

## State-building in fragile and conflict-affected conditions<sup>1</sup>

### I Executive summary

Stability in the 21<sup>st</sup> century will only come when trust is established between citizens and their states across the globe. Decades of persistent conflict have exposed hundreds of millions of people to insecurity, loss of opportunity and increased risk of falling into poverty. Failure or fragility of the state has been at the heart of this crisis of governance.

Loss of legitimacy is the key to the fragility and failure of states. The vicious circle begins with the loss of trust by citizens in the ability of their state to create an inclusive political, social, and economic order made predictable by rule of law. Some of the markers of the process of loss of legitimacy are: an increase in illegality, informality, and criminality in the economy; ineffective delivery of basic services, such as health, sanitation and education; failure to maintain or expand essential infrastructure; increase in corruption; and appropriation of public assets for private gain. As a result, administrative control weakens and the bureaucracy is seen as an instrument of abuse of power, in turn leading to a crisis in public finances – where both revenue and expenditure become unpredictable and budgeting becomes an exercise in emergency management. The ultimate marker is loss of legitimate use of violence by the state and emergence of armed groups that through recourse to violence openly mock the authority of the state and gain control of various areas of the country.

The state is the most effective mechanism for ensuring security, combating poverty and promoting equality of opportunity, investment in human capital and participation in opportunities afforded by the market. Strong civil societies and functioning legitimate markets are essential components of a developmental strategy. This discussion, however, is limited to state-building, which is the pre-requisite for the other two institutions.

In countries undergoing persistent conflict, a range of formal and informal relationships develop that give rise to an institutional syndrome. It is now becoming clear that these relationships form a constraint to the project of stabilization, peace-building and state-building. Clear understanding of this institutional syndrome is essential to devising strategies to overcome these constraints that would lead to states that become the mechanisms of stability and prosperity. Key to overcoming the constraints is to open the space for participation of citizens in the political process and creating the space for a legitimate private sector to emerge. Otherwise the risks of exclusion and criminality increase posing an inherent danger to peace-building and stabilization.

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<sup>1</sup> This report was prepared by Dr Ashraf Ghani, Clare Lockhart and Michael Carnahan for a workshop held between September 18 and 21, 2005 at the Greentree Foundation. At this workshop, a group of policy-makers from Africa, Central America, Eastern Europe, Central Asia, and the Pacific met to discuss the issue of persistent conflict and a framework for state-building as set out in this paper. The meeting was made possible by funding from the UNDP and the World Bank, with support from the Governments of Australia and Norway. This is an updated version of a background paper prepared for that conference, incorporating comments and insights from the discussions where possible. The authors are grateful for the extensive and constructive comments provided by teams at UNDP and the World Bank.

The syndrome is characterized by: (1) emergence of armed groups that engage in conflict with each other; (2) strong regionalization within the countries, with particular concentration on resource-rich or ecologically difficult terrain suitable for guerrilla movements; (3) networks of logistic and provisioning that often operate on the margins of the law; (4) relations of dependence with neighbours that often assume the form of patron-client relations and a tendency to give rise to or actively produce humanitarian crisis; (5) opaqueness in decision-making and dependence on charismatic leaders and the dominance of a small elite; (6) erosion of and loss of trust in institutions on the one hand and hankering for effective states on the other. The politics of resistance often stand in sharp contrast to this syndrome, as the objective was the takeover of state institutions from colonial or authoritarian states.

Movement from persistent conflict to stable peace requires coming to terms with both the patterns formed during conflict and the root causes of conflict. Whether marked by a political settlement or peace agreement, the cessation of hostilities is only the beginning of a series of simultaneous transitions. Ten such transitions are described, although others may be evident in different contexts. Unless this multiplicity of transitions and the need for an overall strategy of state-building as the central goal is recognized and acknowledged, interventions based on lessons learned from more stable contexts are likely to produce unintended consequences that could result in stalling on the path of peace or lead to renewal of conflict.

For a country to move truly from conflict to stability, it must build a state that fulfils the aspirations of its citizens for inclusion and development. Until there is agreement on the functions to be fulfilled by the state in the 21<sup>st</sup> century to be reached, actors' energies will not be harnessed to this goal and will work at cross-purposes from each other. In the interdependent world of today, states must perform a constellation of interrelated functions that range from provision of citizenship rights to promotion of the enabling environment for the private sector, in marked contrast to the one-dimensional function of ensuring security which they performed in the 19<sup>th</sup> century. This section outlines ten core functions that we propose a state must perform in the modern world.

These functions are: (1) legitimate monopoly on the means of violence; (2) administrative control; (3) management of public finances; (4) investment in human capital; (5) delineation of citizenship rights and duties; (6) provision of infrastructure services; (7) formation of the market; (8) management of the state's assets (including the environment, natural resources, and cultural assets); (9) international relations (including entering into international contracts and public borrowing); (10) rule of law. Other functions may be required to be performed at particular moments, such as the repatriation and integration of refugees and those displaced, and transitional justice.

When the state performs these functions in an integrated fashion, a virtuous circle is created in which state decisions in the different domains bolster overall enfranchisement and opportunity for the citizenry. By contrast, failure to perform one or many of these functions leads to the creation and acceleration of a vicious circle. The key question of a state-building strategy is the fact of performance of the function, rather than the level at which they are performed; this paper remains agnostic as to whether functions are performed at supra- or sub-national level. Consensus on these ten or a similar range of functions would lead to a consensus on the structure of the state. Each function can be delineated through a capacity program with timelines, benchmarks and indicators that serve both as goals towards which the

public can be mobilized, and also as a means of accounting by which the momentum and achievements of the program can be reported to the public.

The preparation of a state-building strategy would require starting from agreement on the goal of state-building and the functions the state should perform, agreement on timelines for creation of that capacity, and methods for institutional transformation. To win and keep the trust of the public and implement credible programs that would result in delivery of benefits to them and their increasing participation in the process, leaders and managers need to acquire new skills.

If there is agreement on a categorization of functions of the state, and the need to harness resources to achieve the goal of state-building, then a sovereignty index could be constructed to measure progress in terms of the performance of each function individually, and the capacity of the state overall. Such an index could serve as a baseline for designing interventions and a mechanism for accountability.

Examination of post-conflict conditions reveals that actors are organized in stovepipes with a tendency to act in parallel rather than in tandem. As a result, coordination between and among these organizations and the emerging government can be a problem. A state-building strategy can act as the basis for agreement between international and domestic actors and agreement on priorities, sequencing and actions to maximize progress towards the goal of state-building. Such a strategy would require revision of some of the dominant areas of international practice ranging from resource mobilization, time periods of allocation, procurement, conditionalities and benchmarks and mechanisms for monitoring the implementation of strategy.

## **II Observations from the Greentree workshop**

. The discussion at the workshop was rich and encompassed repeated iterations from perspectives of participants in different phases of transitions and on different modalities, mechanisms and objectives employed by various actors. Drawing on the discussion, we are summarizing the results of the conference in categories that we have framed. Consequently, responsibility for the framing lies with us but we hope that we will find that the participants will find their rich contributions reflected in the abstraction that we have drawn from the meeting.

### **The key issues can be summarized as follows:**

1. There is consensus that conflict is predictable, and that this knowledge must be used to prevent recurrence of conflict.
2. The nature of the state and the civil or colonial war or a multi-dimensional conflict has serious implications both for the type of peace and the nature of the challenge of building the state. Loss of control by states over functions or territory has taken place through different factors, ranging from institutional disintegration at the centre (Nepal), separatist movements in multiethnic states (Yugoslavia, Ethiopia), persistent conflicts (DRC, Liberia, Somalia, Uganda in the 1980s), resort to intense repression to quell dissident movements (El Salvador, Guatemala, the Sudan), or foreign invasions (Afghanistan, Lebanon).
3. Persistent conflict could be avoided through clear agreement on a goal of building an inclusive state that would serve the needs of the citizens in a transparent and accountable manner, to which all the actors would be aligned.
4. A functional definition of the state based on specification of ten functions that underwrite political, social and economic order and are underpinned by rule of law, was found to be useful. Additionally, there was a consensus that in the wake of

immediate post-conflict, the critical tasks of transitional justice, and return, repatriation of refugees, and internally displaced populations require special attention.

5. Transitional periods as specified in peace agreements are different from structural transformations that result in an inclusive state, but it is useful to understand the multiplicity of the challenges that are involved both in transitional periods and in the processes of transformation.

6. There was consensus on the relevance of international organizations to the task of state-building but a strong emphasis on the need to change the relation of countries and international organizations and actors to one of long-term partnership based on the objective of state-building rather than that of donor and client. Participants delineated a variety of roles and types of knowledge that the international community could employ to enter into a constructive strategic partnership with governments and civil society.

7. There was a wide-ranging discussion of technical assistance and there was consensus on the need to transform technical assistance into an instrument of building human capital, and a sustainable process for production of leaders and managers in developing countries. The participants considered that the current modalities of technical assistance are not always aligned with the objective of building capacity.

Each of these seven points is further elaborated in an Annex to this paper.

### **III State building in conflict-affected conditions**

#### **Introduction**

Decades of persistent conflict have exposed hundreds of millions of people to insecurity, loss of opportunity and have contributed to the increase of poverty. Failure or fragility of the state has been at the heart of the crisis of governance. The issue of the form and function of the state is therefore one of the central questions of our times. In this paper, we propose first to offer an anatomy of the institutional patterns that arise from persistent conflict. Recognition of these patterns enables us to pose the question of how to implement transitions from conflict to stability, posited as being similar in magnitude and complexity to the problem of transition from a command to a market economy and from an authoritarian system to a democratic polity. While the complexity of this transition may make the issue of agreement upon the creation of a state-building strategy seem like a daunting task, we argue that the people of these countries long to belong to states that fulfil the compact of citizenship rights and responsibilities.

In order for both states and international actors to respond to these aspirations, a broad-based agreement must be reached on the essential functions which a state should be capable of performing if it is to be given legitimacy at home and abroad. We therefore delineate ten functions that the modern state needs to perform. Historically, these functions have been assumed successively and gradually, but the contemporary context demands their simultaneous performance. Should there be consensus on these ten functions, or another series of functions, the challenge of state-building will shift from the terrain of abstract discussions to allow domestic and international stakeholders to focus on the development of the methods to provide these functions, and to enhance state capacity to perform these functions. In each particular context, a structure for the state would be derived from its active performance of state functions and from the accountabilities it will have to maintain to the citizens of the state on one side and to other states on the other side, through its compacts under a functioning international system.

State-building has not hitherto been the explicit goal of the international aid and security system. Consequently, measures adopted in pursuit of other objectives have had the unintended consequence of undermining the pursuit of state-building as a goal. Should the international system adopt the goal of state-building, then the means would have to be adapted to the goal. The skills of management, leadership and technical knowledge to support the emergence of functioning states both within domestic and international stakeholders would need to be nurtured.

A comprehensive discussion of a development strategy with state-building as its ultimate goal would require equal attention to the creation of the market and the constitution of civil society, because functioning states, markets and civil societies are the essential ingredients of a developmental paradigm. As civil societies and markets depend by definition on the existence of a stable and functioning state for their security and enabling environment, the first rounds of this discussion are focused on the state. A series of similar discussions would need to engage the topics of the market and civil society at a later date in order to complete the picture.

Accordingly, this paper will consider the following elements:

Part I: The institutional syndrome of persistent conflict

Part II: Paths of transition from conflict / fragility to stability

- Part III: Proposal for a framework for functions of the state
- Part IV: Preparation of a state-building strategy
- Part V: The role of the international community

## **Part I: The institutional syndrome of persistent conflict**

**Table 1: Patterns of persistent conflict**

1. *The emergence of armed groups*
2. *Regionalization of national territories and identities*
3. *Private networks of support*
4. *Ungovernable flows of people and aid across borders*
5. *Opacity in decision-making and dominance of a small elite*
6. *Erosion of and loss of trust in formal state institutions*
7. *Politics of resistance*

Rules of the game which develop under conditions of conflict, can later present constraints to the implementation of a state-building or peace-building agenda<sup>2</sup>. Where state collapse and persistent conflict are associated with disorder, a closer look reveals that there are institutional patterns that are discernable across countries. As every conflict is unique, the weight and combination of each of these factors will vary, but basic characteristics of a post-conflict syndrome can be distilled from analysis of patterns across multiple cases.

During long conflicts, organizations devoted to armed conflict emerge, and deny control of the territory to governments. They are underwritten by networks of support for provisioning, arms and money, and by privatized assets of the state. They depend on active or implicit support from one or several neighbouring powers. These networks, formed during conflict, constitute the real conditions on the ground where post-conflict transition must begin. Moreover, since persistent conflict produces complex humanitarian emergencies, the humanitarian networks that emerge to respond to the crisis must negotiate tolerance of their presence by these groups by accepting that a proportion of humanitarian resources delivered to the country will be captured or diverted.

Under these conditions, those who rise to power are often strong men who become brokers between their followers and networks of support. Their decision-making is governed by the norms of survival and military struggle, and thus is secret and opaque. Conditions of persistent conflict produce strong forms of both positive and negative social capital: on the one hand there is intense loyalty and identification with movements of resistance as guarantors of identity; on the other, there is the erosion of cross-cutting ties<sup>3</sup> and loss of trust in formal state institutions. Despite the breakdown of official institutions, however, there remains a longing among citizens for a state that would restore their trust, unity and dignity.

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<sup>2</sup> We are using the term “institution” in the sense of informal and formal rules of the game, as defined by authors such as Douglass C North in “Institutions, Institutional Change and Economic Performance”, New York: Cambridge University Press, 1990.

<sup>3</sup> Cross-cutting ties are those ties that weave sub-identities into larger national identities through bonds such as friendship, marriage and trade.

Persistence of conflict crystallizes these relationships into rules of the game that serve the interest of various categories of stakeholders, and are therefore institutionalized. If the relationship between these informal rules of the game and the interests of stakeholders is not correctly analyzed and addressed, the goal of building stable states could be seriously compromised. To identify these patterns is not to call for their endurance, but to provide a realistic understanding of the scope of resources both human and material that are required to permanently and effectively rewrite the rules of the game. The advantage of this approach would be to avoid working in the image of two often-cited ideals, neither of which can be easily realized: the first calls for a return to a golden age from before conflict, as remembered particularly by exiles, while the second holds that a post-conflict condition is a green-field site or a *tabula rasa* where anything can be written.

A more detailed examination of the characteristics of such patterns is as follows:

***(1) The emergence of armed groups***

Armed groups, largely composed of young men, are formed into organizations devoted to the pursuit of violence, thereby breaking the state's monopoly on the means of violence. Participation in these groups and use of violence provides the path to upward social mobility and access to resources, thereby devaluing pursuit of education. Militarization occurs throughout the culture of a society, resulting in the devaluation of ranks in other hierarchies. Women generally are sidelined from public life, and are among the groups that pay a heavy toll for persistent violence, both in denied opportunities and subjugation to direct abuse. The armed groups themselves tend to operate in modes characteristic of patron-client relations, rather than developing formal administrative structures. Their relationships with the civilian population range from demands for food, logistics and housing to forced military service. Under certain circumstances, these groups also offer protection to their communities of allegiance from predatory security forces associated with unrepresentative governments.

***(2) Regionalization of national territories and identities***

As persistent violence usually produces stalemates, control of territory is ephemeral and continually shifting. A consequence of these constant shifts in control of territory is that armed groups generally do not evolve administrative and judicial systems for the welfare of the people in their nominal areas of control<sup>4</sup>. Nonetheless, they are capable of denying access to the territory to governments. With control of different areas falling to different groups, regional identities can become oppositional. The category of citizen weakens and is replaced by identities of patron-client, resistance-oppression, and regional power-holders.

***(3) Private networks of provisions and support***

To participate in persistent conflicts, armed groups require supply of arms and provisions. The flow of support may continue even after a peace agreement has been concluded. In most conflict conditions, local and global networks have combined to provide arms to groups that could pay for them. Payment for arms, in turn, has brought about a focus on those commodities that could fetch high values on the international market. These have ranged from antiquities, timber and drugs to precious stones such as diamonds and emeralds. Armed groups therefore forge persistent alliances with economic actors who either engage directly in illegal

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<sup>4</sup> While some of the national liberation movements aspire to deliver justice and services to their populations, they are not always able to realize this aspiration, as they are consumed by the struggles of the day and may not have the resources to do so.

activities or tolerate dealing with illegal networks. It is these relations that have often resulted in criminalization of the economies of post-conflict countries. Dealing with these actors is thus a challenge, both for the international community and reformers. Persistence of violence also results in militarization of public revenue, leading to privatization of public revenue in the post-conflict phase. Trade in nearly all post-conflict conditions is taxed by armed groups, but because of absence of hierarchical organizations, the boundaries between public and private use of resources is blurred.

#### ***(4) Ungovernable flows of people and aid across borders***

The involvement of neighbouring countries with a state in conflict conditions ranges from active support for some of the armed groups to mediators and catalysts for peace processes. Several other aspects of this relationship also stand out. Refugees are an inevitable product of any conflict, and depending on its intensity and duration, the flow of refugees to neighbouring countries can become an important aspect of the conflict itself. Repatriation of these refugees during the post-conflict phase, and their humanitarian support during conflict, are part of the pattern of conflict. Groups of exiles, ranging from labourers to intellectuals and politicians, are also formed in neighbouring countries, with much of the human capital of a country in conflict usually finding its way to the neighbouring countries. The relationship of armed groups to the neighbouring government and non-state actors becomes one of client to provider, thereby resulting in demands for special privilege from the neighbouring government later.

As security conditions often prevent the deployment of the humanitarian community in country, an entire infrastructure of logistical support develops in neighbouring countries to deal with complex humanitarian emergencies. Prevented from working inside a conflict country, the humanitarian community instead engages intermediaries from the country in conflict and the neighbouring countries to act as supervisors and managers of their operations inside the country. Actors in these networks again have to confront and come to terms with the reality on the ground and find modalities of accommodation with the armed groups who control territories where humanitarian aid needs to be delivered. While externally, such actors may embrace the ideal of civil society, it should be clear that the context of their operation is not always governed by norms that would allow and promote the accountabilities required by the notion of civil society.

#### ***(5) Opaqueness in decision-making and dominance of a small elite***

Secrecy permeates the operations and thinking of armed groups, as their survival depends on it. When strong men become the key mediators of resource acquisition from neighbours and other powers, they become patrons determining life opportunities through redistribution of spoils, rather than leaders accountable to their followers for their actions. Family members, close kin and affiliates of such strong men are part of the network of mobilization and redistribution of resources and thereby are partners in movements that resemble private enterprises. As representatives of these groups constantly seek access to the powers that be, their first interlocutors are members of intelligence agencies, who are often the only individuals professionally assigned to track and analyze the activities of such armed groups. Transactions in such conditions typically offer cash or other commodities and are often based on a handshake. As a result, when people who have been formed as leaders under such circumstances face the demands of international aid organizations for transparency and accountability, they may find the transition rather difficult.

### ***(6) Erosion of trust in existing state institutions***

During the five decades of Cold War, political, military and financial resources were provided to unrepresentative regimes depending on their orientation towards one of the then superpowers. Accountability became foreign rather than domestic; instead of taxation being the basis, foreign policy became the basis of resource generation. The issue became the person of the ruler rather than the succession; the person became the lynchpin rather than the ruler. Those demanding accountability were imprisoned, marginalized or repressed. As a result, a systematic dismantling of state institutions and the diversion of massive public assets for private gain took place from the Philippines, to the Congo, to Nigeria. With this external support now removed, these regimes have shown their fragility and proven largely unable to withstand internal pressures. Given that during the Cold War period, unlike the colonial period, state repression denied the formation of political parties, the politics of resistance in these states has manifested as armed resistance and highly personalized politics, accelerating the vicious circle of state implosion. Forced to endure arbitrary administration and regionalization and persistent violence, the overwhelming desire of the people of these countries is for the restoration of the orderliness and predictability of functioning states.

### ***(7) Politics of resistance***

Resistance flows from systematic patterns of exclusion. In OECD countries and former colonial states, resistance movements often mobilized specific stakeholders or segments of the population around social agendas of inclusion and working conditions, or around political issues such as voter eligibility and broadening of citizenship rights. These popular movements were eventually met by state processes of accommodation, resulting in strengthening of the bond between citizen and society, increasing rule of law and delivery of citizenship rights, and strengthening of state institutions. By contrast, in fragile and conflict-affected conditions, the root causes are similar, as politics of resistance present the legitimate and systematically denied demands of certain segments of the population for inclusion. The difference, however, is that state organizations are too weak in these conditions to repress and not open enough to accommodate. Thereby the violence of both resistance and repression becomes randomized and privatized, and the vicious circle of institution weakening deepens.

### ***What are the implications of these patterns for the subsequent transformation process?***

In successful transitions from persistent conflict and fragility to stability and prosperity, the attention of a segment of the international community provided the opportunity for a peace process. The key asset is the craving of the population for normalcy, order and better lives for their children. The patterns delineated above provide the constraint to state-building, which can be removed but must be recognized. The challenge is that the creation of institutions to fulfil the rights of citizens requires rupture and transformation of the rules of the game formed during the period of persistent conflict. Actors that have been empowered and networks created during time of conflict may persist to determine the dynamics of the state and market in the post-conflict period.

Actors – both domestic and international - in a post-conflict context may not have an understanding of underlying causes of conflict, but their well-meaning recommendations and actions, derived from more stable environments, could

exacerbate tensions and undermine the pursuit of stability. International actors cannot simply resume their activities after a period of absence, behaving as though the period of conflict has been a temporary hiatus, and accepting that those in positions of authority in immediate post-conflict conditions have the legitimacy or capacity to govern.

One variable that can make a critical difference in the transition period is whether the politics of resistance has been defined by a civilian movement of resistance, such as the Indian National Congress or the African National Congress. Characteristics of such movements are that following a political agreement, they have taken over post-colonial states where a fair amount of capacity was retained from colonial structures; social capital had cohered around the idea of the nation; leadership cadres had their own basis for legitimacy; and leaders personified the aspirations of the movement. Alternatively, a peace agreement or foreign intervention may catalyze the creation of a coalition government composed of different stakeholder representatives.

## **Part II: Paths of transition from conflict / fragility to stability**

**Table 2: Transitions from conflict/ fragility to stability**

1. *conflict* → *politics and security*
2. *charisma* → *management*
3. *opaqueness* → *transparency in the management of public finances*
4. *absence of service delivery* → *nurturing of human capital*
5. *oppositional identities* → *citizenship rights and formation of a civil society*
6. *destruction* → *creation of infrastructure*
7. *subsistence and war economy* → *a market economy*
8. *diversion and privatization of state assets* → *creation of public value*
9. *marginalization and illegitimacy* → *international relations as a responsible member of the international community*
10. *rule of the gun* → *rule of law*

Movement from persistent conflict to stable peace requires coming to terms with both the patterns formed during conflict and the root causes of conflict. Like the transition from communism to post-communism, the transition from persistent conflict to stable peace is a multi-tiered process. Whether marked by a political settlement or peace agreement, the cessation of hostilities is only the beginning of a series of simultaneous transitions. Unless this multiplicity of transitions and the need for an overall strategy of state-building as the central goal is recognized and acknowledged, interventions based on lessons learned from more stable contexts are likely to produce unintended consequences that could result in stalling on the path of peace or lead to renewal of conflict. To frame the discussion, we will highlight the following types of transitions that may confront domestic and international actors in the immediate wake of a political settlement.

### ***(1) Transition from conflict to politics and security***

For politics to replace conflict as the means of resolving differences, critical actors must both agree on mechanism game for voicing and resolving disputes without

recourse to violence, and establish organizations that guarantee a monopoly on the means of violence. The nature of the political agreement entered into upon the cessation of hostilities, its objective, its time horizon, and the resources mobilized for its realization therefore are critical to whether the outcome is a virtuous circle of stability and prosperity or a vicious circle of descent to conflict. A peace agreement should therefore be distinguished from a political agreement. While the former is about the laying down of arms, the latter is about a path to enfranchisement of the voiceless majority and gradual expansion of the civic, political and economic space for emergence of new actors and relationships. A political agreement that simply establishes the dominance of one of the contending parties to a persistent conflict without addressing the underlying causes of the conflict can only be a temporary hold in a series of conflicts.

When embodied in a Constitution that has been the result of a political process of consensus building, the probability that these rules will lay the basis for stability will be increased. Regular elections will provide the ultimate test of whether the rules enshrined in the constitution will become the formal or actual rules of the game. Limited terms of office for heads of state will be an extremely important issue, to avoid personalization of power.

In preparing a political agreement, a careful balance must be struck between bringing into the political process existing actors with control of the means of violence, and the gradual enfranchisement of other interest groups and broader society. Success of the political process depends on the attention paid in the political agreement to balancing short, medium and long-term horizons; on the nature of the external forces, particularly military, that can be enlisted to lend confidence to launching an implementation process; on the mobilization of human and material resources; and on the negative spectre of sanctions. Benchmarks that are realistic, achievable and tied to specific dates can be critical instruments for creating momentum and reinforcing trust and confidence in the process. Care must be taken not to freeze the existing arrangements. Rather, a political transition can harness time to a sequence of decisions that increasingly empower those stakeholders that believe in the process through the creation of formal institutions. A focus on future orientated goals that people can strive for, through a road map, can become the route towards trust and confidence in the process.

Citizens generally measure the success of a political agreement by the security of their lives, movement and property. For a political process to be perceived by citizens as a genuine transformation, both demilitarization of society and emergence of legitimate army, police and other security forces must occur. Those who have devoted themselves to the war effort, however, expect rewards and may well return to violence to disrupt the process if they perceive their interests to be threatened. There may be a risk of a vicious circle whereby ongoing violence prevents the continuation of reconstruction, which in turn disappoints the population. The challenge is to implement strategies that can transform those who are invested in violence, particularly the young people among them, into stakeholders in the peace process and economic development. Provision of security in post-conflict conditions depends not only on the creation of security sector institutions but on the existence of a capable and stable that can perform a range of functions.

## ***(2) Transition from charisma to management<sup>5</sup>***

The credibility of the political process depends on the creation of administrative structures and processes that would implement decisions made by political actors. The working modes of both commanders, formed by conflict, and administrators, formed by the power plays of the 1970s, can constrain their ability as managers to gain the trust of the citizens. A threat to stability might come from the perception that public office is a launching pad for private gain rather than public service. Lack of administrative experience, mental models regarding negative exemplars of the use and purpose of public power, and active adherence to patron-client models of political relationships whereby individuals are loyal to clan, family or party may present challenges in this transition. The habit of secrecy may constrain open communication of decisions and policies. The inherent tension is between an impersonal administration bound by rules, and the state as a source of patronage, personal enrichment and consolidation of loyalty from followers regardless of aptitude.

## ***(3) Transition from opaqueness to transparency in the management of public finances***

In conflict situations, the executive branch may be unable or unaccustomed to accounting for its decisions in general and its revenues and public expenditures in particular to its citizens. Rent from natural resources may be quite opaque. Commanders may have relied on contributions or extractions of resources from communities to maintain and provision their armed forces. The challenge of transition will be to make public finances transparent and bring all expenditures and revenues on budget. International actors and the government must agree on mechanisms and procedures to ensure transparency of public finances, and within the government understanding must also be reached that transparent finances are necessary to prevent the flight of international resources towards the creation of parallel administrations.

## ***(4) Transition from absence of service delivery and/or humanitarian assistance to sustainable delivery of services to citizens and nurturing of human capital***

Human capital is always a casualty of persistent conflict, as maternal and infant mortality rates, and the generally dismal outlook for the Millennium Development Goals, can demonstrate. In these conditions, emergency measures put into place to address humanitarian concerns -- which by definition are designed for a time horizon of three to six months -- have often endured for several decades. When services are provided, delivery is sporadic, driven by the exigencies of aid and by competition among various actors who must justify themselves to their funders. The prevalent distinction between humanitarian and developmental activities in conditions of conflict further constrains the delivery of services.

Balancing humanitarian concerns with capacity building must receive careful attention. Because humanitarian emergencies have a high degree of probability in these circumstances, building state capacity and innovative programs to deal with emergencies must receive attention. The challenge in the wake of a political agreement is to address both the extent and modality of delivery of these services. To allow for constructive dialogue, the question can best be posed in terms of medium to

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<sup>5</sup> The type of regime in the 1970 and 80s in Latin America or South Korea were a radically different species, where stable states which were dominated by the military then had to transfer power to civilian authorities, who rose to the surface as a result of social movements and carefully worked out agreements on transfer of power. By contrast, today we are often dealing with the transformation of charismatic leaders and armed groups into actors within states, and the state institutions are in a weak condition.

long-term cost-effectiveness in delivery of services, and the comparative advantages that communities, non-governmental organizations and private sector organizations might have in any particular context to create the desired outcome.

Whereas in conflict, human capital is a casualty- the professional cadres are often killed or escape into exile, and human development indicators plunge- the managerial and professional cadres are urgently required to rebuild institutions of governance. At the same time, it is the aid agencies which can pay high salaries to the limited pool of the educated and skilled. A careful look at allocation of the talented to the key positions of governance must be taken, with ways found to incentivize and support the talented to return to management of key strategic positions in government.

***(5) Transition from oppositional identities to the creation of citizenship rights and formation of a civil society***

Persistent conflict leaves a residue of distrust among groups of actors who have been forced to confront and kill each other on the battlefield. While many actors may blame outside elements for instigating or escalating their conflicts, the sad fact remains that facing recent history is painful for actors who must collaborate to make a political agreement succeed. Because of the development of strong positive and negative social capital at the level lower than the nation, building of trust in the state as the meta source of law and justice will be a challenge. The emergence of the nation as a community of trust cannot be simply assumed as a natural progression or left to fate. Rather, the nation as an imagined community of common sentiments and shared institutions<sup>6</sup> should be envisioned as a project to be deliberately undertaken in the years following state dissolution and reformation. Transforming individual subjects or members of oppositional groups into stakeholders in the state and citizens with rights and duties may be the most important key to building peace and establishing security.

A critical initial relationship of trust can be established by the even-handed distribution of resources. Programs with national scope and standards can be utilized to ensure that assets are allocated fairly at the level of implementation, to translate legitimacy of the state into mobilization. Such allocations also result in strong mobilizations of community and creation of positive competition among communities for better delivery of services.

Largely composed of individuals from the other two spheres who have volunteered their time and energies to insist on accountability, civil society organizations embody the spirit of social commitment and rule of law. In the West, civil societies have been able to hold the market and the state accountable by occupying a space between them, but have also been dependent for their capacity on legitimately functioning states and inclusive markets. In turn, both the market and the state require the emergence and consolidation of organic civil societies. It should be recognised, however, that the creation of civil society necessitates a long-term horizon, and may also require the presence of a large middle class.

The emergence of non-governmental organizations, mostly staffed by full-time employees who are career NGO professionals, can be traced to the failures of government, the market and civil society in post-conflict or unstable countries. The

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<sup>6</sup> For a discussion of the nation as a community of sentiment see Benedict Anderson "Imagined Communities". The challenge is to translate a community of sentiment into a community of common practice through programs that actively bind them together and to a state that they trust as their organized power, through predictable and fair rules.

operation of these organizations in post-conflict or fragile state conditions, however, can create parallel structures that compete with or make redundant government delivery of services. Often their activities cannot be differentiated from firms in the private sector, as they contract to perform various functions either for humanitarian organizations, the international aid system or the government. While there is certainly a role for such organizations to play, the issue is the comparative efficiency and advantage at stake in the performance of various functions by different actors.

#### ***(6) Transition from destruction to creation of infrastructure***

In war, destruction of infrastructure is a military imperative, as it is a means of projecting military conquest. In peace, restoration of critical infrastructure becomes not only a benchmark by which the population measures administrative effectiveness, but also essential to the restoration of security. The provision of infrastructure can also bring a sense of inclusion to areas that had previously been marginalized. Infrastructure creation can also be creatively leveraged as an opportunity for promotion of the legitimate private sector, mobilization of domestic resources, and creation of financial capital. The timely progress of infrastructure restoration cannot be assumed, however, but rather requires active management. Decisions on large-scale infrastructure will be critical to ensuring continued economic interaction between different parts of the country and between the country and its neighbours. Regional strategies can provide key opportunities for peace-building and mutually beneficial outcomes with neighbouring countries. There has also been in recent years a great deal of new thinking on infrastructure, which could potentially revolutionize its provision and cost if disseminated and implemented.

#### ***(7) Transition from a subsistence and war economy to the market***

Decline in growth, lack of investment in infrastructure, and breakdown of market relationships have been general characteristics of persistent conflicts. As indicated in part 1 of this paper, the dominant networks of provisioning and supply for the perpetuation of conflict involve actors who operate on the margins of law or are directly enmeshed in criminalized global networks. In the economic arena, the state-building agenda in the immediate wake of cessation of conflict faces three challenges: informality, illegality and criminality. Thanks to the work of Hernando de Soto and CK Prahalad, the issue of informality has received considerable attention, documenting that the assets of the poor can be made mobile and the market and the poor can have a mutually beneficial relationship. Illegality and criminality by contrast, have not received the same degree of attention. International actors and observers, however, are bearing witness to the increasing threat posed to stability and peace-building by takeover of the economy and domination of the polity by mafia-like elites. While a peace process might be used to gain access to positions of formal power, those positions are sometimes used by individuals and groups to enrich themselves, and gain access to international criminal networks.

Against this background, creating a legitimate private sector that provides opportunities for growth and creates demand for transparency in governance, particularly in the award of licenses and contracts, represents a challenge not to be underestimated. While there is consensus on the importance of the role of the market and the private sector, few mechanisms for their creation have actually been implemented by the international community under these conditions. The usual contracting practices of donors to NGOs will not result in the creation of a dynamic national private sector. In this context, the challenge is to create a market, rather than to assume it exists. Orthodox economics provides few solutions in this context. If the

poor in general and the ultra-poor in particular are to become stakeholders in the peace process, the creation of national programs that can enhance their participation in the polity and the economy must assume priority.

***(8) Transition from use of state assets for the purposes of conflict to their use for the creation of public value***

During a period of conflict, assets of the state are generally mobilized by the state or by private actors to finance that conflict. After conflict, there may remain constraints to ensuring regulation of the various assets of the state. These range from the cultural assets of antiquities, museums and archaeological sites, which may need to be protected from looting, to the environmental resources that should be safeguarded through protection of air quality and forests from logging interests. Mineral rights and land allocation will also be sensitive issues. Negatively, the lack of security and regulatory authority may allow some individuals to accrue large fortunes in an immediate post-conflict period. Positively, there is an opportunity in some contexts to “leap-frog” generations of technology and put in place enforceable high standards for zoning and regulation, at great benefit to the environment.

***(9) Transition from marginalization and/or illegitimacy to resumption of relations with the international community***

Countries in persistent conflict are often in international limbo, as administrators lack the legitimacy and credibility with their citizens which would make them convincing and authoritative representatives in relations with international political and economic actors. A political agreement that ushers in an internationally-recognized government not only opens up the possibility of political relations but also bestows a state with the legitimacy to enter into treaties with neighbours and other governments, to allot concessions for natural resources, to seek agreements on trade and transit, to receive grants and credit, and to undertake long-term planning for human development, infrastructure and economic growth.

***(10) Transition from rule of the gun to rule of law***

Indispensable to this assumption of legitimacy is a systematic move from rule of the gun to rule of law. Persistent conflict is accompanied by glorification of a culture of violence. The formulation of rules of the game for resolution of differences without violence, their acceptance through dialogue and compromise, and adherence to the rules through legal interpretation is critical. Translating this desirable objective into a feasible and credible series of goals requires an immense change within all levels of government, in the relations between the people and the government, and in the relationship between the government and the international community. Establishing the court as the ultimate interpreter and arbitrator of rule of law in the country is essential. There will need to be clear agreement on a process of demilitarization not just in the narrower sense of demobilization and disarmament, but rather understood as a systematic transition from rule of the gun to rule of law.

**Part III: Proposal for a framework for functions of the state**

Up to this point, the response to these multiple transitions has been a proliferation of separate initiatives and operations, separately designed by actors grounded in different organizational cultures and mental models, usually in reaction to immediate needs and pressures that carry inherently short-term time horizons. This mode of operation is both ineffective -- as witnessed by the reversion of a significant number of countries from situations identified as post-conflict to conditions of persistent conflict -- and inefficient, since resources mobilized for single initiatives do not leave sustainable

solutions to the overall challenge in-country. For a country to move truly from conflict to stability, it must build a state that fulfils the aspirations of its citizens for inclusion and development. Until there is agreement on the functions to be fulfilled by the state in the 21<sup>st</sup> century to be reached, actors' energies will not be harnessed to this goal and will work at cross-purposes from each other.

What is the role of the state in the 21<sup>st</sup> century? In the interdependent world of today, states must perform a constellation of interrelated functions that range from provision of citizenship rights to promotion of the enabling environment for the private sector, in marked contrast to the one-dimensional function of ensuring security which they performed in the 19<sup>th</sup> century. This section outlines ten core functions that we propose a state must perform in the modern world.

**Table 3: The ten functions of the state:**

- *legitimate monopoly on the means of violence*
- *administrative control*
- *management of public finances*
- *investment in human capital*
- *delineation of citizenship rights and duties*
- *provision of infrastructure services*
- *formation of the market*
- *management of the state's assets (including the environment, natural resources, and cultural assets)*
- *international relations (including entering into international contracts and public borrowing)*
- *rule of law*

*A legitimate monopoly on the means of violence* has long been accepted as the primary criterion of statehood. In practice, this criterion has often been reduced first to a simple monopoly on violence and then to little more than control of a capital city; control of the army in practice, under the Cold War, became the norm, where all opposition was suppressed, and large areas of the territory took arms against the authorities leaving only the capital to the authorities. However, it is the legitimacy of the state's monopoly on violence, as perceived by the citizens of the state, that is the key to using this monopoly as a criterion of statehood; if the polity rejects the legitimacy of the state's monopoly on violence, then that monopoly is inherently unstable. So the state's monopoly on the means of violence must be balanced by the presence or creation of credible institutions that provide checks and balances on the use of force – and the state itself must be constituted through, and accountable under, the rule of law. In states which do not fulfil their sovereign functions, military spending and related security expenditures typically loom ever larger, but without being transparent to the citizens or the international community, or producing any dividends of security or peace. In measuring the degree of state control of the means

of violence within state borders, then, both the extent to which the state can protect persons and property and the legitimacy of this protection must be assessed.

**Administrative control**, as defined by both the breadth and depth of the reach of a state's authority over its territory, is the second dimension of sovereignty. In order to establish and maintain administrative control, a state requires the following: the existence of a coherent set of rules that determine the division of responsibilities horizontally and vertically across functions of the state and between hierarchical levels; the recruitment and regulating of civil servants; the spatial and functional division of administrative roles; and flows of resources. The extent to which the citizens of a state accept that the promulgation and enforcement of these rules serves the interest of the majority is crucial to engendering trust between the state and its citizens and giving citizens a sense of belonging. Sound administration requires predictable, transparent and accountable decision-making, with appropriate participation from citizens, at every level of government. This function could also include information management and regulation of the media. In the modern era, there are immense opportunities to rethink the way that information is collected, analysed and used to inform policy-making.

Sound **management of public finance** in today's interdependent world is probably the most critical indicator of the autonomy of a state. No state can be sovereign while it relies on an external source to fund its ongoing operations. The ratio of domestic revenue to foreign assistance in a state's budget at any given moment, and the changes in this ratio over time, provide a straightforward measurement of the degree of a state's sovereignty and whether it is increasing or decreasing. Trends in revenue such as the actual number of taxpayers, the share of revenue received by the government from extractive industries as compared to more broadly differentiated economic activities, and even the relative share of rent obtained by the government from extractive industries such as oil, reveal the major characteristics of an economy's relation to its polity. On the expenditure side, the extent to which the government budget serves as the instrument for setting the country's priorities, the balance between ensuring growth and expenditure on service delivery through redistribution, the extent to which the budget is subject to formal oversight by the legislature and judiciary, and the extent to which the budget is substantively transparent to the citizens of the state denote the effectiveness of the state in both wealth creation and the redistribution of resources. The test of whether rents from extractive industries are included in public state budgets, or transacted off budget, can serve as a key measure of the accountability of rulers to citizens.

The capability of citizens as actors in the economy, polity and society is a product of the state's **investments in human capital**. Without these investments, different groups become disenfranchised, which undermines the capacity of the economy to develop in the longer term, and therefore of the state to fund itself in the future. The degree of consensus on the importance of a primary education, particularly for girls, is so general that it does not bear repetition. The same is true of preventive care. The importance of secondary and tertiary education in post-conflict conditions, however, is not yet adequately grasped. Without higher education geared towards producing responsible citizenship and marketable skills in the economy, neither administrative reform nor competitiveness can be realistic goals. In a post-conflict context, where there is likely to be a lost generation of youth who were denied education, special attention to policies for the youth is imperative.

The delineation of **citizenship rights and duties** that cut across gender, ethnicity, race, class, spatial location and religion are critical to stability and prosperity. When social

policy is perceived as an instrument for the creation of equality of opportunity, the social fabric can form a sense of national unity and a shared belief in common destiny, rather than giving way to other fields of oppositional identity. Social policy changes the emerging state from a mere organization into the community of sentiment and common practice that underlies the nation state.

Investment in the *provision of infrastructure services* through the creation of infrastructure and its operation and maintenance is critical to overcoming inequalities of opportunity across the territory of a state and levelling the playing field between urban and rural areas. The provision of transportation, water and power prepares the ground for and is prerequisite to the state's ability to provide security, administrative control, investment in human capital, and formation of the market. As the global economy depends on just-in-time production and distribution, the existence and management of reliable infrastructure ensures that essential predictability required for participation by a state and its citizens in the global economy and information networks.

While infrastructure is a prerequisite for the *formation of the market*, provision of the environment that enables the formation and expansion of the legal market has emerged as one of the most important functions of the state. This enabling environment depends on the establishment and protection of property and land rights, including the provision of enforceable contract, corporate, insurance, bankruptcy, land, employment and environmental laws. Experience in post-conflict conditions suggests that the market cannot be taken for granted as an institution; rather, in the absence of institutions [or conditions] that enable a functioning market, it is likely that criminalized networks will dominate the economy. In many countries, agricultural production, the extent to which value is added to products through the processing chain, and exporter access to international markets would be important measures of performance of this function.

A market economy is premised on the notion that wealth creation is boundless. Management of tangible forms of capital, such as natural resources and financial capital, is the obvious first target of wealth creation. However, *management of the assets* of the state, specifically the state's ability to regulate and license, may in the long run be even more significant. How the state handles the licensing of particular industries will determine whether wealth is created or destroyed through the licensing process, and also gives a clear indication of the nature of the operation of the state both to the domestic polity and the international observer. In today's connected world, regulation plays an increasingly important role for harmonization in the global market (e.g. through quality standards) and therefore in the participation of citizens in value chains that produce higher returns for wealth creation.

The state's authority over *international relations* enables it to enter into a series of international agreements, including membership in international organizations, treaties with other sovereign entities, agreements with corporations, and credit from international markets. Effective *public borrowing* provides an opportunity for the state to make investments in human, physical, institutional or social capital. If these investments are made wisely, their returns in future years will generate more than enough resources to cover the debt service and repayments associated with the initial loans. The financial health of the state, and its effectiveness in managing risks and opportunities with public resources, are subject to routine evaluation by international risk agencies such as Moody's. The ability of a state to borrow from the international market is an indicator of the degree of trust placed in its financial stewardship. Concessional lending from international financial institutions and bilateral donors was

designed to alleviate poverty and ensure the growth of healthy states. With the current crisis of indebtedness among the poorer states, however, the ratio of a state's debt service to social expenditures can serve as another measure of how public financial assets are being managed.

As all institutions are defined by the rules that delineate the field of play, the *rule of law* is the most critical indicator as to whether the formal rules are adhered to in practice. While a state capable of providing predictable rule of law can be denoted a stable policy environment, it is the constitution of the state itself through rules and its continuing subjection to them that marks the routinization of the rule of law<sup>7</sup>. The succession of rulers on the basis of rules and the persistence of policies from one government to another are good ongoing measures of the rule of law. As long as rulers and politicians at various levels of authority in the state are voted in and out of office by preference of the citizens, the stability of the system of governance will not become an issue of concern to investors and citizens. Another indicator of the routinization of rule of law is the extent to which collective decisions are made according to the rules and enforced in a predictable manner.

In many post-conflict conditions, two additional functions are also critical. The first is the function of transitional justice, where mechanisms must be created either to bring perpetrators of violence to justice or at a minimum to ensure that future violations do not take place and that they can co-exist with their victims. Mechanisms must be found for old actors to assume new roles. The second is the establishment of a system to protect refugees whilst in exile, and to assist in their return and reintegration back into the economy, polity and society.

#### *Interdependency between the functions*

When the state performs these ten functions in an integrated fashion, a virtuous circle is created in which state decisions in the different domains bolster overall enfranchisement and opportunity for the citizenry. This process reinforces the legitimacy of both the decision-makers and their decisions, engendering trust in the system as a whole. By contrast, failure to perform one or many of these functions leads to the creation and acceleration of a vicious circle, which results in the creation of contending centres of power, the multiplication of increasingly contradictory and ineffective decision-making processes, the loss of trust between citizens and state, the de-legitimization of institutions, the disenfranchisement of the citizenry, and ultimately the resort to violence.

One argument for the goal of state-building recognizes that under international law the state is the primary duty bearer of the rights of citizens. As the experience of Europe shows, what Castells calls the network state<sup>8</sup> allows for the performance of different functions at different levels. No presumption is made here as to the current map of territorial boundaries or the allocation of responsibilities between levels of governance, and accordingly as to what international, regional or sub-national agreements may be entered into to help reinforce these functions<sup>9</sup>. The key question of state-building strategy is performance of the functions rather than the level at which they are performed.

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<sup>7</sup> Thomas Caruthers "The Rule of Law Revival", *Foreign Affairs*, Vol. 77, March/April 1998.

<sup>8</sup> Manuel Castells, "The Rise of the Network State", Blackwell Publishing 1996.

<sup>9</sup> Stephen Krasner, "Problematic Sovereignty: Contested Rules and Political Possibilities", Columbia University Press, 2001, p27 and 44.

### *From functions to structure*

Focusing on these functions enables the goal of an accountable and transparent state to be realized through the creation of specific processes that ensure participation of the citizenry in decision-making. Consensus on these functions would allow the delineation of each function through a capacity-building program with timelines, benchmarks and indicators that serve both as goals towards which the public can be mobilized, and also as a means of accounting by which the momentum and achievements of the program can be reported to the public. This in turn creates an iterative process and feedback mechanisms for reflexive monitoring between the government and the governed. Such a process becomes critical to the establishment of trust between the states, as the organized power of society, and citizens, as both stakeholders and shareholders in the creation of public value and public goods. As more states converge towards sustainable and enduring state structures, their common goals and practices would also build trust among different states.

Beginning the building of capable states with substantive institutional reform and democratization of decision-making, rather than only concentrating efforts on rewriting the formal rules of democracy as embodied in elections and constitutions, would actually consolidate the formal institution of democracy. This focus on clearly delineated state functions and achievable, assessable outcomes thus averts the danger of promoting flawed democratic structures without substantive democratization of government institutions and processes.

### **Part IV: Preparation of a state-building strategy**

**Table 4: Transition from poorly-performed to well-performed functions**

<b>POORLY-PERFORMED</b>	<b>FUNCTION</b>	<b>WELL-PERFORMED</b>
Fragmented, run by mafias, and/or abusive of the population	<b>Means of violence</b>	Monopolized and legitimate
Unpredictable	<b>Administration</b>	Controlled and regulated
Wasteful, diverted, opaque	<b>Public finances</b>	Transparently managed and formalized
Brain drain, little investment	<b>Human capital</b>	Nurtured and invested in
Social contract violated	<b>Rights / responsibilities of citizens</b>	Social policy provided / social contract upheld / paths to social mobility provided
Devastated, non-existent	<b>Infrastructure</b>	Provided and regulated
Criminal, informal	<b>Market</b>	Established and regulated
Privatized, diverted, spoiled, wasted	<b>National assets</b>	Protected, developed, regulated
Marginalized, in limbo	<b>International relations</b>	Interests of citizens represented in world fora
Ruled by guns, informally mediated	<b>Rule of law</b>	Central/regional executive, legislature, judiciary ruled by and ruling through fair procedures

### ***Formulating a strategy***

An agreement formally ending hostilities does not necessarily bring peace to a conflict-affected country, nor does it mean the automatic restoration of a functioning state. In the last two decades, the world has witnessed a series of interventions intended to end conditions of persistent conflict. International security forces have been deployed at costs running to tens of billions of dollars, usually without predetermined exit strategies. The UN has been forced to assume near-direct trusteeship in East Timor and Kosovo, resulting in difficult transitions for successor administrators. Large-scale humanitarian interventions have taken place, yet the consensus emerging in the literature of the field is that the underlying causes of crisis have remained unaddressed.

As state-building has rarely been an explicit goal of an intervention, many of the plans adopted in post-conflict countries have focused on physical reconstruction rather than institution-building, and have made little distinction between whether reconstruction and services are delivered by sustainable national institutions or temporary, unsustainable international capacity.

There exists considerable evidence for the claim that the citizens of countries recovering from conflict desire first and foremost the restoration or creation of a functioning and accountable state that would serve their legitimate aspirations. Framing state-building as the objective of post-conflict transitions, therefore, should not be interpreted as a call to build upon the models posed by the repressive states of the last decades or by states with one-dimensional focus on functions such as social policy or market regulation. Rather, the type of state for which energies could be mobilized is one where the primary purpose of state-building is to create a state that is accountable for delivering human security and prosperity to its citizens, and for fulfilling its obligations as a legitimate member of the international community. Accordingly, a truly legitimate or sovereign state would have to perform all the functions delineated above.

If there is consensus that state-building should be the goal in certain contexts, then the approaches that have been developed in various contexts to prepare state-building strategies will need to be developed. These would include starting from agreement on the goal of state-building and the functions the state should perform, agreement on timelines for creation of that capacity, and methods for institutional transformation. Such strategies would be harnessed to the goal of creating state capacity to perform core functions in an effective, accountable and transparent manner, with measurable targets towards this goal. International finance and support could then more easily be aligned to this goal, both in the allocation of funds and modalities of funding.

### ***A balance sheet of positive and negative forms of capital to serve as a context-specific basis for strategy formulation***

The notion of the failed state is often premised on the assumption that institutional development in a post-conflict condition takes place on a green-field site, with the common refrain that there is nothing there and that everything must be created from scratch. An effective state-building strategy depends on how the existing assets are mobilized and supplemented, and how the liabilities are understood and systematically reduced. Therefore, a useful starting point for a state-building strategy will be to take stock of the various forms of capital that exist in a particular post-conflict country. These range from human, social, institutional, natural, financial, security to informational, physical and political capital. Each of them can exist in

positive and negative form. If a thorough assessment is made, then it will ensure that a strategy is appropriately tailored to context.

### ***Leadership and management***

The heads of state and holders of key leadership positions during a process of transition will need to transform themselves from their previous roles -- leaders of resistance movements, private citizens, intellectuals, managers, professionals -- into national leaders. How leadership skills were acquired, how teams were formed, and how new management capabilities are acquired may be critical determinants of success in a post-conflict period. If national leaders and domestic managers will be required to supervise and instigate post-conflict transitions, then leadership and management skills will need to be developed in-country. The technological and information age bring the costs of transportation and learning modalities down, and bring new opportunities for investing in human capital so as to nurture such skills through training, exchanges and mentoring.

If state-building strategies are to be used, the process of reaching agreement on their content and mechanisms will be critical. An iterative process of consultation between the international community, neighbours, the country leadership and the citizens of the country will be necessary.

### ***A sovereignty or state effectiveness index***

If there is agreement on a categorization of functions of the state, and the need to harness resources to achieve the goal of state-building, then a sovereignty index or scorecard could be constructed to measure progress in terms of the performance of each function individually, and the capacity of the state overall. If such a scorecard were considered useful, different options for approaches to its construction, and the best mechanisms for its accountabilities, could be explored. Early piloting with such a report indicated a number of factors, including a close agreement between actors in different groups of society on a score for their own country, and in some cases that state effectiveness for some functions will increase during a period of post-conflict transition, but for other functions decreased. For example, in some cases the state's ability to regulate the market and manage assets fairly and effectively was considered to have declined in some post-conflict transitions.



- The implementation of a state-building strategy requires **resource mobilization** from domestic reserves - domestic revenue, human capital, physical capital - and international sources - including financial capital, knowledge, information and sanctions.
  - It is currently practice to hold a donor conference around a national needs assessment, and establish a single trust fund for recurrent expenditure and capital expenditure, while the large donors continue to contract projects outside this financing flow. There may be a need to revisit the scope, timing and focus of information gathering and resource mobilization efforts in order to identify effective means of harnessing resources to the task of rebuilding capacity.
  - The practice is for donors to commit resources for a **time period** of one or maximally three years. These resources must therefore be spent within the budgetary year, but are at the same time bound by donor rules and regulations that make this disbursement impossible to achieve in a post-conflict condition. Professor Collier has demonstrated that while availability of resources is high during the first years after a political agreement, it tapers off as the ability to disburse is created after four years. The planning and contracting cycles for large infrastructure projects, meanwhile, require financial predictability and security over a 6-8 year period. Furthermore, it is now documented that institution-building requires cycles in excess of ten years. If longer-term time frames for financial commitments are necessary, then mechanisms may need to be developed to identify appropriate terms of commitment, and to overcome constraints in donors' ability to commit resources over longer time frames.
  
- **Procurement** is now subject to a myriad of different rules. The creation of a **domestic private sector** could be catalyzed through the harnessing of financial resources to infrastructure construction, if linked appropriately to supply chain management, small business support and vocational training. Mechanisms for linking a domestic private sector to the infrastructure construction business could be critical.
  
- There are a number of current practices for **capacity building** in post-conflict conditions. The most common is the contracting of consulting firms to provide large numbers of TA to ministries. A second is the design of capacity building projects, which may include workshops. A third, perhaps less used, is the practice of secondments or twinning from the governments of other countries. If the goal of re-establishing the capacity of the state to manage its core functions is agreed, what would be appropriate mechanisms for generating knowledge, designing organizations and establishing leadership and management skills?
  
- Currently, there are a range of **conditionalities, red lines, and benchmarks**, both implicit and explicit, which are provided or demanded by the various sectors of the international community in post-conflict situations and which have implications across all the functions of the state.
  - These appear in multiple configurations, according to the scope of their objectives across the functions of the state, whether they are outcome or input-focused, and the extent of their realism. The feasibility of bringing all conditionalities/benchmarks from different parts of the international

system into one long-term framework - a long-term compact between government and donors - will be examined.

- We have proposed two particular mechanisms. First, a “double compact” could be agreed upon between a country’s leadership and its citizens on the one hand and with the international community on the other. Second, the inputs and resources of the various actors in the international community against the state-building roadmap, in the form of a “partnership map” (see Table 6) which clearly delineates responsibilities for exercise of each function, timelines for transfer to the state, and methods of ensuring that sufficient state capacity is created to deliver appropriate and legitimate performance of functions. In this case, international agencies, private companies or NGOs could take direct or shared responsibility for the performance of a certain function, for clearly demarcated periods of time, and incentives would be aligned to the creation of state capability to perform each function.

**Table 6: An example of a partnership map for performance of state functions<sup>10</sup>**

<b>FUNCTION</b>	<b>Options for roles to be performed by the government</b>	<b>Cost per unit, effectiveness and transparency of provision by each form</b>	<b>Short term substitution mechanisms</b>	<b>Cost per unit, effectiveness and transparency of provision</b>	<b>Catalytic mechanisms for creation of state capability</b>
<b>Security</b>	National police	e.g. National police: medium cost, high effectiveness; Community policing: low cost, high effectiveness	International peacekeepers	e.g. High cost, high effectiveness (prevention of coups)/ low effectiveness (prevention of crime against citizens).	Embedded trainers, training of trainers.
	National army				
	Community policing				
<b>Administration</b>	National, provincial, district administrative functions		Secondment of individuals, carrying out of specific functions (e.g. voter registration)		Investment in information management systems etc.
<b>Public finances</b>	Performance by national staff, contracting out to firms		Contracting procurement, auditing, accounting functions to private sector		Systems analysis, security support to customs collection etc.
<b>Human capital</b>	Contracting out or direct provision of services		Operation of schools and clinics by NGOs		Leadership and management training
<b>Rights / responsibilities of citizens</b>	Provision of welfare/ investment in communities and/ or individuals to cement bonds between state and citizen		Humanitarian aid projects provided directly by donors		
<b>Infrastructure</b>	Direct provision or regulation of provision of infrastructure services		Provision of infrastructure through stand-alone projects		
<b>Market</b>	Regulation of the market		Provision of credit, management of banks, ports, customs		
<b>National assets</b>	Management of assets of the state		Supervision of asset management, rule-making		
<b>International relations</b>	Functioning diplomatic system		World Bank, IMF, NATO, WTO regulating functions		
<b>Rule of law</b>	Justice sector		International tribunals, third party arbitration		

<sup>10</sup> This map does not take account of the fact that for each function, often the most effective mechanism for its provision will lie in a different domain e.g. market opportunities may enhance the provision of security.

Where a strategic framework is put into use, the key determinant of whether it will prove to be a useful management tool is whether there are clearly designated **mechanisms for monitoring the implementation of strategy**. There exist various options for evaluating progress toward goals. One idea would be to construct a state-effectiveness report, or sovereignty report, which would measure state effectiveness across each of the functions of the state, and would thus provide an overall measure of the outcome of institution building efforts. Another option would be to monitor the implementation of specific activities or actions that were designated as short-, mid- and long-term objectives in the initial strategy, which would provide a sense of the interim results achieved along the path to increased capability in the exercise of each function. Each of these mechanisms might prove useful in different ways.

Once the challenges of state building in post-conflict conditions are clearly recognized, it becomes clear that international bodies are essential actors in successful state-building strategies, and must acquire the capabilities to deal with the constraints in post-conflict conditions in the medium to long term. This recognition in turn necessitates a radical rethinking of the nature of cooperation and division of labour between IFIs, UN organizations, NGOs and global and regional security organizations. It also requires investment from member states in the creation of capabilities within these organizations and in linking these organizations to networks of creativity within the private sector, the academy and the governments of developed countries.

### **Conclusion**

As the patterns of both conflict and post-conflict conditions become clearer through experience, they can produce lessons that will help both to avoid the mistakes of the past and to delineate implementable strategies for the future. A political agreement that ends a condition of persistent conflict opens, for a historical moment, the possibility of different futures; in its wake, the attention of both domestic and international actors is focused on giving stability, prosperity and political freedom a real opportunity. However, these open moments do not last long, as critical actions taken or not taken create paths of dependency, which then require an immense mobilization of different forms of capital just to create the same type of open moment. While general lessons can be drawn from experience, no two countries are identical in the balance sheet of their capitals, the hierarchy of their functions or the degree of their dependence on or independence from international actors -- to name only a few critical variables. Therefore, any strategy of state-building must take context extremely seriously and be tailored to its context, in order to generate the ownership and momentum necessary to generate synergy among different actors and to expand the open moment into a lasting realization of the aspirations of the people of the country and other stakeholders.

This is now also a globally open moment. Because of the threats to global security and the events of New York, Madrid and London, global attention can now be focused on the root causes of poverty and instability. If creative energy is mobilized to address this issue, this moment may well become an opportunity for a radically different world to emerge.

## **Annex: Observations from the Greentree workshop**

**The following points are based on the authors' interpretation of the workshop discussions and suggest ideas to explore in further research.**

### **1. Predictability of conflict:**

The consensus on the predictability of conflict emerged from the following arguments. The root causes of most conflicts have not been dealt with. The legacy of the colonial state as a formal structure, organization and set of mental models, which was devised for the purposes of exclusion, is still very heavy. Either the political and social processes of inclusion both remain incomplete, or when the political process has been dealt with, the issue of social peace still remains unaddressed. When peace agreements deal with symptoms rather than causes of conflicts, peace is an interlude between conflicts rather than the first step on a path of transformation to stability, order and prosperity.

### **2. The type and legacy of the state:**

Perspectives of the participants were shaped by the following experiences:

- *A colonial state*, where the key organizations of the government were based in the colonial metropolis rather than the colony. The task was therefore not just takeover of existing organizations but creation of new organizations of government in Mozambique, Guinea Bissau and Angola.
- *A strong colonial state*, particularly in the area of security and resource management, that after decades of anti-apartheid policy had agreed to a period of transition and transformation of power to democratic elections. Despite three elections, the task of transformation of the state into inclusive institutions is still a very large challenge in South Africa.
- *Exclusivist regimes* engaged in a persistent, long civil war with armed oppositional movements. When persistent recourse to repression failed to end the civil war, a section of the ruling elite entered into dialogue with the leaders of the opposition and agreed on a political road-map to building a different type of political order in El Salvador and Sudan.
- *Collapsed states*, where the state had lost the ability to perform even minimal functions of state-hood, and as a result have created a fragmentation of power into multiple micro and meso entities. Sierra Leone, DRC, Comoros, Cote d'Ivoire, Guinea-Bissau, Uganda in the 1980s and Afghanistan in the 1990s are examples of such collapse.
- States which have conducted *ethnocide and genocide*. State power in some occasions has been completely turned against citizens and has become an instrument of mass murder or atrocities. Bosnia and Rwanda are examples of such tragedies.
- *A national liberation movement resulting in independence*. Successful examples of separatist movements against states that fail to acknowledge their special identity include East Timor and Eritrea. Eritrea is also a rare example of a movement that had built cohesiveness and had articulated a very clear vision of governance to which it had closely adhered during its first phase of state-building. Both the cases of Eritrea and Mozambique faced subsequent phases of war, either internal or external.
- States which had a *substantial international presence*, either in the form of direct administrative control (East Timor, Kosovo) or a large military presence (Afghanistan).

### **3. Agreement on the necessary goal of building an inclusive state**

There was a remarkable consensus that wealth generation in most developing countries has not been harnessed for public purposes. Inhabitants in most of these countries therefore feel more like subjects than citizens, thereby feeding the vicious circle of disillusionment, distrust, illegitimacy and violence. Establishment of the virtuous circle of trust and mutual accountability and assumptions of rights and obligations requires embarking on an agenda of state-building whose goal is the creation of states that usher in inclusive economic, political and social orders. Such states cannot be built around cults of personalities of leaders but must address the issue of training of large groups of people for leadership and putting in place mechanisms of making rulers subject to rules, and having regular transfers of leadership through limited terms in office. There was also emphasis that, as checks and balances are essential to rule of law and creation of inclusive states, international actors should not limit their attention exclusively to the executive branch but deal constructively with parliamentary and judicial branches of governments as well.

While there was considerable amount of discussion of the nation as an imagined community of sentiment, history and destiny, some pointed out that the issue of identity was too complex to be dealt with in relations with international actors. The state as a provider of services to citizens was a more definable problem and could through a functional analysis become the subject of a strategic partnership internally and with the international community.

### **4. The ten functions of the state**

The participants gave positive feedback on the framework regarding the ten necessary functions to be performed by the state in today's world. The following points can be made regarding this framework:

1. Such a map of functions would have provided a clear vision to groups dedicated to the building of inclusive states.
2. Because of lack of such a framework, leaders engaged in the task of state-building neglected some of the dimensions, particularly those pertaining to economic and social order, thereby creating uneven attention and creating new tensions in their societies.
3. Such a framework provides a clear indication of the type of investments in human capital that is necessary for producing leadership and management to produce a coherent and integrated organization of the state.
4. In dealing with the international community, national and local leaders could frame their cooperation in clear terms, and deploy international assistance with clear commitment to an exit strategy and enhancement of local capability.
5. Such a framework provides grounds for benchmarking and comparison. As each of the functions alone, and the combination of the functions could provide the basis of specialization and comparison with those countries or organizations that perform in the most effective and transparent manner possible.
6. As the framework is neutral regarding at which level of organization these functions are to be performed, it provides for tailoring of both supra-national and sub-national performance of some of the functions, thereby creating the best possible use of resources and synergy in performance of some of the functions.
7. Because the proposed framework is combined with a relatively simple measurement system, it provides an easy reference for decision makers to

assess how their efforts are being viewed from the perspective of citizens in general or any group of stakeholders within the citizenry in particular.

The participants emphasised that two additional critical tasks make or break the credibility of a new leadership that has come to power in the wake of immediate conflict. These are: transitional justice and integration of refugees and internally displaced populations.

On transitional justice, the emphasis was not so much on punishment but on the type of mechanisms such as the truth and reconciliation commission that would allow the victims' voice and an assurance that their former tormentors would never again be in a position to inflict wounds on other citizens. There was also the proposal that transitional justice must create mechanisms for old actors to assume new roles, and thereby become stakeholders in a new inclusive system without exercising the power of veto. What was particularly emphasised was the need for mechanisms to prevent reoccurrence of human rights violations under the new regime. Should such events take place, there is need for swift action on the part of the local leadership and the international community to mete out swift justice.

The plight of refugees and IDPs is usually comparable to the devastation wrought by Katrina on the population of the United States. Forced to flee from their homes under the threat of violence, refugees and internally displaced populations usually return to a devastated terrain. While UNHCR has a well-worked out system to assist with the return of internationally recognized refugees, the challenge of the new leadership begins at the very moment when the task of UNHCR is done, namely, providing assistance to the returnees to earn a living. While quick impact projects have often been considered, their sustainable value is ambiguous. Participants emphasised the need for particular expertise in devising programs that would result in economic and social empowerment of returnees. Such programs would have to be tailor-made to context but must draw lessons from the most successful programs that have been designed for more stable environments. The National Solidarity Program in Afghanistan, where block grants have been provided to communities, once the communities have elected women and men to the leadership council through a secret ballot, and where the villagers chose their projects in open meetings, and record and publish all their decisions and expenditure, was of particular interest to the participants. This program had been designed by the government in partnership with the World Bank, and supported later by a series of donors.

## **5. Transitional periods**

Transitional periods that are specified in agreements which results in handover of power or transfer of power through elections have a particular dynamic. Leaders of resistance face difficulties with their own constituencies in a number of areas. First, there is overall distrust of the intentions of the other party, and thereby reluctance to renounce continued armed struggle. Second, physical handover of arms raises enormous suspicions regarding the intentions of the other parties. Third, there is considerable concern as to whether the other party is really willing to disclose the real assets of the government, share information regarding security, or is creating other systems, and on sunset clauses that protect officials of the previous regime from removal and arrangements for protection of property and assets that were seized through violence or illegal means. As such, the leaders have to negotiate and bargain with their constituencies to win them over and must acquire the skills of communication to be able to persuade and keep informed their supporters, and win the

citizenry at large to the task. It was also pointed out that in the struggles against apartheid and colonialism, leaders of transitions faced difficulties in explaining their compromises to some of their most ardent and dedicated supporters. The ANC, for instance, was accused by ILO of selling all the social rights in its agreement with the apartheid regime of South Africa.

The technology of elections and referenda also requires serious attention. In DRC, for instance, there are no reliable estimates of the population or their distribution in different provinces and districts. Without specialized skills in this area, the larger political processes are faced with the risk of scepticism or outright accusations of bad faith or incompetence. A task that needs to be at the top of the agenda for giving credibility to governments in transition is to have an understanding of the basic needs of the people and to be able to have programs to make rapid progress on provision of services such as sanitation, water, electricity, education etc. to the population. There was an emphasis that such programs need to keep the medium term view and cost-effectiveness in mind, become a vehicle for developing the capabilities of national institutions and a catalyst for development of the domestic private sector.

On transformation, the key issue is the need for medium to long time horizon strategies with the end goal of an inclusive state. State-building programs that had promise got off track because of the absence of such a medium to long term horizon that could guide the partnership of local leaders and the international community. Instead, successful experiences were subverted either by accommodation with existing rapacious interests, or were undermined by emergence of cults of personality and emphasis that the system depended on one person as the lynchpin and consequent accommodation with the narrow agendas of a particular person in power. Unless the focus is clearly on a type of leadership that would be accountable to the citizens and subject to constitutionally limited terms of office, the danger of strong leaders but weak states remains. What are needed are strong states that derive their strength from the capability and flexibility of their institutions and not of their rulers.

The types of transition delineated in the background paper were found useful by the participants, and there was particular emphasis on the need for strategies that would pre-empt the criminalization of economies, and promote formalization and legalization of economic activity as mechanisms of empowerment of the poor and excluded groups and individuals.

## **6. Partnership with international organizations**

There was consensus that international organizations and national governments have little mutual understanding of each other. Neither side fully appreciates the constraints and rules under which the other side operates. Hence, better understanding of each other, through agreement on medium to long term strategies of development. The relevance of international organizations to the agenda of empowerment of citizens through building of inclusive states was emphasised. Implementation of such an agenda, however, requires major changes in the personnel, procedures, people and organizational culture of international organizations. Critical areas of economic governance such as accounting, auditing, budgeting must become rapidly standardized into a series of options and made into an understandable sequence of reforms that reformers in developing countries can choose from and tailor to their specific context, with a shared goal of accountability and transparency.

There was discussion of the need for priority to be attached to local rules and regulations that are benchmarked against international standards rather than formal adherence to international standards that do not result in substantive enhancement of accountability and transparency. There was discussion of the need for incentives and evaluation systems for the staff working in international organizations to change to reflect commitment to a pattern of partnership and reward and recognition for achieving institutional results on the ground. To avoid creation of parallel organizations and dual bureaucracies and substitution for the state, there must be a clear analysis of advantages, costs and duration of different institutional arrangements at the time of transition. There was agreement by many that arrangements that result in an alternative performance of government functions by other entities must be time bound and must involve clear measures for handing over the set functions back to the government whose capability has been built up, measured according to objective standards.

There was also emphasis that international organizations must engage in a better understanding of the potential of regional economic cooperation and acquire the capability to get groups of states to cooperate in endeavours that would result in the mutual benefits of their citizens. The participants also emphasised that international organizations should adopt a customer perspective on their performance through regular evaluation and feedback from their clients, and make this information publicly available.

Based on the discussions, a typology of roles that international organizations could be suggested:

1. Direct administrator
2. Facilitator
3. Strategic adviser
4. Catalyst
5. Substitute provider
6. Monitor
7. Evaluator
8. Referee

The participants agreed that there was a need for a systematic review of the existing repertoire of instruments and techniques, ranging from peace agreements to needs assessments, to transform these instruments and practices into catalytic mechanisms for building of inclusive states. Participants expressed interest in the development of the index of functions, as a way to replace the currently complex system of reporting.

Time and again, participants returned to the importance of mental models and psychological attitudes. If development is to occur, modalities of non-defensive reasoning and learning, habits of listening, disciplines of grasping context, and tailoring global experiences and lessons to particular contexts in historical situations, and commitment to a culture of mutual respect and mutual accountability are required. Unless national governments and international organizations take the task of cultural transformations of their organizations and institutions seriously, and work on the basis of long-term interests and commitments of their institutions rather than short term horizons of their terms in office, the declared agenda of empowerment of the poor cannot be realized.

## **7. Technical assistance, leadership and management**

As this agenda critically depends on creating the enabling climate for fostering leadership and management, it is critical that the international community focuses on the task of building national and regional institutions that would produce leaders and managers who can deliver on this agenda of building an inclusive state.

The participants expressed dissatisfaction with the existing modalities of technical assistance and had many stories regarding duplication, lack of qualifications, lack of a system for measuring for results, and lack of effectiveness. On the other hand, participants did feel the need for assistance that would result in sustained capacity in their states, economies and societies, and thought that international organizations could become a catalyst in the process of connecting them with global networks of information and knowledge, that could substitute for the existing ineffective system of technical assistance.

Predictability is essential to any strategic partnership. Bringing predictability to the aid system requires agreement on an exit strategy where development of local wealth creation mechanisms can result in reduction or redirection of aid, rather than its perpetuation. A state-building strategy where a clear division of labour is worked out in terms of time lines and realistic systems of measurement on progress and sustainability can be an important mechanism for building trust among citizens that their states are indeed becoming instruments for realization of their goals. It could also be instrumental for the international community to ensure that they are making visible progress in ushering in stability and in ultimate eradication of poverty.