



Citizen-Centered Approaches
to State and Market



Making States

Institute for State Effectiveness

600 New Hampshire Ave NW
Suite 900
Washington DC 20037

+1 (202) 298-5959
info@effectivestates.org

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Making States

What makes a state and, perhaps more important, what defines failure? An index of state effectiveness might help to trigger timely assistance, and identify when intervention is necessary. The pressing need is for a new approach to state-building.

Only where there are stable and effective states can poverty and insecurity be dealt with in a sustainable manner. In fragile or failing states, destitution and marginalisation prevent citizens from taking part in economic and political life and large swathes of territory can fall under the control of militias.

Only functioning states can prevent territory being used for the creation and export of terror and insecurity. This has led to renewed international interest in state-building.

But what does make a state? A modern state must coherently perform ten key functions, in marked contrast to a focus on the security dimension in the nineteenth century. It should:

- Exercise a monopoly on the means of violence.
- Have administrative control of the territory.
- Exercise sound management of public finances, including raising revenues and managing public expenditure.
- Invest in human capital, in particular in health and education.
- Ensure the provision of infrastructure, including transport and energy.
- Create citizenship rights and duties, including safety nets for those who need them.
- Create markets through regulation.
- Manage the assets of the state, including the environment, natural resources and land.
- Manage public borrowing.
- Most important, it must provide the rule of law.

Poor Performance

It is clear many countries are not capable of performing these functions adequately. Many fail to provide basic security for people and property in their own territory, or to prevent it from being used against other states. Poverty in the least developed countries is rising rather than falling. International private capital finds its way to a decreasing number of countries because the rule of law, a prerequisite for sound investment, does not exist in many of them.

Despite the inability of many countries to manage these areas, the international system is based on the existence of sovereign states, assuming them capable of acting as responsible neighbours and protectors of their citizens.

Sovereign status entitles the state to a range of rights, including the ability to borrow from international financial institutions like the World Bank and International Monetary Fund, grant concessions for natural resources, enter into trade agreements and regulate the flow of people into and out of their territory. But, there is a glaring sovereignty gap between legal understanding and facts on the ground.

Harm Rather than Good

Despite good intentions, the current international response to the failing or collapsing state arguably causes as much harm as good. The aid system provides alternatives to key state services through networks of parallel bureaucracies, which pull capacity away from the recipient government. It sets up competing and conflicting procurement rules and reporting arrangements which divert energy and resources from core management. It provides finance through an unpredictable and short term rhythm of allocation, which prevents means matching goals.

The broader international community operates in stovepipes, with the United Nations focusing on political issues, organisations such as NATO on security, the international financial institutions specialising in finance and development agencies dealing with social and development matters. This results in partial and conflicting strategies that can sometimes work at cross-purposes.

The international community can devise a solution. The type of mobilisation that took place after the Second World War to rebuild Japan and Germany, the institution-building that underpinned the growth in East Asia, and the incentives that have helped to transform new European Union member countries in the last ten years, all offer hope that state-building is viable. An approach that builds on those lessons might harness the incentives of the international community to the central goal.

Building States

The first step would be to devise a credible system to measure state effectiveness in each country. If agreement could be reached on the functions a state must perform, then an annual index could be constructed measuring a state's capability to exercise each of these. Such an index could be compiled by a reputable international

nongovernmental organisation with civil society engagement, along the lines of Transparency International in the corruption area, rather than a narrow clique of bureaucrats.

Mere publication of a country index could produce incentives. It would also provide the international community with a means of tracking progress towards or away from the goal of creating capable states. At present, fragile states tend to be lumped together without distinguishing between those which are collapsing, or those on a transformative path. It might also provide a basis for deciding the point at which intervention in one function, or all the states' duties, is desirable or legal.

The second step would be to devise strategies to build capacity in states that fall short. The tendency with global funding mechanisms such as the Millennium Challenge Account and World Bank International Development Assistance (IDA) loans and grants is to increase rewards for those countries which meet certain standards. The proposed approach would still reward countries that exceed a certain standard, but would also provide incentives for those that miss the grade.

Instead of cutting off aid from poor performers, ten or fifteen year sovereignty strategies would be negotiated between the international community and the country's leadership, with adequate resources provided. The goal of each country strategy would be to create a state that could exercise its functions as a fully sovereign, responsible member of the international community within a specified period.

The content of the strategy would depend on mapping the particular challenges across the ten functions of the state, but could include building responsible police forces, judiciaries, regulatory authorities and public finance systems. Resources would be provided by the international community, but made conditional on progress. There would be monitoring and reports on achievement, perhaps through a body like the proposed Peacebuilding Commission.

Temporary Help

The third step would be to agree on an interim division of labour between the country's leadership and the international community. The tendency has been to put in place parallel systems that substitute for the state without clear agreement on which functions are to be performed, at what cost and for how long. In some cases, expatriate staff could be placed in line management positions, whether as judges, peace-keepers or accountants, until domestic capacity was created.

In Afghanistan, in 2002, the government contracted three international firms to manage buying, accounting and auditing for an interim period until its core ministry of finance functions had been re-established. Once national staff were recruited and trained, they resumed control. In other cases, it might be agreed some tasks would not be performed until domestic capacity had been created.

The fourth step will require new partnerships and knowledge to help build leadership. Just as a private sector organisation focuses on the quality of its leadership and management to turn itself around, regeneration of state capacity will require the same

approach. Rather than relying on technical assistance as a substitute for the state, partnerships with ministries in countries that have successfully managed transition, first rate universities and other centres of excellence will be required.

Contrary to the current fashionable focus on primary education, major additional investment in secondary and tertiary teaching is needed to create capable leaders and managers. Increased salaries for developing country administrators would be cheaper in the long run than operating parallel systems.

Lasting Solutions

Partnership and the co-production of state effectiveness would be the aim of both national leaders and international partners. Bilateral and multilateral organisations responsible for political, economic and security development must agree on the common goal of creating sovereignty. They will need to subordinate their existing processes, mental models and bureaucratic interests to this common objective, and the creation of a culture of collaboration.

Ten and fifteen years' strategic and financial commitments will be necessary, rather than the one or two years' common in the current aid system. Such an approach was implicit in last year's Berlin conference where the political, development and security communities met to agree on a twelve year state-building framework for Afghanistan. When confronted with the threat of fascism, the Great Depression or the challenge of post-war reconstruction in Europe, the international community harnessed the necessary imagination and resources to find lasting solutions. Eliminating poverty through creation of sovereign states requires similar mobilisation.