitutive domains | |
|---|---|
| **Political settlement and regime** | Constitution; elections; centre-periphery relations; state-society relations. Essential in creating a sense of a shared public realm. |
| **Security** | DDR & SSR; military; police/crime. Re-establishing a legitimate monopoly over the means of violence. |
| **Rule of law** | Establishing a legal/formal framework that regulates state-society interactions – political actors abide by publicly known laws and can be held to account. Closely linked to security (above), especially in terms of police/crime. |
| **Administrative governance** | Creation of a functioning and meritocratic civil service; public financial management; aid management. |
| **Output domains** | |
| **Service delivery** | Health, education, utilities, others. |
| **Justice system and processes** | Beyond the rule of law, this includes administration of justice; transitional justice; interaction with non-state justice and social norms. |
| **Economic governance** | Macro-management; institutional underpinning of markets; employment; natural resource management; infrastructure/regulation. |

*Source*: UNDP/USAID (2007), adapted by authors.

Attention among external actors to these domains has been uneven. For example, security appears to have received the greatest attention, whereas political settlements – which, as shown in Graph 2, are at least equally (if not more) crucial to successful state-building – have come more prominently into focus rather recently. A different challenge is that different actors will lead on these various components of state-building; they are often not necessarily well coordinated (Chesterman et al. 2005; Fukuyama 2006). As Ghani et al. (2005) powerfully pointed out, an encompassing and holistic concern for overall state-building is often lacking and has no institutional 'seat'. Short time horizons for international staff (most of whom may be in country at most for a two-year period) and the search for quick results, as well as the uncertainties which face domestic actors, all compound the challenge of pursuing an encompassing approach.

Owing to considerable time and space constraints, this paper does not aim to discuss all of the domains listed in Matrix 2 (see also UNDP/USAID 2007; Boyce and O'Donnell 2007). Instead, in the following, we focus on specific elements of the constitutive domains outlined above. Because of the lessons and implications for future state-building efforts that have emerged from this area, we also look at service delivery as an essential output to build state legitimacy.[26] For some additional detail on issues of interest related to these different domains, please refer to Annex F).

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[26] For an analysis of economic development and its relationship to conflict and state-building see Boyce 2004, Collier et al. 2003, and UNDP/USAID (2007). In the specific area of natural resource management, see Ballentine 2006, and DiJohn 2007b. On the judicial system (where areas of intervention include truth and reconciliation, rebuilding the judiciary, and links to security sector (police)/rule of law) see Andersen et al. 2007, Rakner et al. 2007, and UNDP/USAID 2007, among others.

In addition, we cannot do full justice to the domains that we address in this summarising report, but rather seek to bring out the set of challenges and issues that cut across various domains. This section of the paper ends with a discussion on sequencing issues with respect to these domains.

*Constitutive domains: political settlement, security, rule of law and public administration*

**The political settlement domain**

*Political settlement in broad terms:* As depicted in Graph 2, the political settlement sits at the heart of the state-building process. A political settlement is the expression of a negotiated agreement (at least in principle) binding together state and society and providing the necessary legitimacy for those who govern over those who are ruled. It is thus essential in helping to create and sustain the sense of a shared 'nationwide public' discussed in Section 2.3, and in establishing an effective and responsive state more broadly.

To be considered legitimate, a political settlement must be acceptable to the majority of actors who need to be brought on board a state-building mission, especially in post-conflict settings and/or deeply divided societies (Hesselbein et al. 2006). The most fundamental condition for achieving a political settlement is that all relevant sides need to feel that they have more to gain by pursuing a common goal (state and nation-building) than by imposing their own, unilateral vision through (renewed) violence (Zartman 1989). Since the 1990s in particular, has been general agreement (at least in principle) that political settlements need to be broadly inclusive and representative, and to incorporate those who have traditionally not had a voice (e.g. women). Key elements of a political settlement include institutions and mechanisms such as constitution-making processes, elections and, possibly, transitional justice mechanisms.

It has come to be widely accepted in the literature that a political settlement is more likely to 'stick' if one side has won an outright victory. This would imply that both the winning and the thoroughly defeated losing party (or parties) have more to gain by reaching a settlement, whereas those who perceive that they only lost narrowly may want to continue to fight (Hesselbein et al. 2006; Licklider 1995; Flores and Nooruddin 2007). On the other hand, one of the challenges in many post-conflict situations is that there are no clear winners and losers (possibly because of an external intervention into a conflict), so difficult compromises need to be made. As such, the settlement is more likely to be challenged.

It is also important to keep in mind that political settlements are not 'one-off' events, but rather processes that are constantly being (re)negotiated over time. As shown in comparatively more 'normal' settings, where the international community is involved (e.g. Bolivia, Kenya and Uganda), state and society continue to negotiate the nature of their relationship over time and readjust their respective expectations as different needs and demands continue to emerge. On the other hand, in the measure that the political settlement is widely accepted, it is likely to fluctuate less over time and to provide a greater measure of predictability and stability.

*Constitution-making:* In state-building efforts, constitution-making processes are intended to play a central role in establishing legitimate government, especially in deeply divided societies (among other things, they contain a bill of fundamental rights). They are seen as essential tools in the promotion of dialogue, negotiation and consensus-building. They are not only at the heart of

the political settlement domain, but also very closely linked to the rule of law (another key core domain) and the broader administration of justice[27] (see Annex F for more detail on this issue).

*Elections:* Subsequent steps in the political settlement process typically involve elections. Electoral processes can be crucial in legitimating the emergence of a new state or regime, especially in post-conflict situations (Sisk 2006). Among other things, they can serve as a mechanism to bring warring factions into the system and compel them to relinquish violence and pursue goals through peaceful means. It is, therefore, not surprising that international actors have a strong preference for a political settlement that involves a transition to democracy. On the other hand, donors tend to exert considerable pressure to hold elections as quickly as possible. The dominant rationale for organising elections is to provide an (early) exit strategy for the international community, not to lay the foundations for the long-term state-building needs of a given country (ibid). However, donors need to keep more firmly in mind that elections are only one, albeit an important, step in the state-building project.

It is also essential to understand that choices about the electoral system and electoral rules have important consequences. For example, the timing and sequencing of elections at the national and sub-national levels have important ramifications in terms of strengthening/weakening the political settlement reached and creating rigid or more fluid identities and affiliations based on ethnicity, religion, language and other characteristics with the potential to be divisive (Linz and Stepan 1992). The size and composition of political parties will also be deeply affected by the rules of the electoral game: do parties need to have crosscutting appeal in order to win elections, for example, or do the rules encourage ethnic-based competition? A major risk is that elections mobilise people along the divisions that led to conflict in the first place (e.g. ethnicity/region) and that 'strongmen' who were involved in the conflict are elected as MPs or presidents.

*Centre-periphery relations:* Centre-periphery relations concern issues related to both the political settlement and the administrative structure of the state. We treat the issue here (rather than under the administrative domain) in order to emphasise the inherently political dimension of these relations.[28]

Centre-periphery relations appear to have been somewhat neglected in external state-building interventions (UNDP/USAID 2007; Dobbins et al. 2007), despite their clear relevance. In state-building situations there are often various tensions between the centre and the periphery. A typical trait of an early state-building phase is a relatively weak centre and various regional power holders. These power holders may either vie for control of the centre or seek to get the 'best deal' out of the fact that the centre is weak (e.g. Afghanistan and Iraq).

In the good governance literature, there is a strong current advocating decentralisation as a mechanism to improve governance, often with a view to fostering 'short routes' to accountability (World Bank 2004). However, in a state-building situation, strengthening the centre first may be a more important consideration in order to allow an overall system to emerge. Furthermore, only

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[27] Among other things, the constitution is intended to determine what the formal rules of the game are and what mechanisms are in place to guard and interpret the constitution.

[28] Centre-periphery relations have received relatively little in-depth consideration in the literature on state-building, beyond some relatively general tenets (the need for the centre to establish control over the hinterland in Herbst 2000). There is, however, a rather extensive literature on decentralisation in developing countries in general. See, for example, Booth et al. 2007; Crook and Jerve 1991; Manor and Crook 1998; and Rocha Menocal 2004.

where the centre has a degree of control can it engage in horizontal redistribution among regions that may have very different levels of resources. At the same time, excessive centralisation should be avoided (Lister and Wilder in Brinkerhoff 2007). In particular, initially focusing on building a relatively centralised state structure should not be confused with neglecting to develop local capacity. Building up local capacity and strengthening sub-national state structures are fundamental requirements in new or re-emerging states (and often also remain challenges in states that are considered more 'effective').

**The security and rule of law domains**
As closely linked sets of institutional arrangements, security and the rule of law are both fundamental domains in state-building. Other efforts are likely to prove unsuccessful if security cannot be provided and the rule of law cannot be guaranteed. From a state-building perspective, the concern with security is about establishing a legitimate 'monopoly of violence' within a given territory as a crucial marker of successful stateness. The rule of law, for its part, is intended to establish the legal/framework framework within which state and societal actors interact, and to provide regularity and predictability to those interactions.

On the other hand, both security and the rule of law should be considered results as much as causes of successful state-building. For instance, a viable political settlement is crucially important for attaining security and for providing legitimacy and broad acceptance (among both elites and society at large) of the formal rules of the game. For their part, special risk factors – such as drug production, unstable or destabilising neighbourhoods, or competition over rents from natural resources – may well undermine security and the rule of law by creating parallel (and often violent) structures that compete with the state for power and authority.

In addition, there are several distinct layers of security. The first is concerned with the basic restoration of peace. The second layer is concerned with rebuilding and reforming the security apparatus – both the military and the police (see DFID 2002 and 2000; O'Neill 2005). Closely tied to the rule of law, it also requires a fair legal framework (e.g. on the use of force). Security reforms need to be viewed integrally. Their impact is likely to remain limited if they are undertaken without reform to the justice sector more broadly.

These security/rule of law aspects are essential from a state-building perspective in order to establish a sustainable and legitimate monopoly of violence. However, these have proven very challenging in most of the recent state-building cases (examples include Iraq, Afghanistan and East Timor, where conflict erupted again in spring 2006 over security sector reform and the respective roles of the military and the police). In this respect, it is important to keep in mind that not all aspects of security and security sector reform can be undertaken or achieved early on, so various stages and challenges should be taken into consideration for state-building support. In addition, it is important for donors to promote and support a holistic and well coordinated approach to both security and justice sector reform. For example, in East Timor the pro-independence soldiers of the FALINTIL were apparently initially excluded from emergency food aid, owing to donor rules not to assist the military (Pires and Francino in Boyce and O'Donnell 2007), triggering a near-revolt.

**The administrative domain**
Administrative structures are at the core of the 'infrastructural power' which Mann emphasised (in Hall 1994) as an essential capacity of modern states (see Section 2.1). The two key

components of an administrative structure that this paper analyses are i) the civil service and ii) public financial management and their functioning across the levels of government – from central to local. A further important element of the administrative structure in an externally assisted state-building process is the issue of taxation, which is addressed in Annex F.

*Civil service:* In the general literature on states, there is widespread agreement that a (reasonably) well functioning civil service is a backbone of successful state-building (see Chesterman et al. 2005; Kohli 2004; among others). In recent years, the international donor community has placed considerable emphasis on the need to build or restore the administrative (and fiscal) structures of the state in post-conflict and otherwise fragile settings.[29] The World Bank in particular has focused on restructuring civil services and public administrations (Lister and Wilder in Brinkerhoff 2007). And yet, as Harry Blair (in Brinkerhoff 2007) has pointed out, there are many incentives embedded in current donor (state-building) interventions that work against the implementation of a coherent and consistent strategy of civil service reconstruction.[30]

A further challenge, which is also elaborated in conjunction with the knowledge gap in Section 4.2 below, is that the general 'state of the art' of civil service reform remains underdeveloped, especially in post-conflict and fragile states, despite growing donor attention in recent years. There is, therefore, comparatively less guidance than in some other areas for donors engaged in state-building to draw from (see Shepherd 2004; Polidano 2001).[31]

*Public financial management:* Public financial management has received considerable attention in general development research and policy in recent years (see Shah 2007; ODI/CAPE work). Establishing PFM systems in post-conflict situations is a major challenge, as systems can be extremely derelict (e.g. no banks are present at local level through which money could be transferred). A further challenge is related to the fact that much of the 'aid surge' bypasses government (Ghani et al. in Boyce and O'Donnell 2007). Furthermore, post-conflict reconstruction is often associated with considerable spending on infrastructure and hence with large-scale procurement (some of which will be handled directly by donors and some of which by government), involving fiduciary as well as management risks. There seems to be a general agreement that getting a reliable and 'monitorable' payments system into place is a crucial short to medium-term priority (Boyce and O'Donnell 2007), one which should generally also be feasible. Putting such a system in place has several beneficial implications: it is essential for restarting a civil service and public service provision on a sound (even if meagre) footing, and a system that is monitorable then also allows donors to gain 'fiduciary confidence' – possibly by including them in the chain of approving and releasing funds (as was done in Liberia with the GEMAP – Governance and Economic Management Assistance Programme).

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[29] Undertaking civil service reform is a very difficult process, as many different interests and dynamics come into play. These include resistance from patronage networks and their political patrons; the perceived need to employ people into the civil service in the face of frequently high levels of unemployment; having to face and trying to change patterns of corruption and rent-seeking; shortages of qualified staff, etc. See also Shepherd (2004).

[30] In accordance with the World Bank (1999), the civil service can be defined as 'those personnel (outside public enterprises) whose salaries are supported by the central government's wage bill', including line ministry staff in health, education or the police. The boundaries are somewhat fuzzy when frontline staff are on the wage bill of local or regional rather than central government.

[31] This impression was confirmed also by Steve Webb, TTL for the ongoing World Bank evaluation of public sector reforms on 23 May 2007. Blair (in Brinkerhoff 2007) says: 'Surprisingly, though, while the international donor community has in recent years devoted much attention to the general problem of post-conflict reconstruction, it has given relatively little consideration to rebuilding and reforming civil services'.

Rebuilding a civil service and a PFM system that extends to the periphery are closely linked. As multiple case studies indicate, getting pay out to civil servants is essential to establishing government presence and to ensuring that there is at least a chance that this presence will possess integrity/decency, which is in turn essential for developing state legitimacy (see, for example, both Starr and Diamond in Fukuyama 2006). A related question is whether aid can be used to (co-)finance salaries and the day-to-day operation of the national and local government for some time, and how this should be balanced against the needs of other types of financial needs.[32]

Corruption and fiduciary concerns are important aspects of re-establishing PFM systems in new states. TIRI (2007) has emphasised that corruption issues should be addressed early on in reconstruction and state-building efforts, as otherwise corrupt practices run the risk of becoming ever more pervasive and entrenched in the measure that they are (more or less) condoned from the start.[33] An interesting example for addressing corruption in public financial management is offered by Liberia, where 18 months into the state-building process a decision was taken to include external technocrats in the management of state revenues and expenditures as 'gate-keepers' alongside Liberian managers (with the system taking another six months to be established).[34] GEMAP appears to have been relatively successful thus far – both in terms of helping to generate more domestic revenue and of assuring transparency and accountability in spending.[35] While it is still too early to ascertain whether this model will be sustainable in the long term, early results suggest that it is an initiative worth analysing in greater detail to extrapolate lessons that may be relevant elsewhere.

## *Output domains: an example drawn from service delivery[36]*

Output domains are very important – they are the fundamental rationale for creating and strengthening states and a crucial base for state legitimacy. As discussed at the beginning of Section 3.4 (state functions), the range of potential or desirable public sector outputs is wide: from health and education to economic management and agricultural extension services. However, only states where the 'constitutive domains' discussed above are more or less solidly established are able to ensure a sustainable supply of such outputs. We have therefore devoted considerable space to discussing these in the preceding section. In this section, we look at service delivery as a key 'output domain', with the aim of raising some key issues related to the challenges of state-building that flow from the overall discussion in this paper.

Tensions between donor agendas and 'needs' of the state-building process exist with respect to delivery of public services such as health and education. As we argued in Section 2.2, the provision of social services such as education, health, and basic infrastructure is one of the mechanisms that states have traditionally relied on to build their legitimacy in the eyes of the population. There are two important aspects to highlight with regard to the challenges of service delivery in the wider state-building situation. One aspect is the importance of service delivery

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[32] A very rough calculation suggests the following: a total public sector staff of 200,000 with an average salary of US$150 per month would cost US$30m per month or US$360m per year to sustain. The aid provided to countries in the process of state-building varies greatly. The maximum sums are those for Iraq, with US$4.5bn per month from the US alone (large shares of these funds go to the US military, contractors, etc.)

[33] Also emphasised in a presentation by Martin Tisné (17 July 2007).

[34] See http://www.gemapliberia.org and http://siteresources.worldbank.org/LIBERIAEXTN/Resources/GEMAP.pdf.

[35] The relative success of GEMAP was discussed at length in the Engaging with Fragile States conference.

[36] For a brief summary of the justice system and economic management as output domains, please see Annex F.

with regard to developing state legitimacy and a sense of shared nationhood. The second is the fact that donors and INGOs run the risk of 'squeezing out' the state when providing services directly.

Service delivery is, or at least ought to be, a significant internal driver of state-building (as well as of nation-building). Analysts have noted the role of some key social services, in particular education and the building of infrastructure, as essential in the drive to create functioning states and endow them with a sense of nation as well. In the current development policy debate, education and other public services are frequently treated exclusively as outcomes of state effectiveness – i.e. goods that a state should be able to provide, but which in themselves have no real impact on the state-building project. However, education in particular has a potentially important role to play in this area.

Gellner (1983), for example, argues that in an age of industrialisation, characterised by increasingly mobile and educated populations, the state plays the primordial role of socialisation, or 'the production and reproduction of men outside the local intimate unit' (see also discussion on nation-building in Annex A). One of the most enduring examples of how education has been used to build both state and nation is provided by the French model (see Weber 1976), while the cases of post-revolutionary Mexico and Singapore (Tan and Tay in Chesterman et al. 2005) are also instructive. After colonial rule, many leaders in SSA also attempted to use education as a tool to expand the reach of the state and create a shared sense of nation, but they were significantly less successful in those efforts (see Annex B). Among other things, the provision of education contributed to increasing social and even ethnic tensions as school graduates, unable to find jobs, turned to supporting competing groups rather than the new state (Turner 1971).

But what happens when the state does not have the capacity to deliver basic services? This situation is starkest in failed and fragile states, but international concern that the MDGs may not be met by 2015 in a variety of countries in the developing world highlights the fact that this is not a problem exclusive to fragile settings.

One considerable challenge that donors face, not only in post-conflict but also in other more 'normal' developing contexts, is to get things done quickly and in the short term. This speaks in favour of putting service delivery in the hands of international and local NGOs, so as to be able to produce tangible results early on that the population can associate with the restoration of peace. This is an extremely valid concern, especially given the decrepitude if not outright absence of state institutions that can fulfil basic functions. And yet this has to be managed very carefully, because of potentially negative consequences on other important donor priorities that may be more long term – namely state-building.

In many ways, 'there is a conflict in donor goals between building institutional capacity and providing end-users with the services that the capacity is meant to produce' (Fukuyama 2004). As highlighted by the UNDP/USAID study (2007), INGOs are very good at service delivery. This can reduce the incentive to build national systems and invest in strengthening local capacity over the long term. Moreover, the contracting out of tasks such as service delivery, which should be provided by a functioning public service, frequently reinforced by the insistence of different donors on putting their logos and flags very visibly on all the projects they carry out, detracts considerable legitimacy from the state. The state comes to be perceived by the population as not being able to provide basic services, which then have to be provided by the international

community.[37] This happened in Afghanistan, where unfulfilled service delivery ambitions led to considerable unrest (Brinkerhoff 2007)

Thus, focusing on short-term goals (relying on alternatives such as (I)NGOs, or privatisation/outsourcing, etc.) at the expense of rebuilding domestic capacity for service delivery has costs in state capacity, legitimacy and quality in the long term. Working with NGOs can 'cannibalise' good staff from the civil service and delay important state-building tasks; decentralisation often means shifting problems (such as low accountability) to lower levels of government rather than addressing them (Blair in Brinkerhoff 2007).

## 3.5    Sequencing

As Stewart Patrick (2007) has put it, in fragile and post-conflict states 'everything is a priority'. Nonetheless, there is an urgent need for donors to set and agree on a sequencing of their activities based on the priorities and objectives identified by internal actors, as otherwise externally promoted agendas can easily overwhelm weak or embryonic state structures.[38] In a nutshell, as we have already argued, in weak and newly emerging states, key priorities are to start a process of institution-building in the constitutive domains, and to take a basic approach to output domains.

Crucially, sequencing *within* domains is as important or more so than sequencing *between* domains. To give an example, the political settlement is fundamental but, as has been stressed, it is a process; as such, it may take years before a relatively stable state is reached. Within justice, as highlighted earlier in this section, there is a sequencing between a core state-building role based on the rule of law and an 'output' role based on expanding justice services to all. A further example for sequencing with respect to rebuilding the civil service and restarting public service delivery is given in Box 1 below). As for PFM, getting a simple flow of funds started, which covers the entire territory, is an early priority; computerisation and more advanced systems may well be left for later. Furthermore, in supporting the various domains, quality, integrity and legitimacy are often as important as capacity as such. In turn, the combined principles of supporting capacity and integrity/legitimacy should guide efforts more than the pursuit of specific policy or structural reforms.

An important consideration for donors is to avoid reinforcing capacity imbalances within the state. Different domains and specific functions may differ owing to legacy factors, etc. Donors may work with government structures providing social services more intensely than with those in agriculture or justice. This can reinforce existing imbalances or even lead to new ones.

**Box 1: Potential implications for sequencing (civil service and service delivery)**

Some suggestions that emerge from the literature and the analysis presented in Section 3.4 with regard to the civil service and to service delivery include the following:

**Immediate actions:**
1)    In many state-building situations – in particular those that involve a transitional authority – donors/international actors have a window of opportunity to put things on the right (or at least a better) track. To maximise the

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[37] This issue was also highlighted by donors (especially the World Bank) as well as government representatives from Liberia and Sudan at the conference on Engaging with Fragile States in Addis Ababa in July 2007.

[38] See conclusion from above conference: http://www.worldbank.org/ieg/licus/ADDIS_pr.pdf.

impact of this window, donors should try to hire as competent a senior civil service cadre as possible – ideally with a mandate to override simultaneous hiring efforts by donors, INGOs, etc. (as noted by Fukuyama 2004, this crucial window of opportunity seems to have been missed in Iraq, where the US approach to civil service decimated internal capacity in the early stages of reconstruction). Diaspora communities should also be tapped into, while avoiding excessive reliance on individuals more interested in pursuing their own goals than in promoting the general welfare of their country upon their return (as happened once again in Iraq with the very charismatic Chalabi).

2) Donors should try to get the payroll flowing to civil servants at all levels quickly after the start of state-building to make sure that remaining and returning civil servants are being paid (UNDP/USAID 2007). A civil service that gets paid has the potential to develop into a decent professional corps.

3) Basic checks and communications should be in place to signal that corruption and abuse are not tolerated.

**Year 1-3:**

4) Donors should support the (re)building of civil service training institutions early on in the reconstruction process. This can help to build a professional cadre with internal norms of probity and to ease the skills shortage.[39]

5) In terms of service delivery, donors should endeavour to provide basic services and rely on INGOs and other providers when state capacity is weak. However, they should do so in more subtle ways, and at every turn they should seek to highlight and build up the role of the state as main coordinator of services rather than attempt to get credit for the services and improvements made.[40] External actors also need to prioritise capacity and institution-building early on in their service provision projects.

6) If necessary, establish GEMAP-type arrangement of oversight over financial management.

**More fundamental issues to be phased in over time:**

7) Donors should focus attention on how accountability of the civil service can be reinforced over time, in terms of managerial accountability as well as of direct accountability to citizens (Blair in Brinkerhoff 2007).

8) Over time, the issue of pay must be addressed. For example, in Cambodia donors spent two to three times more on technical assistance than the government spent on civil service wages (Smoke and Taliercio in Boyce and O'Donnell 2007). There are probably good reasons not to spend aid on wage supplements but there are also good reasons to do so, including the fact that donors themselves distort incentives through their (fragmented) presence (Knack and Rahman 2004).

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[39] At the same time, people with skills will be 'freed up' once INGOs leave; it may be worthwhile to have a plan ready to give such people an option to join the civil service.

[40] This point was highlighted in particular by Sarah Cliffe, Manager of the World Bank's Fragile States Operations Policy and Country Services, at the conference on Engaging with Fragile States in Addis Ababa, July 2007.

# 4. Overarching Challenges to Supporting Successful State-Building

As the discussion about domains indicates, there are many challenges to making state-building work in practice. In this section, we briefly discuss three overarching challenges which are important conceptually as well as in terms of designing external support. These are: i) political economy issues that undermine governance and state-building efforts more broadly; ii) a lack of systematic knowledge about 'what works'; and iii) issues about the viability of the state-building and wider development model that the international community is pursuing, especially in the context of fragile/re-emerging states.

## 4.1    Addressing political economy challenges

The general assumption of external support to state-building efforts is that functioning states can be supported and will ultimately emerge (Fukuyama 2004). As has been seen in this paper, this vision is a relatively long way off the reality of how states function in the developing world, particularly among those considered fragile and post-conflict. International as well as domestic actors need to consider the challenges posed by a poorly governed state, marked by high levels of corruption, dense patronage networks and weak checks and balances. They also need to think about when and how to address these challenges. Seeking to promote 'good enough' governance (Grindle 2007) may provide a more realistic vision for the engagement of international actors, who then need to ask themselves what kinds of governance improvements are most essential to allow some progress in development and in state-building in particular.

As highlighted in the discussion on various domains in Section 3, containing corruption and rent-seeking constitute major challenges in state-building processes. The issues of fragmentation and contestation of power as outlined in the discussion of political settlements can exacerbate rent-seeking tendencies. Emergency aid pouring into the country and natural resources (and/or drugs) also open opportunities for corruption (see Hanlon 2004 for the case of Mozambique and TIRI 2007; Tisné 2007 more generally for how rapid reconstruction can become a feast for actors seeking to exploit the situation). Donors have definitely highlighted the fight against corruption as a leading priority in state-building efforts, as recently highlighted in UNDP/USAID (2007). However, the impact of such efforts remains uneven. Iraq has been an example of the squandering of large amounts of reconstruction assistance.[41] In Liberia, on the other hand, the GEMAP, brought in to contain high levels of corruption, seems to have been able to produce relatively better results thus far.

The configuration of patronage networks will also affect state-building efforts in important ways. Patronage networks are an important dimension of the social fabric in a wide variety of countries. How to include and balance these networks constitutes a central aspect of managing political stability in a state-building situation. However, to the degree possible, it seems crucial to constrain the power of informal networks, in order to ensure that the cohesion of the state is not lost as a result of politicking and power struggles among different strongmen and/or warlords, and to (attempt to) preserve the key principles of building a modern state. On the one hand, it is

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[41] See the reports by the Special Inspector General for Iraq Reconstruction at http://www.sigir.mil. The SIGIR – appointed in 2004 by the US Congress and reporting to the US State and Defence Departments – is seeking to draw lessons from its work and to publicise these.

clearly difficult for external actors to manage this in any active sense; on the other, it can be important that they develop a heightened awareness of such forces, as their behaviour can inadvertently contribute to the strengthening of such networks – as well as increasing corruption and power fragmentation (through the allocation of aid; the way in which electoral incentives are structured; problematic privatisations; etc.)

## 4.2    Knowledge gaps: the need to explore and digest 'what works'

As highlighted in the discussion on state-building domains, there is a lack of a clearly defined 'state of the art' with regard to a number of issues in public sector reforms as well as other change and capacity-building processes essential for successful state-building. This presents a considerable problem for the international donor community when engaging in state-building. A 'poverty of knowledge'[42] seems to pervade such efforts: there is remarkably little sharing of (state-building) experiences across countries and among donors, which means that the wheel is constantly being reinvented in different individual settings and that comparative lessons are not being learned. Among other things, there seems to be an acute need to develop real lessons from experience and to learn to derive a 'good fit' in policy by combining experience with a good analysis of a particular case at hand.

This identified poverty of knowledge may sound surprising, given the considerable attention that various kinds of public sector reforms have received from donors in recent years. However, rigorous thematic evaluations of such efforts across ranges of interventions have been rare; even the basic cataloguing of what public sector change processes have happened where and with what degree of success is often missing.[43] This is also particularly the case with regard to donor support for democratisation – which, as we have seen in this paper, constitutes a crucial element of donor support to state-building processes (see Rakner et al. 2007). Certain issues with regard to the security domain (demobilisation, disarmament and reintegration) have been explored, but there is still some way to go towards deriving consistent lessons. Moreover, existing guidance is often normatively derived, and/or draws from reform experiences in OECD countries.[44]

Furthermore, even where something akin to a 'state of the art' body of knowledge may exist, this may not always be very well known within the practitioner community. As a result, (research) insights can fail to inform practice. Reviews of governance work among EU delegations, for example, have shown large gaps between headquarter policies and actual programmes on the ground. The 2006 Paris Declaration Survey has demonstrated how far donor practices still are from approximating a situation of actual harmonisation and alignment in most developing countries (OECD DAC 2007b). Vehicles for translating lessons into short (but still sufficiently differentiating) and accessible summaries (such as DFID's *How To Notes*) can be important for bridging such gaps – but the review and possibly adjusting of incentives within donor agencies is also important.

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[42] This particular phrasing was suggested by several keynote speakers and commentators at the high-level conference on Engaging with Fragile States in Addis Ababa in July 2007.

[43] The World Bank is currently reviewing its experience with reforms in several key areas: judicial sector reform, public sector reforms including anti-corruption efforts, and decentralisation. See: http://www.worldbank.org/oed/ongoing_evaluations.html 'approach papers'.

[44] See, for example, the series on public financial management by Shah 2007, which approaches the issues covered largely from a 'textbook' perspective, and provides few insights into actual PFM reform experiences of developing countries.

On the other hand, part of the problem identified with knowledge gaps may stem not from a poverty of knowledge as such but rather from a lack of assimilating lessons learned into donor policies and practice. Some key lessons have emerged over and over again (see Brinkerhoff 2007) but have yet to be reflected in donor activities. For example, the problems embedded in donors' short-term horizons and the need to develop a more long-term approach to development concerns in general and state-building efforts in particular is not a particularly new insight. Countless studies and reviews, including Paul Collier's latest book (2007) and the OECD DAC 2007 Principles for Good International Engagement in Fragile States and Situations, highlight the fact that donors need to stay engaged in such settings 'long enough to give success a chance', which will often imply a commitment of 10 (or more) years. And yet it remains unclear whether the international community has the stomach to endure such sustained commitment.

Widespread awareness that institutional and cultural changes are slow to come about and that the engine of reform must be driven from within has also been highlighted to remind donors of the need to be patient and realistic about what can be accomplished from the outside. However, it is not always obvious that such lessons have been fully internalised by donors, who continue to push for quick results in the short term, often at the expense of nurturing more profound transformations over the long haul. Clearly, there are important trade-offs that need to be taken into account, and donors need to balance those carefully. For example, especially in post-conflict situations, donors are right to emphasise the need to provide basic services to the population as soon as possible, so as to be able to produce tangible results that can be associated with peace and the restoration of order. However, as highlighted in Section 3.4, relying on INGOs and privatised companies to provide such services undermines considerably the legitimacy of the state and is not conducive to state-building in the long term. It seems, therefore, that bridging the knowledge gap is only one part of the problem. The other is that donors need to become much better at promoting innovation from within and at changing existing internal incentives that are acting as considerable barriers to real learning.

It is also interesting to note here that defining criteria for the success of state-building operations remains problematic for the international community. In particular, it would be important to distinguish between the 'medium scenario', under which peace is restored but the state that is (re)established remains fragile and rather poorly governed, and the 'high-case' scenario, in which a substantively more capable state emerges. (In the 'low-case' scenario, state-building as well as peace-building fail.) In addition, it is essential to keep in mind that there may be considerable variation in the success of state-building efforts within a single country or territory – and we should reiterate that state-building is not a task that needs to be undertaken and reinforced in fragile contexts only, but one that continues to be required in states which may be considered more effective but which have pockets of weakness and inefficiencies.

## 4.3 Viability of the state-building model being pursued

*Elements of the state-building model*

Perhaps the most overarching challenge that the international community confronts in contemporary state-building efforts relates to the viability of the model it is attempting to pursue.

The overall development model adopted over the past two decades, especially in post-conflict and other fragile settings, relies on the simultaneous pursuit of three main objectives:[45]

- Political liberalisation and the explicit promotion of democracy: 'foundational' elections; promotion of basic fundamental rights; an inclusive and participatory constitution-making process; and initiatives to strengthen civil society organisations and the media as watchdogs and potential counterweights to the government.[46]
- Economic liberalisation towards a market-based economy: structural adjustment and the concomitant reduction of the state; promotion of macroeconomic stability; opening-up to trade and foreign investment; and privatisation.
- State capacity-building, which includes creating and strengthening more effective, accountable and responsive institutions (see Section 3 above on the different state-building domains as well as Evans in Lange and Rueschemeyer 2005).

The ideal model and goal – the establishment of a functioning and effective democratic state that is representative and has the capacity to address citizen needs/demands and provide social services – is laudable. Moreover, it is difficult to imagine that, with the global 'triumph' of democracy and capitalism, the international community could legitimately advocate an alternative model. As many analysts and commentators have argued for a long time (see, for instance, Diamond 1995; Boutros-Ghali 1996), market-based, effective and capable democratic systems can contribute to better policymaking processes and more inclusive development strategies. In addition, as the 'Liberal Peace' thesis holds, an international system based on democratic states may offer the best hope to promote peace and address global problems like terrorism and environmental degradation (see Paris in Rocha Menocal and Kilpatrick 2005, as well as the Rt Hon David Miliband MP's speech from 2007).

The challenge lies in how to get there. Until very recently, the international community seems to have relied on over-optimistic assumptions about the inherently beneficial effects of moving toward democratisation and market-oriented reforms while building state capacity and strong government institutions at the same time. But as Annex B makes apparent, the promotion of these three processes simultaneously is not a trajectory that has historically been followed. The enormity of how complex, difficult and time-consuming contemporary state-building endeavours are must therefore be recognised. Above all, it is essential to understand that dynamics in the three arenas may not always be mutually complementary and that that the model may hold significant tensions and set unrealistic expectations that can prove overwhelming, especially in fragile contexts.

*Embedded tensions in the model*

**Between the simultaneous pursuit of state-building and democratisation**
Historical cases of states that have been democratic since the moment they were founded are exceptional.[47] In general, some kind of functioning state is in place before democracy is

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[45] In his seminal study, Roland Paris (2004) focuses mostly on political and economic liberalisation. In our view, though, it is essential to include state-building as a third, separate, endeavour.

[46] For a detailed analysis of some of the main areas of international support for democracy, see Rakner et al. (2007). Democratisation has come to be particularly pursued in re-emerging states, where there is a 'window of opportunity' and no entrenched non-democratic regime in place.

[47] The US and India may offer the most prominent examples but, even then, fully functioning administrative apparatuses were in place before the end of colonial rule and the establishment of independent democratic states.

established. This is as true for early modern European states (see Moore 1966) as it is for Germany and Japan after World War II (Fukuyama 2004) and for countries in the developing world that have experienced transitions to democracy during the so-called 'Third Wave' (Huntington 1991; Linz and Stepan 1996). State-building efforts have historically been top-down (Tilly 1975 and 1990), heavily driven and controlled by national elites. Civil society has at best played a very weak or limited role (Leftwich 1995). Democratisation, when it has happened, has taken place only afterwards.

This historical sequencing is not entirely coincidental, given that democratisation and state-building often push in opposite directions (Fritz and Rocha Menocal 2006). State-building calls for considerable concentration of power, authority, autonomy and competence in state political and bureaucratic institutions. Democratisation, on the other hand, has an inherent tendency to disperse power and slow down decision-making processes through the creation of multiple veto players and checks and balances. In short, while state-building focuses on creating (more) effective and capable states, democratic structures are intended to keep the state under check.

A number of scholars have begun to highlight the perils of promoting political liberalisation and democratisation too quickly in post-conflict and other fragile settings, before institutions are in place that are strong and effective enough to channel new rights and freedoms peacefully. In Rwanda, political liberalisation before institutionalisation led to the strengthening of an 'independent' but also highly irresponsible and polarised media that did much to deepen social divisions and incite the genocidal violence that ensued (Paris 2004). Snyder (2000) argues that, where political competition is not properly institutionalised, it can lead to renewed conflict in the form of ethnic nationalism. In such cases, elections are 'less an exercise of democracy than a census of loyalties commanded by previously warring groups' (Putzel 2007b).

Donors also tend to support decentralisation reforms in the belief that 'bringing government closer to the people' makes public authority more democratic, accountable and responsive. However, as a growing body of literature shows, and the case of Afghanistan pointedly illustrates, in settings where effective and capable institutions are lacking, political, administrative and fiscal decentralisation may serve to strengthen local power brokers or agents of violence rather than to empower local citizens (Putzel 2007b).

**Between the simultaneous pursuit of democratisation and market-oriented reforms**
In the developing world, democratisation and market liberalisation have often been undertaken in parallel. This was especially true of the 1980s and 1990s: with the advent of the Third Wave of democratisation and the collapse of the Berlin Wall, a large number of countries characterised by authoritarian regimes and closed economic systems underwent a transformation towards greater democracy and economic openness. However, the combination of these two processes has not always been mutually reinforcing, and has often resulted in some kind of 'democratic deficit'. In many cases, governments have resorted to rule by executive decree and relied on authoritarian measures to get reforms approved (see Haggard and Kaufmann 1995; Rocha Menocal 2007).

In addition, the clear international steer in favour of market-friendly economic reforms also tends to limit the range of 'acceptable' economic and social policies state leaders may be able to pursue and therefore reduces the space available for democratic decision-making. Kohli (1993) described this as 'two-track' democracies, where citizens can vote but not choose. This can lead

to deep popular resentment and the considerable weakening of (fragile) democratic structures (see Rocha Menocal 2006 on recent cases in Latin America).

**Between the simultaneous pursuit of state-building and market-oriented reforms[48]**
International financial institutions (IFIs), especially the IMF, are committed to promoting macroeconomic stability and open-market economies, including in fragile and post-conflict states. They advocate inflation and deficit reduction; international economic integration; improved tax collection systems and budgetary management; market liberalisation; and privatisation (see IMF 2004b and c; Paris 2004; Putzel 2007b).

Although these policies may ultimately be necessary to tackle serious economic imbalances, the speed and rigidity with which they are pursued can be problematic for state-building. For one thing, in fragile states, there is often a need to resolve debt issues inherited from pervious governments. In addition, there is a far greater need for caution with regard to structural reforms, including but not limited to market opening. External opening (lowering/abolishing import and export tariffs) can be problematic where capacity to extract revenues internally is weak.

Structural reform – on land, company privatisation, but also other rights such as those related to natural resource extraction – should be approached with great care, as they fundamentally affect the access to and distribution of rents. In addition, rapid redistribution of property rights may result in more, not less, state capture if it is done in a context of institutional weakness (Hellman et al. 2000). The outcome of reforms may not necessarily be greater economic efficiency. Many studies have documented the problems associated with the precipitous privatisation of state enterprises before key institutions like property rights enforcement, taxation capacity and regulatory frameworks are properly consolidated (Paris 2004, Putzel 2007a).

In addition, the pursuit of economic liberalisation and austerity measures in fragile states, especially post-conflict contexts, makes the redress of deep-rooted socioeconomic grievances more difficult. This can fuel further political instability (Paris 2004). For example, El Salvador and Guatemala, or even Mozambique, all hang in a precarious economic balance, where deep economic deprivations urgently need to be addressed, but this has not been successful.[49]

Over the past few years, the IMF and the World Bank have explicitly recognised the need for a more integrated approach, one not narrowly focused on economic reforms but also incorporating state-building concerns. The World Bank's LICUS/Fragile States Unit reflects this, as does a growing shift within the IMF towards more flexible approaches to macroeconomic reform (Boyce 2004). In Iraq, fuel subsidies were not eliminated in an abrupt manner but were phased out in stages to avoid social disruption (IMF 2007).

*How to address the tensions embedded in the state-building model*

As suggested by the analysis above, there are no easy or ready-made answers as to how best to proceed. Should institutionalisation be promoted prior to liberalisation, as suggested by Paris (2004)? If so, how? Should political reform precede economic reform, or vice versa? If political

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[48] We are grateful to Jessica Thrift for her research assistance in this section.
[49] For example, in Guatemala, the peace agreement included an explicit commitment to increase tax revenues from 8 to 12 percent of GDP in order to pay for better public services. However, this – rather moderate – goal has not been achieved over a 10-year period. See CMI (2007).

liberalisation needs to be delayed, how can accountability be promoted so as to attempt to begin addressing corruption (even if not solving it) early on (TIRI 2007)?

Postponing democratic and market reforms until strong and perfectly functioning state institutions are fully place is unrealistic. Institution-building is not a linear process and an 'end point' as such may never be reached. Moreover, as discussed in Section 3.4, elections and other participatory features are essential to endow state-building efforts and the emerging (new) state with some sense of legitimacy in the eyes of the population (Sisk 2006).

However, it is imperative that international actors balance the different priorities/needs embedded in each of the three prongs of the state-building model and understand that activities in one area may have unintended – and negative – consequences in others. In the broad range of 'market reforms', there is a need to consider the situation and possible unintended consequences, including consequences for state legitimacy when major reforms fail or are widely perceived to have undesirable consequences. Gradual reforms may be better suited than 'big bang'-type approaches. Generally, building capacity, legitimacy and stability of institutions is likely to be as important, if not more so, than any particular type of reforms intended to rebuild the economy.

With regard to elections, it is essential to consider that these may not result in stable and legitimate governments. Examples include East Timor (2006 crisis), Afghanistan and Iraq. The timing of elections and the process of drafting and consulting on a constitution, among others, require careful attention; these issues should in principle be decided based on country needs rather than on the 'exit' needs of the international community.

As emphasised in Section 3.6, donors and other international actors need to think carefully about their priorities and how to sequence them. In fact, sequencing issues are only now beginning to be addressed in available research and policy documents (see also UNDP/USAID 2007). A greater focus on political settlement and security is important, as is sequencing within what we have called 'domains'. In all cases, donor interventions need to be based on a sound understanding of local processes and respond to specific country needs. While lessons may emerge from different settings (and even this, as suggested in this paper, is not automatic), there are no fixed blueprints. Similar questions besetting state-building efforts everywhere are likely to be answered differently given the particular context.

Above all, the international community needs to be prepared to make a sustained commitment to institution-building over the long term, even though securing such a commitment itself represents a fundamental challenge and raises questions regarding the legitimacy of such intrusive operations (Paris 2004; Collier 2007). In particular, realistic expectations and awareness of the overall timeframe for state-building need be much more fully internalised and clearly reflected in the intervention plans of international actors – developmental and others. A state-building process – even if much condensed compared with historical trajectories, and even if largely successful – is likely to take at least a decade before a degree of stable statehood is achieved (see also Annex B). In principle, international support should be planned for at least this kind of timeframe (and not for the kinds of two-to-four-year interventions that seem currently to be the norm).

# 5. Conclusion

Building capable and accountable states that are grounded in a shared sense of a nationwide public (Ghani et al. 2005) has been rediscovered by the international aid community as a central challenge. Much of the focus of the debate has been on post-conflict states, which pose the greatest risks in terms of instability and have attracted large operations in recent years – but there is an awareness that challenges of state-building continue to afflict countries in more 'normal' developing settings as well. At the same time, the debate about state-building has tended to be 'functionalist' and technocratic as well as linear; that is to say, it has focused on what states should be doing and then has attempted to work backwards and determine how donors can ensure they get there. It has paid relatively limited attention to political economy challenges. Meanwhile, real-world experiences of donor support for state-building have been mixed. They have often fallen far short of their implicit or explicit goals, especially in fragile and post-conflict states, but also in a wider range of more or less weak states throughout the developing world.

## 5.1    Summary of the paper

Within state-building, state functions are of fundamental concern. In the context of state-building situations, the debate moves away from such ideological concerns as whether a 'smaller' or more 'expansive' role of the state is preferable, to centre on the capacity to adequately take on core and other desirable tasks. This paper emphasised the need to distinguish between 'constitutive domains' of the state (political settlement, security/establishing a monopoly of violence and the rule of law, and building a public administration and fiscal system) and 'output domains' (i.e. the range of public services that a state provides).

Ultimately, the rationale for states derives from the hoped-for outputs and services, so these are very important. However, in order to get states to generate a reliable supply of services and other public goods, there have to be solid foundations in the 'constitutive domains'. Thinking predominantly about 'state functions' in terms of outputs can lead to a relative neglect of these constitutive domains. Our key message in this discussion is that the priority should be to start a process of institution-building in the constitutive domains, and to take a basic approach to output domains. Furthermore, sequencing *within* domains rather than *between* domains is crucial. This also merits further exploration.

Two further issues we explored in Section 3 are as follows: the need to distinguish between different types of state-building trajectories and contextual situations; and the roles played by domestic versus international actors in state-building processes. Domestic actors are crucial, but their perspectives on state-building and the incentives and constraints that they face in such situations have thus far received only limited attention. For external actors, one of the key challenges (see Annex D) is that of coordination – especially where a particularly wide range is involved (foreign military, INGOs, development donors, international mediators, etc.) The question is how to maximise their positive and minimise their harmful impacts.

Section 4 considered three overarching challenges to international efforts to promote state-building. A first challenge is how certain political economy factors like corruption, competition for power and neo-patrimonial structures can undermine governance and very often hamper state-building projects, especially in fragile and poor countries. Such risks are a concern across the

constitutive as well as the output domains of the state, and need to be addressed alongside the concern for 'making things work'. A second challenge is that evidence-based knowledge about 'what works' in building and reforming states is surprisingly limited, despite the numerous 'public administration reform' and 'capacity-building' projects that donors have supported over the years. Thus, there is a very uneven base for those engaged in state-building to draw on. Finally, there are concerns about the viability of the state-building model that the international community has promoted, which understands the building of capable and effective states as taking into consideration the promotion of democratic regimes based on liberal market economic systems. The tensions between the three 'change processes' that this model brings together need to be more fully recognised and addressed.

## 5.2    Lessons and recommendations

Several lessons and recommendations emerge from the analysis provided in this paper as summarised above. While the focus has been on state-building efforts in fragile (and, within this category, post-conflict) settings, it is essential to remember, as we have sought to emphasise throughout, that state-building is an ongoing endeavour in other states in the developing world. Such states may be considered comparatively more 'effective' but state capacity, authority and legitimacy nevertheless remain uneven. Many of the lessons set out here therefore apply to a range of country settings deemed to be more 'normal'.

**1) There is a need for greater conceptual clarity with regard to 'state-building', 'fragile states', 'nation-building' and other related terms, especially in policy usage:** Within policy circles, there has been a tendency to conflate certain key concepts. However, state-building, nation-building, governance and democratisation should be understood as processes that, while overlapping in many respects, are nevertheless distinct. Conceptual clarity and debate are important because concepts inform action, often in subtle ways. While it may not always be possible to reach an international consensus on terms, the aim should be to promote a better understanding of conceptual options and distinctions.

**2) While state formation and state-building trajectories have varied considerably over time, lessons from historical experience are relevant and should inform thinking about current and future state-building trajectories:** This paper can only provide a very broad and schematic summary of historical state-building experiences, as spelled out in Annex B. As is being emphasised, current state-building processes constitute a distinct 'wave', in the sense that they take place in territories that have been marked as independent states or have been part of other states at least since the 1970s; they are not cases of 'state formation' *ex novo*. However, an awareness of historical trajectories and challenges matters, especially for providing a sense of the magnitude, scale and duration of the multiple change trajectories that are expected to happen.[50] A fundamental lesson is how complex, political, conflict-driven and time-consuming successful state-building experiments have turned out to be. Historical perspectives may also provide an understanding of what sets of actors and processes have been most important at different times. The fact that there are extremely few historical examples of state-building processes that were not

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[50] Much of the historical state formation and state-building literature to date has focused on the (original) Western European experience; more could be done to stimulate comparative research on state-building experiences in Asia, Africa, Latin America and the Middle East. This could yield further insights to inform today's state-building efforts. Work on state-formation and state-building in SSA has been pioneered especially by Herbst. See Herbst (2000) and Clapham et al. (2006).

only top-down but also bottom-up, and that also succeeded in instituting a liberal, market-based democratic state in short order, should provide a sobering appraisal of what can be accomplished within a compressed period of time.

**3) State-building efforts need to be shaped and led from within if they are to be legitimate and sustainable:** If state-building efforts are to be legitimate and sustainable over time, the international community (including donors) needs to let domestic actors take centre stage in all aspects. International actors have important roles to play in accompanying and facilitating state-building processes, but they should not attempt to import and impose solutions and policy prescriptions from the outside.

Among other things, this calls for a greater understanding of the political economy of state-building, including a greater appreciation of the incentives, challenges and opportunities that various domestic actors face and the political settlement process that these give rise to. Additional research and policy guidance would be desirable, especially around internal dynamics and interactions (for example on how the provision of social services can be organised in such a way as to create more positive spill-over effects for state legitimacy and for establishing a constructive state-society relationship).

**4) Within the international community, it is essential to elaborate a more encompassing, holistic and realistic approach to state-building that focuses on the constitutive domains and the creation of a nationwide public:** Given the long-term, complex and non-linear process of state-building, donors and other external actors need to develop an encompassing and holistic concern for overall state-building over the long term. This implies a considerable need for further thinking, and improved policy and operational work in several directions.

In terms of a hierarchical ordering, the 'constitutive domains' – i.e. the political settlement, security and the rule of law, and public administration sitting at the heart of the state-building effort as depicted in Graph 2 – need to receive comprehensive attention. If these can be made to work, they will lay the foundations for generating a shared sense of the public realm and fostering more constructive and legitimate linkages between state and society. The establishment of these constitutive domains also lies at the heart of enhanced performance in 'output' domains, including economic management, service delivery and access to justice. In turn, success in these output domains will further bolster and legitimate the core dimensions of the state. Crucially, however, as highlighted in Section 4, this virtuous circle cannot be taken for granted.

On the other hand, donors traditionally work more on these outer rings of the state, assuming that the core pre-exists and/or is part of the 'sovereign' realm. Therefore, one of the challenges is for donors to branch out more strongly towards the inner core of the state, while possibly also engaging more with wider social structures (the green rings in Graph 2). A further important challenge is to 'anchor' the overall concern with state-building and to ensure that i) specific sectoral concerns and processes and ii) powerful short-term incentives of external actors (staff turnover, short-term funding, etc.) do not fracture and undermine the overall state-building effort.

A more realistic approach is needed with regard to the likely degree of success over a medium-term time-horizon (five to 10 years), including a more realistic assessment of risks. Governance and political economy challenges in a state-building situation are formidable, and can derail progress in constitutive as well as output domains. External actors must remain alert to political

economy and key corruption risks, managing these where possible, at least 'doing no harm'. A second important consideration is to 'keep it simple' and concentrate on the 'basics'. Numerous reform demands, or even too many poorly coordinated capacity-building efforts, can easily overwhelm domestic capacity. It is a well worn lesson, but one which has yet to be more fully put into practice. Ever new policy initiatives can contribute to operational malpractice in this regard.

Ways of improving external support need to include reducing negative impacts of international interventions. Two relatively simple issues stand out. One is the need to reduce the 'cannibalisation' of the public sector by the international assistance community (including NGOs) in terms of human resources, and to achieve a better balance between resources devoted to technical assistance and those aimed at supporting government structures. The other has to do with the need to introduce taxation at least for all local staff of aid agencies, so as to support rather than hinder the emergence of a local 'tax morale' (and, more broadly, a nationwide public). While simple, these two issues are of course clearly contentious in terms of the adjustments they would require within international aid bureaucracies.[51]

Furthermore, external actors need to be prepared to accept setbacks and to continue to persevere. Sudden changes in support levels can be destabilising in a state-building context. In addition, if they are to take the concept of domestic ownership seriously (as suggested in point 3 above), donors also need to come to terms with the fact that issues and challenges may come to be addressed in ways that they either had not expected or they do not fully approve of.

**5) Building on the above, donors need to be more fully aware of the fundamental dilemmas and trade-offs that need to be made:** State-building is a highly complex undertaking, involving difficult trade-offs. Some of the difficult choices that donors confront include:
- Achieving a balance between strengthening state central structures and institutions and promoting a diffusion of power by, among other things, strengthening checks and balances and pursuing decentralisation. This paper points to the fact that establishing a competent and effective centralised authority may be one of the most fundamental tasks in (successful) state-building; therefore, efforts on this front should take precedence over reforms intended to diffuse power. Again, this needs to be done carefully, with a firm understanding that local government capacity needs to be built as well, for example.
- Achieving a balance between meeting short-term needs without undermining longer-term goals. For example, especially in post-conflict situations, donors are right to emphasise the need to provide basic services as soon as possible. However, as highlighted in Section 3.4, relying predominantly on INGOs and private providers can undermine the legitimacy of the state and is not conducive to state-building in the long term.

**6) Donors need to be much more aware of the tensions that may be embedded in the state-building model they are seeking to promote** (in which state capacity and institution-building are linked to democratisation and marketisation): As argued in Section 4.3, there are embedded

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[51] A good example of this is provided by Mozambique, with clear replicability elsewhere. One of the leading issues on how to improve the quantity and quality of aid to Mozambique has revolved around the issue of eliminating the tax-exempt status of international aid agencies and their staff. The EU Delegation, for example, is much in favour of this, but changes on this front would entail revising some of the provisions of the Cotonou Agreement, which cannot be done without the leadership of key EU multilateral institutions. Some individual EU bilateral donors have quietly started to pay taxes, but this is clearly far from an optimal solution. For a more detailed discussion of this issue, see Rocha Menocal et al. 2007.

tensions between democratisation and state-building, between democratisation and economic liberalisation, and between economic liberalisation and state-building democratisation processes. Donors do not always recognise these but they pose a variety of risks.

The OECD DAC (2007a) vision of state-building seems to be based on the assumption that the process can be very consensual, bottom-up and democratic. History indicates otherwise (see Annex B). In addition, while the pursuit of a democracy agenda is essential to provide legitimacy to a state-building project, the relationship among democratisation, institution-building and economic liberalisation is not always straightforward and linear. It is, therefore, important not to mask tensions that need to be addressed upfront. As discussed in Section 4.3, democratisation is difficult to combine with early phases of state-building. At a minimum, in such situations the international community needs to plan its support over several electoral cycles, rather than just a 'founding' election. Furthermore, more could be done to support a legitimate political settlement and the fostering of a shared sense of the public realm, with the aim of ensuring that the democratic system actually functions.

More broadly, donors need to pay much closer attention to the viability of the three-pronged model and to how it relates to the actual outcomes achieved in recent externally supported state-building efforts. In particular, they should think very carefully about how to prioritise and sequence their different interventions, being mindful of the context and specificity of any given setting, while drawing on existing experiences and insights.

**7) There needs to be greater congruence between the ambitiously interventionist agenda embraced by the international community and the resources it is willing/able to commit to such transformative state-building efforts:** In general, external actors have moved towards a rather ambitious interventionist or 'transformative' state-building agenda on a global scale in failed and weak states (see also Annexes D and E). However, this policy agenda is not matched by organisational or financial resources, or by a concomitant commitment to remain engaged over the long term. Even in Afghanistan and in Iraq, the resources available for state-building are (too) limited to match existing ambitions.

As suggested in the discussion on knowledge gaps in Section 4.2, time horizons and trade-offs between short and long-term goals as well as incentives need to be reconsidered if external support to state-building efforts are to make a meaningful contribution. Again, this may be more easily said than done, given that it requires substantially altering many of the ways in which external actors currently operate, but it is an issue that requires urgent attention.

**8) Knowledge gaps need to be addressed and the sets of incentives and constraints that impede donors from acting on lessons learned must be analysed more fully:** As highlighted in Section 4.2, there is relatively little systematic knowledge and lesson-sharing across different aspects of the state-building agenda among leading international actors. As such, there is a considerable need to fill substantial knowledge gaps concerning 'what works' in building capable, responsive and accountable public sectors. Knowledge generation offers the potential to improve interventions, not only in state-building situations but also in a wider range of fragile, weak and/or dysfunctional developing countries. Furthermore, there needs to be a greater readiness and effort to act on lessons learned and to translate these into donor policies and practices. For a range of reasons, key insights that have emerged over and over again have proven difficult to absorb. It is essential to pay closer attention to why this has been the case.

# Annex A: Related Terms

## Nation-building

There are two rather distinct usages of the term 'nation-building'. One usage refers to the academic literature focusing on nationalism and domestic processes in the social formation of nations. The other is recent policy usage, which tends to equate nation-building with state-building, further using it to refer to armed interventions (in particular by the US) with the aim of transforming governance. This conflation of meanings can be problematic, in that it confuses processes that are very different in nature and character, and makes it more difficult to assess what (if any) role the international community ought to play in nation-building as distinct from state-building.

In the academic literature, a key debate focuses on whether the 'nation' is a constructed (political) concept, or a primordial identity that is strongly based on ethnic, cultural, linguistic or other characteristic markers. According to the former school of thought, nation-building refers to the process of constructing a shared sense of identity and common destiny, usually in order to overcome ethnic, sectarian or communal differences and to counter alternate sources of identity and loyalty. As suggested by scholars such as Gellner (1983, Anderson (1991) and Brubaker (1996), the state has historically played an instrumental role in nation-building, usually in order to create nation states, or nations that coincide with state boundaries, both in (early) developed countries and in today's developing world.

In post-colonial SSA, there was an intense debate about the need for nation-building in the sense of constructing national identities to coincide with colonially created borders (or 'assimilation') (Deutsch 1953; Deutsch and Folz 1963). However, nationalist drives were considerably less successful in this region than elsewhere (Herbst 2000). As discussed by Robert Tice (1974), for example, efforts at nation-building in Côte d'Ivoire in the 1960s and early 1970s involved considerable engineering by the dominant political party as well as several rounds of territorial reorganisation. Despite these state-driven efforts, however, Tice finds that 'common people' continued to have an almost entirely local perspective and very strong local loyalties, while African elites identified with 'French West Africa' more than with specific states.

Coming from a more primordial tradition, which takes the nation as given, Connor (1972) attacked the overly optimistic views of the modernisation school, arguing instead that ethnic identities remained very strong in many post-colonial states and would not be smoothly assimilated into (state-)national identities anytime soon. In his view, there is little evidence of modern communications destroying ethnic consciousness, and much evidence of their augmenting it.

The 'nation-destroying' aspect of post-colonial 'nationalism' is also reflected by Cahen in his study on Mozambique (in Chesterman et al. 2005). As he puts it, 'anti-colonial nationalism was overwhelmingly a political rather than a cultural, ethnic or religious phenomenon […] Mozambique was to be not the nation state of the first nations, a nation of nations, but the nation state *against* the nations'. Easterly et al. (2006), for their part, have argued that 'artificial states', i.e. states with borders that were drawn randomly and in a way that divided ethno-linguistic groups, tend to perform less well than those with more 'natural' boundaries (such as rivers or

mountains). However, the relative weight of this argument remains open to question. Among other things, it is important to remember that today's larger nation states nearly all have nations that are an amalgam of different prior ethnic and linguistic identities (Weber 1976).[52] In addition, as Herbst (2000) has argued, after the end of colonial rule, new African rulers embraced the territorial boundaries they had inherited and did not seek to redraw the map of SSA along the lines of given nations.

Debates on the nation for current usage in policy circles have some key implications. In some policy debates (particularly in the US), a direct line is being drawn from 'successful' nation-building in post-World War II Germany and Japan to nation-building interventions in Afghanistan and Iraq. However, in both Germany and in Japan, nation-building in the sense of developing a national identity coinciding with state borders took place long before the end of World War II. In addition, state-building, including functioning institutions as well as key processes of social and economic development, also took root much earlier (and had in fact been the basis for the emergence of military aggression) (see Fukuyama 2004). In cases such as Afghanistan and Somalia, by contrast, the creation of a national identity as well as social and economic development, underpinned by an effective centralised state apparatus, remains a fundamental challenge. In Iraq, despite rapid modernisation under the Baath regime, the sense of nation is largely missing; ethnic-based violence has re-emerged with a vengeance.

As such, the US policy usage of nation-building lumps together cases that share a very few characteristics of conflict and US intervention as common factors, but differ on all other factors (levels of development, geographic location and neighbourhood, previous experience of stateness, etc.) It can not be expected, therefore, that comparing these previous cases with Iraq or Afghanistan will yield much insight (even) into how to structure more successful interventions.

Even though nation-building may be difficult if pursued without due respect to a variety of linguistic, regional, ethnic and other identities, fostering at least a loose sense of a common (national) public space seems to be an essential component of creating effective states and an effective state-society relationship. This is what Ghani et al. (2005) refer to as nationwide public, which need not be rooted in a unified nation based on cultural and linguistic unity, but may well take the form of a more civic identity (as in the case of the US). Nation-building, or rather, the creation of a country-wide public identity, need not be ethnicity-destroying – it may well be possible to foster more than one common identity so that people may at once feel like they belong to a local community as well as to a larger entity that can be thought of as the nation state.

It seems important to make a clearer distinction between state-building and nation-building in policy debates. This is not out of concern for terminological clarity as such: since the two processes refer to distinct types of efforts, conflation may actually lead to neglect of a pro-active approach to build nations in the sense of promoting the development of a country-wide public.

## Peace-building

'Peace-building' has evolved as a term mainly launched by the UN (Boutros-Ghali 1992 and 1995), as UN interventions have evolved from 'peace-keeping' missions. In 2005, a UN

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[52] But note Connor's argument (1972) that amalgamating nation-building may have become more challenging since the late 19th century.

Peacebuilding Commission was established, thus institutionalising the term.[53] Peace-building is defined as 'those actions undertaken by international or national actors to institutionalise peace, understood as the absence of armed conflict ("negative peace") and a modicum of participatory politics (as a component of "positive peace") that can be sustained in the absence of an international peace operation' (Call and Cousens 2007).

There is some consensus in the literature that peace-building has been somewhat successful in the sense of establishing 'negative' peace (see also Barnett and Zuercher 2007).[54] On the other hand, for a long time 'peacebuilding policies and programs […] tended to neglect state-building' (Call and Cousens 2007). In an attempt to address this gap, over the past few years there has been an expansion in the meaning of the term 'peace-building', so that there is an increasing overlap between the peace-building and the (external assistance to) state-building agendas. Still, it is important to highlight that the two processes remain distinct. For one thing, peace-building may take place in settings where a state already exists in a fundamental sense (e.g. Guatemala, El Salvador), and where state reform, rather than state-building, is an associated task. In addition, at times the imperatives to bring peace may not necessarily facilitate state-building processes, and vice versa. For example, having to bring all warring factions to the table to agree on a peace settlement may entail difficult institutional compromises that may affect the ability of the state to centralise its authority. This is illustrated by the case of Afghanistan, where local warlords have been considerably empowered by their inclusion in peace-building arrangements.

## Governance

In its broadest sense, governance is concerned with the way power is exercised and the sets of rules that govern behaviour in different arenas to pursue collective goals and interests. Systems of governance operate at many different levels – from the international (including multilateral organisations like the WTO and supranational ones like the EU) to the local. Thus, the state represents only one, albeit extremely important, form of the territorial organisation of governance.

At the state level, governance refers to the rules that regulate the public realm – the processes and institutions where state as well as economic and societal actors (both national and international) interact to make decisions. As defined by the World Bank, such rules include: '(i) the process by which those in authority are selected, monitored and replaced, (ii) the capacity of the government to manage […] its resources and implement […] policies, and (iii) the respect of citizens and the state for the institutions that govern economic and social interactions among them'.[55]

As can be appreciated, state-building and governance are very closely related terms that share a concern about similar issues, especially on how to make institutions work more effectively (see also the discussion in the following section on institutions). However, in many ways state-building is an antecedent task. State-building is a more all-encompassing endeavour, more explicitly conscious of the political nature of institution-building, and it also tries to address

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[53] http://www.un.org/peace/peacebuilding/.

[54] There does not appear to have been any comparison yet of the success rate of peace-building vs. state-building; there are still many conceptual issues about the latter that need to be addressed: i.e. whether it is sufficient to have a central authority and relative stability or whether only 'transformed states' are to be counted as success cases.

[55] See http://web.worldbank.org/WBSITE/EXTERNAL/WBI/EXTWBIGOVANTCOR/0,,contentMDK:20672500~menuPK:1740553~pagePK:64168445~piPK:64168309~theSitePK:1740530,00.html.

more fundamental and deep-rooted issues. Put differently, state-building is about constructing the foundations of the very (government) edifice within which governance ought to operate; without prior construction of this edifice, governance interventions are likely to have only limited impact.

## Institutions

Institutions lie at the core of the state-building and governance agendas in international development and, as such, form an essential component of this paper. Much of the policy thinking on institutions has been influenced by the institutional turn in the social sciences beginning in the 1990s – in economics as well as in political science (North 1990; Knight and Sened 1995; March and Olsen 1989). The rediscovery of institutions has informed the good governance agenda in important ways (Gray 2007). However, while there is a consensus that 'institutions matter' (Birdsall 2007), there is much less of a consensus about which institutions matter the most, and what the path of institutional reform should and can be in developing countries (Khan 2006; Fritz and Rocha Menocal 2007). This dilemma is part of the 'knowledge gaps' identified in Section 4.2 of this paper.

Crucially, in a (post-conflict and/or fragile) state-building situation, prior institutions have become seriously eroded. The primary concern in such cases is to re-establish institutions (Fritz 2007). The state-building starting point (state collapse/civil war; independence) is generally marked by a very low level of institutional effectiveness (anomie – lawlessness) (see Section 3.1 of the main paper).

Furthermore, we can observe that the institutional *systems* that emerge in states during (re)building phases are often remarkably messy, haphazard and incomplete, rather than just weak but based on a coherent set of principles. For example, Afghanistan in 2006 had a highly complex tax system with many small nuisance taxes (IMF 2006, Article IV), rather than the kind of simple tax structure one might expect to find in a country where a central tax system was being set up 'from scratch'.

An important distinction that has emerged in the debate is that between formal and informal institutions (O'Donnell 1996; de Soysa and Juetting 2006).[56] In weak and fragile states, informal institutions are often very important. The challenge of state-building is generally about how to establish and strengthen more formal institutions (and to develop a supportive rather than corrosive relationship between formal and informal institutions).

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[56] For all contributions to the 2006 OECD conference on informal institutions, see: http://www.oecd.org/document /7/0,3343,en_2649_34565_37679943_1_1_1_1,00.html.

# Annex B: A Brief History of State-Building in Comparative Perspective

## The classic model of state-building in early modern Europe

The classic account of state formation has been provided by Charles Tilly (1975, 1990), whose analysis focuses on the emergence and evolution of states in early modern Europe. Very schematically, Tilly's thesis is that, in the European context, wars made states. In essence, the exigencies of war were essential in endowing the state with the legitimacy to act. According to Tilly, there were three main processes at work in these early state formation efforts. First, wars unleashed a competition to centralise control. This then led to the construction of centralised administrative structures – or a state – to be able to wage war successfully and in an organised manner. Finally, such state structures were sustained through a bargain with civilian populations: the state could extract taxes and levy armies and, in exchange, it provided security to the population from external aggression.

Outside of Western Europe, state formation has taken different forms. During the 1960s and 1970s, there was a considerable wave of decolonisation in Asia and SSA, leading to the emergence of many new states. With the collapse of the Berlin Wall and the dissolution of the USSR, there was another wave of emerging new states, especially in the former Soviet Union and the former Yugoslavia. At this time, too, the international community undertook several rebuilding efforts in failed states, including Haiti, Somalia, Sierra Leone and Liberia. In the new millennium, there have been numerous attempts at state-building after secession or invasion, as in East Timor, Kosovo, Afghanistan and Iraq.

Significantly, all these state-building trajectories have varied significantly in terms of quality, capacity and scope, especially in the developing world. One key distinctive feature of state-building since the latter half of the 20th century, however, is that, in the early European context, state formation was very much endogenous, whereas state-building processes in developing country contexts have been much more closely accompanied, if not dominated, by external actors. The role of these international actors, quite diverse in their nature and objectives, will be explored in greater detail in Part II of this paper. For now, the point to stress is that, in many settings in the developing world, the factors identified by Tilly as conducive to state-building have not held, and the task of building functional states remains a considerable challenge.

Among other things, it is essential to highlight that, from a historical political economy perspective, state formation and state-building have emerged as long-term, tumultuous, inherently violent and conflict-ridden processes that are also deeply political. There are, in fact, rather few examples of successful state-building in a compressed period of time, and these do not seem to be any less tumultuous or conflict-ridden, while their outcomes have been uneven. The most clear and ambitious examples are revolutions. These state-building experiments entail a combination of revolutionary cadres, mass mobilisation and the decapitation of elites. On the other hand, the success of post-revolutionary states cannot be guaranteed either. Often, the result has been a one-party state or a populist dictatorship. Hence, revolutions may modernise a state's structure, but not necessarily its behaviour: the state rule remains personalised and not rule-based (e.g. China, Cuba, Iran) (Lange and Rueschemeyer 2005).

## Challenges to state-building in sub-Saharan Africa

From the outset, we should keep in mind that, within SSA, there has been variance in specific state-building trajectories. Experiences have ranged from relatively successful ones, as in Botswana; to ones where the state has remained weak but stable, as in Tanzania and Ghana; to ones where states that were previously stable have suddenly become considerably less so, as in Côte d'Ivoire; to ones, like the DRC, where the state has always been extremely fragile if not on the verge of collapse. Despite these differences, however, as discussed below, the overall picture emerging from the different factors analysed is that, for the most part, the nature of SSA states remains precarious, and that state formation/state-building processes remain incomplete.

As has been argued by Jeffrey Herbst (2000) and others, SSA points in particular to the challenges of state formation in times of peace. In some cases (e.g. South Korea, Taiwan), severe crises, such as acute economic difficulties, fear of outside intervention/extinction, and post-war as well as post-revolutionary situations have created a sense of urgency and shifted the balance of power in favour of those seeking a more effective form of government. However, in the absence of all-out war or other severe threats, state formation has historically proven much more difficult and less successful, especially in terms of (the lack of ) incentives toward creating effective states (Leftwich 1995; Herbst 2000; Clapham et al. 2006).

At the end of colonial rule, most African countries did not face serious (external) security threats. The pressure to build an effective state apparatus capable of exerting control beyond the centre and/or to mobilise revenue through efficient administration was therefore much lower (Herbst 2000). Geography helped to exacerbate this situation: low population density and difficult terrain made it too costly for leaders to try to impose their authority outside the capital. Thus, the need to build legitimacy and make compromises with the domestic population (through direct taxation, infrastructure linking different parts of the country, etc.) was almost entirely missing.

In addition, nation-building efforts themselves have largely failed. Despite attempts from those such as Julius Nyerere, the sense of nation (as separate from the sense of state) remains fragile in many countries, where a number of factors, such as artificial boundaries and an incomplete drive toward universal primary education, have conspired to give tribal or more local identities primacy over any national conception of the self (Deutsch and Folz 1963; Deutsch 1953).

Significantly, the formation and sustainability of weak states in SSA, which could not exert physical control over substantial parts of their territory, was supported by the international system. In particular, the concept of sovereignty embedded in the UN and embraced by the Organisation of African Unity (OAU) emphasised the sanctity of borders regardless of what kind of authority or control was exercised within them. As noted by Herbst (2000), African leaders decided 'early and decisively' to keep colonial boundaries as well as the concept of the nation state, and they relied on these internationally recognised institutions as 'the critical foundation upon which [they] […] built their states'. In a very real sense, most post-colonial states in SSA were what Robert Jackson (1990) has characterised as 'quasi states' – states that had juridical but lacked empirical statehood. Thus, the international principle of sovereignty became a normative shield to protect borders. At best, there was little congruence between the way power is actually organised and the design of (state) units (Herbst 2000).

In addition, the international community further supported the preservation of these 'incongruent' states by providing vast amounts of aid and other forms of support, especially during the Cold War (Clapham et al. 2006). As Robert Bates (2001) has succinctly summarised state-building process in Africa, 'shielded by the great powers and the aid agencies, the newer governments [in Africa] did not have to confront either the military threats or revenue demands that gave earlier generations of rulers incentives to persuade those who earned private incomes to pay the costs of government'.

Moreover, the emergence and proliferation of conflict in SSA since the 1980s have not resulted in more successful state-building processes in the region, contrary to what Tillian logic would suggest. A significant factor that may help account for this is that, contrary to experience in early modern Europe, much of the conflict currently afflicting SSA countries is not only regional or inter-state but also very much intra-state, and civil war tends to fragment rather than to concentrate power. And as DiJohn (2007a) has also noted, inter-state war in the contemporary developing world tends to empower local power holders and has triggered further dismantling and/or criminalisation of central administrative structures rather than creating centralised and hierarchical ones.

# Annex C: State Typologies

As illustrated in Matrix 3 below, a range of typologies is available distinguishing between different aspects and fundamental forms of the state. Fully developed typologies of the state are relatively scarce in the literature. For the most part, existing typologies focus on a specific dimension of the state – be this political economy or scope (e.g. World Bank 1997), or its (internal) strength and capacity – or on a particular kind of state type (e.g. the literature on failed states; literature on East Asian developmental states, etc.) While typologies may be useful in drawing important distinctions between different state characteristics, they should not be seen as absolute. It is best to treat them as heuristic devices, or ways of structuring thinking, inquiry and potential policy responses.

## Matrix 3: Typologies of the state

| Underlying political economy and form/legitimacy of rule | |
|---|---|
| Modern, rational-legal state | Public and private realms are separate, there is a formal, merit-based civil service |
| Neo-patrimonial state | Public and private realms are merged<br>Patron-client networks are pervasive, including in the civil service |
| Hybrid states | Combination of modern and neo-patrimonial traits within a state |
| Developmental state | Sub-type of the modern rational-legal state that is particularly pro-active on achieving development, usually motivated by some form of (perceived) external or internal challenge |
| Anti-developmental state | States that combine neo-patrimonial structures with other dysfunctionalities, such as an oppressive and non-responsive political regime with a leadership that accepts social and economic decline as long as it can preserve power |
| *Source*: Weber 1976; Kohli 2004; van de Walle 2001; Leftwich 1995; Chabal and Daloz 1999; Bayart 1993; Johnson 1982. | |
| **Scope of the state** | |
| Minimalist/night-watchman state | State provides only a minimalist set of public goods |
| Intermediate state | State provides an intermediate range of goods |
| Maximalist state | State provides a wide set of goods, including an extensive welfare system |
| *Source*: World Bank 1997, Fukuyama 2004. | |
| **(Domestic) strength/capacity** | |
| Capable/effective state | High decision-making and implementing capacity |
| Weak state | Limited decision-making and implementing capacity |
| Fragile state | Low decision-making and implementing capacity |
| Failed state | Decision-making and implementing capacity collapsed<br>Overlaps largely with 'collapsed' state – the latter is often used to refer to cases of complete state disintegration such as Somalia |
| *Source*: Rotberg 2004; Fritz 2007; Hobbes 1651. | |
| **Quality of governance (linked with political regime)** | |
| Accountable, responsive state | State that responds to citizens' needs and preferences and respects their rights<br>There is a sense of mutual obligation linking state and society |
| Oppressive state | State apparatus mainly used for oppression |
| *Source*: DFID 2007. | |
| **Regulatory regime** | |
| Traditional bureaucratic | Input-based; traditional civil service; etc.; state plays an important role as provider of services |
| Results-based management | Output oriented; agencification, modern civil service, etc.; state's main role as regulator |
| *Source*: Peters and Pierre 2003; see also Paris Declaration (OECD DAC 2005). | |

The different aspects of the state captured by these typologies may be combined in various ways. For example, the scope of rational-legal states can vary, as can the quality of governance in terms of accountability and responsiveness. Most of the literature assumes that a state that is both capable and responsive can only emerge if it is underpinned by a (largely) rational-legal structure. However, there may be some cases in which the state is relatively capable, even in hybrid states (e.g. 19th century US, Botswana).

Importantly, the simple dichotomy of categorising states as 'weak' or 'strong' along a single continuum can be misleading. There is more than one dimension of the state that matters from a development perspective. In particular, some states may have 'good (regulatory) rules' in place but may, nonetheless, suffer from weak state capacity and underlying problems of state capture (e.g. Kyrgyzstan). Other states may be capable, but oppressive, rather than accountable and responsive (e.g. North Korea).

Thus, various 'failed states'/'state weakness' indices that have been compiled in recent years (CIFP, Fund for Peace) can be misleading, since they mix these different dimensions when aggregating one overall rating.[57] The results can be somewhat puzzling. For instance, such aggregation across disparate dimensions leads to the classification of North Korea, Sudan and Belarus as 'failed' or 'fragile states', rather than as states that are – at least for the time being – capable of imposing their decisions on citizens, even if this is in a manner that is oppressive rather than responsive and accountable.[58]

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[57] See www.carlton.ca/cifp (Country Indicators for Foreign Policy) and http://www.fundforpeace.org/web/.
[58] Even among these cases, there are important distinctions between an 'oppressive but responsive' state, such as Belarus, which seeks its legitimacy based on economic and social performance, and a state that is 'oppressive and based on fear', such as North Korea, which provides order but 'delivers' economic decline to the point of starvation.

# Annex D: External Coordination: Challenges and Desirability

Challenges related to donor coordination are not new. Donor coordination has been identified as a problem in all areas of development cooperation, at least since the 1970s. The international cooperation community has attempted to address this issue on multiple occasions, most recently through the Paris Declaration on Aid Effectiveness signed in 2005 (in which donors committed among other things to better harmonising their activities through measures such as joint analysis and simplified, more transparent, more consistent and more predictable common procedures), as well as through the OECD DAC Principles for Good International Engagement in Fragile States and Situations (which came into effect in April 2007 and emphasise the critical importance of coherent and joined-up action by political, economic, security and development actors in state-building efforts: see OECD DAC 2007a). Donor governments have also emphasised the importance of 'whole-of-government' approaches.

Despite ongoing efforts on this front, coordination remains without a question a considerable problem besetting state-building efforts in post-conflict and other fragile states. As is discussed in Section 3.3, there are many different kinds of external actors involved – military, diplomatic, humanitarian and developmental. Coordination problems are evident not only among these different sets of actors but also within them (the infighting within the US government within different departments, including Defense and State, is a case in point). Thus, there are too many external actors on the ground pursuing a variety of agendas and goals that can often be at cross-purposes. Characteristically, each set of actors wants to leave its particular mark. As pointed out in a recent high-level conference in Addis Ababa on Engaging with Fragile States, a big part of the problem with donor coordination (including national-level coordination in donor countries themselves) in fragile states contexts is that foreign, military and political objectives coexist with developmental ones, which makes it much more difficult for donors to agree on a common platform or set of interventions (see also Patrick and Brown 2007; Clingendael for OECD 2006).

Different donors also operate with different normative templates, often derived from institutional experiences common in their own countries (or, in the case of multilateral institutions, countries whose examples are particularly prominent). While it is undeniable that developing countries can benefit from multiple sources of advice and perspectives, this can be particularly problematic when contextual factors, especially in state-building situations, are not taken fully into account, as well as in cases when donors try to use financial leverage to bring about a particular kind of institutional reform.[59] State-building efforts may well be hampered when different (powerful) donors pull in different directions owing to particular (normative) views on key structural issues, such as decentralisation or the nature of the civil service. Even if coordination were to improve dramatically, it is essential to remember that it is likely that challenges would remain, given the complex nature of state-building and the deep-rooted character of the issues it seeks to address.

On the other hand, although a higher degree of coordination among external actors is clearly desirable, it is also extremely important for the international community to be realistic about the improvements that greater coordination can bring about. As has been highlighted by Paris (2006), (donor) coordination should not be treated as a 'magic bullet' which, once properly sorted out,

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[59] As Rodrik (2004) and others have pointed out, institutional reforms are different from other types of advice, such as the need to establish macroeconomic balance and to avoid excessive deficits.

will solve all the problems besetting state-building efforts. In truth, as we have attempted to highlight throughout this paper, state-building is an exceptionally unpredictable and uncertain undertaking. What may look on the surface like issues attributable to disorganisation and poor donor coordination may well in fact be more deep-rooted tensions in the state-building enterprise (as discussed in Section 4.3).

Thus, while there are clearly multiple advantages to enhanced coordination among external actions (not least prevention of the further erosion of already considerably weak state institutions, as governments have to deal with an enormity of different donor requirements and procedures – see Fritz and Rocha Menocal 2007), too much donor coordination could also have some negative effects, such as overly standardised approaches to state-building unable to respond to the specific needs of individual contexts and societies. Furthermore, 'whole of government' approaches can contribute to the growing 'securitisation' of the development agenda, as has happened perhaps most explicitly in the US (see Cammack et al. 2006).

# Annex E: Paradigms for International Intervention: Realism vs. Interventionism

Two key rationales for external actors engaging in state-building are summarised by Andersen et al. (2007). The first rationale is described as 'liberal imperialism', which emerged in the 1990s as the notion that developed countries have a moral obligation to protect and promote human rights, in particular the rights of the poor and powerless in other countries.

The other paradigm is the 'realist' paradigm; which generally proposes that developed states should take only those actions which are in their interests.[60] As fragile and failing states came to be perceived as an international security threat, interventions aimed at state-building become 'sensible'. To these two approaches, one could add a third: neo-conservatism (mainly in the US), which draws on realism but shares with 'liberal imperialism' a more value-oriented approach and a more interventionist one (Huntington 1996; Fukuyama 2006).

Different actors embrace different approaches, with possible shifts over time. 'Liberal interventionism' is broadly shared by most European countries and other major donor countries such as Canada and Australia, albeit with greater streaks of 'realism' among some. The UN is generally seen as an actor that has taken a less interventionist approach; although it is based on liberal principles, it is constrained by multiple veto players and uncertainty of resources.

**Matrix 4: Basis of international engagement in state-building**

|  | More interventionist | Less interventionist |
|---|---|---|
| **Liberal** | Liberal imperialism/interventionism | Critical analysis |
| **Conservative** | Conservative imperialism | Realism |

*Source*: Authors, drawing on Andersen et al. 2007.

The rationale for external actors engaging in state-building processes in turn has an impact on the state models being promoted. From a 'realist' perspective, when the main concern is terrorism, the restoration of authority and a monopoly of violence within a given territory are the essence of state-building. From a 'liberal' or 'conservative' interventionist perspective, in contrast, this is insufficient: it is essential to re-establish a state that successfully delivers public services and protects and promotes the rights of its citizens. This is a substantially more ambitious project, and a project that is more vulnerable to the possible (re-)emergence of state dysfunctionalities.

Importantly, even for countries which subscribe in principle to liberal or conservative interventionism, there are clear limits to the resources that developed countries are willing and able to mobilise to engage in state-building abroad – in terms of financial, human but also 'diplomatic resources', in the sense of prioritising action in a certain country and persuading others to become more engaged. The resources needed even for limited interventions in large countries (e.g. DRC, Afghanistan) can be (very) substantial.

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[60] There are several competing 'paradigms' in international relations theory. The main paradigms with current policy relevance are 'realism', which fundamentally looks at issues from the perspective of (competing) national interests, and 'liberalism', which sees the world in a more integrated perspective and consequently embraces the belief that there are many common interests as well as a set of fundamental principles (human rights, international law) that should be upheld by the international community.

# Annex F: Additional Issues of Interest Related to the Discussion on State-Building 'Constitutive' and 'Output' Domains

## The political settlement domain (continued)

The main body of this paper addresses in considerable detail political settlement as an issue at the heart of state-building. This annex aims to provide additional information that may be of interest, including on peace agreements and constitution-making processes.

*Peace agreements*

Post-conflict state-building often involves external negotiators in the peace accord; this lays the initial basis for the political settlement. Peace agreements often call for very difficult trade-offs and compromises. However, a stance that is too accommodating can also contribute to – or be ineffective at preventing – failure both of peace and of state-building (see also Covey et al. 2005). One of the most infamous political settlements is the peace deal reached in Sierra Leone in 1999, giving the rebel leader (Fadoy Sankoh of the Revolutionary United Front – RUF) control over the mining sector (as Vice President and Minister of Mines) and amnesty from prosecution, although the RUF was guilty of committing numerous atrocities during the preceding civil war and had been using diamonds as a means to sustain its actions. The RUF broke the peace agreement in May 2000, kidnapping 500 UN peacekeepers. Subsequently, UK troops intervened; this *inter alia* resulted in the arrest of RUF members of government. The subsequent peace and state-building process has proven more durable.

*Constitution-making*

In state-building efforts, constitution-making processes are intended to play a central role in establishing legitimate government, especially in deeply divided societies (among other things, they contain a bill of fundamental rights). They are seen as essential tools in the promotion of dialogue, negotiation and consensus-building. They are not only at the heart of the political settlement domain, but also very closely linked to the rule of law (another key core domain) and the broader administration of justice.[61]

One key issue that the international community has emphasised in recent years has been the need to develop more participatory processes in creating and adopting constitutions, as a way to establish a constitution's legitimacy, not only via its content but also through the process of its development and adoption. On the other hand, analysing whether more consultative constitution-making is likely to result in more durable peace, Widner (2004) finds that the evidence is mixed.[62] Future state-building efforts should take stock of existing experiences and analyse what lessons may be learned from counterintuitive examples.

The issue of timing is also relevant. There is a growing tendency in the international community to see constitution-making processes through relatively quickly. Rushing may not always be

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[61] Among other things, the constitution is intended to determine what the formal rules of the game are and what mechanisms are in place to guard and interpret the constitution.

[62] The partly participatory process in Rwanda of 1991 is the starkest example of failure; she also identifies others (Chad 1996, Comoros 1996 and Gabon 1991).

wise. In Afghanistan, for example, while the consultation process was highly participatory, it lasted only two months. In South Africa, which started out from a much stronger foundation, the process took two years (Samuels 2005). On the other hand, prolonging the constitution-making process can also be counterproductive: in Uganda, the process took eight years and was almost derailed (ibid). It is, therefore, important to establish a balance between speed and other important objectives of the constitution.

In terms of constitution content, one of the fundamental questions likely to emerge revolves around the allocation and balancing of powers among different branches of government (executive, legislative and judicial) as well as different levels of government (e.g. unitary vs. federal states). As Samuels (2006a) has argued, while power-sharing agreements – such as a dual or rotating executive, as well as geographically based power-sharing – can secure compromise in the short run, in some instances they have turned out to be inimical to longer-term state-building efforts. Difficulty in coming to an agreement on these issues can result in constitutions that are overly vague, or that include a system of checks and balances which triggers mutual blockage (see, for example, Wolczuk 2001).[63]

On the other hand, while constitution-making processes emphasise consensus, constitutions should not be seen as ends to themselves, rigidly establishing rules for posterity, especially in deeply divided contexts. As suggested by Inbal and Lerner (in Brinkerhoff 2007), a more useful approach might be to see constitutions as 'moments of accommodation' that enable the bridging of disagreement but also provide room for conflicting visions. Still, as suggested above, constitutional ambiguities can also create problems in the long term.[64] Issues that are left out will need to be addressed later, but the state may not have the capacity to do so; issues may become more deeply entrenched and more difficult to tackle with the passage of time.

Moreover, even when a relatively inclusive, well balanced and representative constitution is adopted, implementation necessarily presents huge challenges. The establishment of formal rules and mechanisms (including the requisite legal and judicial infrastructure) is not in itself a guarantee that such procedures will be followed. Social acceptance by powerful domestic actors as well as the population at large is essential as well. Nonetheless, having strong fundamental (formal) rules can be an important asset as the political settlement process unfolds, since at the very least they can help to strengthen those who seek to establish a well governed new state.

## Administrative structures: taxation

In addition to the civil service and PFM discussed in the main body of this paper, in terms of administrative structure, taxation and (re)building a tax system constitute an essential element of the state-building process. A tax system has two key components: tax policy and tax administration. Tax policy entails the decision-making about and codification of the types of taxes to be collected and tax rates (including also such issues as exemptions); tax administrations implement these policies. Tax and customs administrations are usually among the largest administrative bodies in a country (for example, the UK's revenue and customs administration employed around 90,000 staff at the end of 2006).[65]

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[63] An impression from surveying the literature is that greater comparative knowledge about the content of constitutions and the effects of a range of choices on state-building processes would be desirable.

[64] Hence the need for constitutional courts to interpret it and prevent bodies from exceeding their powers.

[65] See http://www.hmrc.gov.uk/about/reports.htm.

Tax systems present a challenge in most developing countries for several reasons. First, tax policy can become an area for state capture, as when powerful business elites are granted tax privileges. In addition, tax and customs administrations are often affected by corruption. Related to this, frequent inspections by tax administrators can damage the business climate.

At the same time, taxation is a key link in the state-society relationship (Moore 2004). As Herbst (2000) has argued, and many analysts would agree, '[t]here is no better measure of a state's reach than its ability to collect taxes'. A state's ability to collect taxes from its populations says a lot about its infrastructural capacity. Where the state has to rely on taxing its citizens and their (manifold) businesses, incentives for accountability are greater than in situations where most government revenues come from other sources, such as oil revenues. However, in many developing countries, direct and indirect taxation remains weak; the government generates revenue primarily from taxing foreign trade (imports and exports), a few key enterprises and natural resource extraction. Even where formal tax obligations on individual citizens may exist, these tend to be largely evaded or ignored.

These types of problems tend to be accentuated in post-conflict countries. In general, overall revenue tends to be low (in the range of 5-10 percent of GDP, even several years into the state-building process). Reliance on trade taxes and a few major sources of revenue tends to be high (Carnahan 2007; Di John 2007; IMF 2004b and c). Sometimes, emergency taxes on exports are established to serve as a stopgap measure while other sources of revenue (income taxation) are being developed (but such emergency measures can become semi-permanent, such as the tax on cotton exports in Tajikistan).[66] Where the 'real' tax base is predominantly composed of some mines and trade taxes, this implies that taxes do not act as a (significant) link between society and the state – because very few citizens are taxpayers in the sense of paying direct taxes.

Furthermore, while countries at early stages of state-building may, in principle, be in an advantageous situation in designing a new, rational system (while tax systems tend to become messy and complicated over time in stable countries), in practice, the opportunity seems relatively rarely to materialise. For example, Afghanistan had a rather complex tax system in 2005/06 according to the IMF (2006). Adopting relatively simple taxes with low rates can be an important way to rebuild the capacity to collect direct taxes (Carnahan 2007; Fritz 2007). Carnahan (2007) makes several proposals: one is to introduce basic forms of taxation (direct taxation of individuals and businesses, including SMEs) early on during the state-building process, so that citizens and economic actors become accustomed to the presence of tax obligation (if not necessarily tax compliance).

Another important issue for rebuilding tax morale is that of taxing the employees and contractors of international aid donors. Carnahan (2007) advocates the reduction of tax exemptions for the international community, including foreign contractors. This seems eminently sensible, given that these privileges reduce revenues and can also contribute to the view of taxation as an unnecessary and illegitimate burden (e.g. among the professional local staff employed).

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[66] As Boyce and O'Donnell (2007) note, even the IMF has supported emergency export taxes (on coffee in East Timor) out of a concern over revenue generation, a 'policy that verges on the heretical' (by the IMF's usual standards).

## Additional 'output' domains: justice and economic management

*Justice*

The administration of justice, especially in terms of the rule of law, is a constitutive domain. Delivering justice is also a specific type of 'service delivery'. Such more output-oriented issues include access to redress and citizens accessing justice services – knowledge of rights, acceptance of laws, use of non-state mechanisms, etc.

Beyond the rule of law, building or strengthening key elements of a justice system so that they can deliver justice poses an important set of challenges. In post-conflict or political transition, another challenge concerns 'transitional justice' – a range of processes that can be put in place to deal with abuses in the previous regime (from prosecutions to truth commissions and vetting to reconciliation processes). Justice tends to be considered an area where the engagement of domestic actors – employed by the 'sovereign' state and familiar with a country's specific legal provisions and wider social norms – is essential to guarantee their success (unlike health and education services, for instance, which international actors can provide in full, at least in the short term, but with implications for the long term, as outlined above). However, there has been some 'outsourcing', e.g. of justice on war crimes, and also of justice over organised crime (e.g. in Kosovo) in situations with a transitional authority arrangement (e.g. the UN in Kosovo). A fundamental problem is that in fragile and re-emerging states, well trained domestic legal staff are in short supply (which is, of course, a problem that affects most areas of state-building).[67]

Similar to other forms of public service delivery, delivering justice (and security) can be an important source of legitimisation of the state. However, in many developing countries today – including fragile and non-fragile ones – the justice sector is seriously affected by governance problems (corruption, politicisation), as well as by capacity constraints. Issues of pay and security of tenure (discussed above with respect to the civil service at large) are also important with regard to the sector. There has also been some debate about the need and possibility to integrate traditional and 'modern'/Western forms of adjudication (see Andersen et al. 2007); this would in a sense distribute the burden of providing justice between the state and society.[68]

Frequently, an additional problem lies in the fact that fragile and re-emerging states are 'flooded' with laws and legal acts that are advocated by external actors (a problem widely present also in more stable countries, but particularly acute in situations of state fragility and early state-building). The current approach has been for legal experts to export models rather than assess context and support local actors and domestically identified needs and priorities. Laws advocated by external actors are often mutually contradictory or inconsistent (e.g. a civil code based on a Napoleonic tradition, combined with commercial law modelled on the US system, and a public financial management law based on advanced New Zealand-type reforms). Moreover, it may not be possible to implement many of the more complex provisions of these laws with existing limited financial and human resource capacity, and in the normative and social context of a fragile or re-emerging state.

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[67] Owing not least to the fact that most highly trained citizens of such countries have often emigrated.
[68] For an interesting discussion about the difficulty involved in combining 'customary' and 'modern' law based on the Ghanaian experience, see Mensa-Bonsu (2007).

As raised in Section 4.2 in the discussion about rebuilding a civil service, there are similar 'knowledge gaps' about what works in the justice sector (Carothers 2006). This is true in particular of efforts related to promoting capable, fair, independent, accessible and accountable justice systems (Samuels 2006b).

*Economic management*

Rebuilding the economy and generating employment is widely regarded as crucial to state-building success. At the same time, this is among the best developed areas of donor activities. However, *de facto*, weak and fragile states may not be able to do very much to influence the path of economic development – this will to a considerable extent be driven by structural opportunities and the degree to which peace and stability is restored (or not).

Preserving basic macro-stability appears generally sensible in weak and fragile state contexts. A major challenge can be how to use donor funding for reconstruction, which will be the major source of available infrastructure funding. However, especially during early phases of state-building, governments may have only very limited influence on such spending (Ghani et al. in Boyce and O'Donnell 2007). In post-conflict situations, growth can be very volatile, reaching 15 percent or more in initial post-conflict years, but then levelling off.

Economic management that privileges state-building concerns (e.g. creating employment for unemployed youth or ex-combatants; stimulating agricultural production to foster the integration of rural areas) and making such an approach compatible with macroeconomic stability would merit further thinking. Furthermore, as has been pointed out throughout the discussion of state functions, any specific task that the state assumes carries with it risks related to mismanagement/poor governance as well as to overstretching a weak state's resources.

Two very important aspects of economic management in a state-building context are the management of rents and property rights. Once again, property rights in particular point to the crucial importance of the rule of law and an existing and functioning legal infrastructure to award, protect and settle such rights. For example, in a post-conflict situation, there may be a drawn-out process of re-establishing property rights over land both in urban and rural areas. Similar issues can also emerge in more stable but weak states. Natural resources pose particular challenges for managing rents. Importantly, the competition over and the distribution of rents is very often a key aspect in the political settlement process (as discussed in Section 3.4).

In the short run, economic success may in fact be somewhat less essential for state-building than is commonly assumed. A majority of citizens may prefer peace to war and even a weak state order to a situation of anarchy. In many recent Type I state-building situations, populations endured rapid and sustained falls in incomes without major protests or popular backlashes (e.g. successor states to the Soviet Union in the 1990s). However, to keep a country on an upward state-building trajectory in the longer run, economic growth is essential, both in order to sustain state legitimacy and also because only growth will generate sufficient resources to consolidate 'constitutive' and 'output' domains. Importantly, whether this is achieved depends fundamentally on success in constitutive domains (especially a stable political settlement, security) on the one hand, and on structural economic opportunities (e.g. location/regional opportunities) on the other hand, as well as on economic policies and economic management as such.

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