

*Project to Develop Strategies for Failing, Failed, and Recovering States*  
**PPC IDEAS**

# **Strategy Framework for the Assessment and Treatment of Fragile States**

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## **About the PPC IDEAS Project**

The objectives of the PPC IDEAS are to help USAID make its donor assistance more effective and sustainable by incorporating insights from the New Institutional Economics into USAID's programming and delivery of development assistance. Services for the PPC IDEAS Project are provided by the Center for Institutional Reform and the Informal Sector (IRIS) and its outside experts. Dr. Dennis Wood directs the overall Project at IRIS. Dr. Anne Phillips is the day-to-day manager of the Project at USAID. Funding for the Project is provided by USAID's Bureau for Policy and Program Coordination, contract no. EDG-0-00-02-00037-00. Copyright 2003 by the IRIS Center.

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November 2003

## **Executive Summary**

[Text]

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\* The authors are from George Mason University, Suffolk University, The University of Maryland, and The University of Maryland. See Acknowledgements for other important contributors to the ideas developed herein.



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## **Chapter I. The Challenge, Methodology and Conclusions<sup>2</sup>**

The quest to understand and find the most appropriate way to deal with states whose political, social and economic stability are precarious has become a central focus of U.S. foreign policy. This document endeavors to assist in that process. It presents new methodological tools based on the new institutional economics, together with detailed examples of their use. In an effort to spare the less adventurous among us from having to read the full text, the present chapter provides the background and challenges of this enterprise. It then lays out the rudiments of the new methodology together with a summary of the analyses and conclusions for various categories of these fragile states, described in more detail in the succeeding chapters.

### **1. Background**

As noted in the “Foreign Aid in the National Interest” Report, violence, the instability and violence inherent in fragile states threaten our national security and undermine development efforts. President Bush’s National Security Strategy recognizes these links by elevating development—in the broadest sense of improved political and economic performance—as a third pillar, along with diplomacy and defense, of US national security. Nonetheless, while the thrust

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<sup>1</sup> The authors are from George Mason University, Suffolk University, The University of Maryland, and The University of Maryland. See Acknowledgements for other important contributors to the ideas developed herein.

<sup>2</sup> The principal authors of this chapter were Jack Goldstone and Clifford Zinnes.

of the Monterrey Consensus and the creation of the MCA have emphasized rewarding good development performance, they do little to suggest how best to address conditions where development performance is exceptionally poor. A focused strategy on how USAID and its interagency partners can work more effectively in fragile states is therefore needed to complement MCA and other development efforts.<sup>3</sup>

At the end of June 2003, a Core Group of working-level USAID professionals was convened to develop an annotated outline for the strategy. To support their efforts the IRIS Center of the University of Maryland was asked under the framework of the PPC IDEAS Project to assemble a team of multi-disciplinary experts to develop a substantive framework which would underpin the new USAID Fragile States Strategy. The present document is a summary of the methods, conclusions, and recommendations stemming from the deliberations of the IRIS team, augmented with feedback from the USAID Core Group.

## **2. Challenge**

The IRIS team was asked to support the USAID Task Force on Fragile States in its goal of creating a strategy and framework with which to more effectively identify and address the needs of fragile states. The USAID Task Force especially sought a framework that could guide broader based and inter-agency efforts in this area (including other parts of the USG as well as other donors). Toward this end, the IRIS team has created working groups of internationally acclaimed economists and political scientists<sup>4</sup> to engage in the following:

- Build upon the existing literature and previous reports commissioned by USAID and other donors.
- Develop a typology of fragile states, providing indicators where appropriate.

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<sup>3</sup> These themes are raised by USAID in “Fragile States: Failing, Failed and Recovering – An Outline for an Agency Strategy”, USAID/PPC internal memo.

<sup>4</sup> See page xiii for a complete list.

- Identify major trajectories in the dynamics of change and the drivers that carry states into and out of conditions of “state failure”; identify potential “tipping points” and opportunities for donor influence and intervention.<sup>5</sup>
- Describe potential treatment options (country actions and USAID support), taking into account a country’s history and cultural environment as well as the possible role of other USG agencies and international donors.

### 3. Overview of approach

#### 3.1 What are Fragile States?

States that are “failing,” “in failure,” or “recovering from failure,” may be considered as all—in varying degrees—fragile states. But this begs the question—what is state failure? States can fail in a variety of ways, and from a variety of causes. It is likely impossible, given this diversity of experience, to develop precise and all-inclusive definitions of state failure. Thus we should focus on working definitions that help us move toward analysis and treatments.

States can fail in the functional sense of losing the dominant role in enforcing law and order in their territories. They can also fail in the normative sense of failing at those tasks that we think states should do: enforce justice and protect minorities, provide the conditions for economic growth, cope with natural and humanitarian disasters. We commonly consider states that fail in either sense to be ‘failing’ states, in part because when a state fails in one regard it is highly likely—although not inevitable—that it will fail in the other.

For working purposes, we can consider states to be “in danger of failing” if they show any of a number of warning signs (discussed below and listed in Table 5). Typically states appear on lists of states “at risk” because one or more of these signs suddenly becomes strikingly visible. However, the sudden appearance of one or two such signs does *not* conclusively show whether or not a state is “failing.” That determination depends on a more analytic match with broad measures of state legitimacy and effectiveness, described in more detail below. One of the goals in this project is to help USAID and other agencies go beyond responses to individual sig-

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<sup>5</sup> It is interesting to note that, as early as 1991, one member of the team had already rigorously developed a theory of institutional tipping points and their effect of economic growth. See Zinnes and McPherson (2002) for details.

nals or symptoms of state fragility, and provide a holistic framework for analyzing, and responding to, the factors that underlie threats to social order.

Similarly, for working purposes, we can consider a state to have “failed,” or be “in failure” if it shows any of several patterns of extensive and severe distress or dissolution. These are listed in Table 1. Yet again, merely showing these signs does not indicate what must be done to revive the state; that too depends on a causal analysis of how legitimacy and effectiveness can be restored.

Finally, a “recovering” state can be considered as any state that has emerged from failure within the last five years and still shows the telltale warning signs of that they remain in danger of failing.

**Table 1: List of signs that a state is in failure**

---

- (1) Ruling Regime has been overturned and replaced by mass and elite actions outside of constitutional or agreed-upon means, and order has yet to be restored; *or*
  - (2) Ruling Regime has lost control of 20% or more of its territory or population to armed opposition forces; *or*
  - (3) Civil or Guerrilla war is ongoing with fatalities exceeding 1% of the population, or war refugees exceeding 5% of the population.
- 

While Table 1 (and Table 5, below) provide a quick means of provisionally identifying ‘failing,’ ‘failed,’ and ‘recovering’ states, the real task of analyzing the causes of failure, and developing treatments requires a deeper look at how states succeed and fail.

### **3.2 Causes of failure and ‘tipping points’**

Scholars who study state failures – including revolutions, civil wars, and economic underdevelopment—have taken two main approaches to identifying the social conditions that lie behind these events. One approach focuses on long-term, deeply rooted characteristics of a society. These include the degree of trust or social capital developed over long periods (Putnam et al. 1994, Fukuyama 1996, Coleman 1990), the degree of economic inequality sustained over decades or centuries (Acemoglu et al. 2001, Engerman and Sokoloff 2002), whether there are long-standing ethnic or religious fault-lines dividing a society (Horowitz 1985), or structural conditions that lead to conflicts between the state and its own elites (Skocpol 1979, Goldstone 1991). Countries that have such deficiencies, it is argued, inevitably fail to make efficient use of

their resources, suffer weak or declining economies, and fall behind other states. The combination of long-term decline and competition with other states leads to increased conflicts and state breakdown.

These long-term characteristics of societies may identify important and pernicious social patterns that produce state failure. Yet they leave policy-makers with little choice except to triage societies and wait decades or centuries to see if such long-standing social characteristics will evolve and change.

However, a different approach has been taken by scholars who focus on the impact of institutions on current behavior. In the view of these “new institutionalist” scholars (Powell and DiMaggio 1991, Brinton and Nee 1998, North 1990), people’s behavior is shaped by the institutions under which they live. Good institutions produce good behavior and prosperous societies; bad institutions produce bad behavior and poor societies. Unlike the view outlined in the previous paragraph, the “new institutionalists” argue that changing institutions can, in relatively short order, lead to changes in behavior—for good or for ill. This is because institutions provide incentives to individuals and groups to pursue certain activities; thus changing institutions creates new incentives, and hence different behaviors. Change can thus occur rather quickly.

As one example, despite great ethnic diversity, Yugoslavia held together as a peaceful multi-ethnic state under the communist institutions developed by Tito for decades in the cold war period. Tito’s communist party allowed all ethnic groups in Yugoslavia a significant role in governance. Yet when Tito died, in the face of a massive economic crisis a new generation of nationalist politicians tried to reshape state institutions by emphasizing ethnic and religious identities and building political and military institutions based on those identities. The result was a major state failure, with civil war and genocide (Weingast and Figueiredo, 1999). Conversely, and more positively, a number of countries that were poor, ethnically or religiously divided, or had a recent past of political instability—and who are well outside regions that were historically favorable to political and economic development—have shown themselves capable of rapid and dramatic economic and political improvement. Examples include South Korea, Bangladesh, Uganda, and Malaysia. These cases argue strongly that *current* institutions can make a major difference.

Of course, even the new institutionalists realize that institutions are not easily changed. Grief (2002) has argued that institutions should be seen as self-reinforcing patterns of behavior,

in which incentives exist that reinforce existing behavior, even behavior that has negative social consequences. To change institutions, it is necessary to substantially disrupt or alter these self-reinforcing patterns, so that new incentives, and hence new institutions, can take root. In some cases, state failure may be necessary for a change to new and substantially different institutions of governance. However, unless these new institutions are also strongly self-reinforcing, they are likely to deteriorate, create instability and conflict, and perhaps worsen a country's difficulties.

Analyzing failing states, and finding ways to avert failure, thus depends on identifying clusters of institutions and incentives that produce stability, or which undermine stability when they change. The “tipping” points are not merely shifts in some index—such as employment, or income per capita, or deaths—rather, they are shifts in the perceptions and incentives embodied in institutional arrangements, such that people rather suddenly shift their behavior and allegiances to those institutions. We therefore need to analyze such institutions *as wholes*. When states are failing, failed, or recovering, lasting stabilization depends on rebuilding institutions in ways that provide lasting incentives to cooperative behavior.

#### **4. Methodology**

To meet these objectives, the IRIS team developed an approach comprising the following sequential steps:

1. Create a descriptive typology of various types of state fragility
2. Identify stylized scenarios (generic cases of fragility) of countries in similar situations—and a procedure for identifying them.
3. Develop analytic narratives of each stylized scenario.
4. Based on the analytic narrative, develop treatment strategies, together with the initial conditions they require (or whose absence is necessary).
5. Consider the implementation and programmatic implications of the scenario-specific treatment strategies.

##### **4.1 Step 1: Developing descriptive typologies**

USAID is confronted with on the order of 70 countries which could potentially be considered as fragile states. Clearly, a strategy framework for them would have to involve grouping countries

in some way. At the highest level and excluding non-fragile states, one could create two groups: failed and functioning (not failed). This “typology” reflects two static situations—what economists might name “equilibria”. The USAID Fragile States Task Force chose to move beyond this dichotomy by also considering the dynamic direction of fragility, i.e., whether the state was failing or recovering. Recognizing that a state could also be stationary or stagnant, the IRIS team proposed, at an aggregate level, that USAID consider a six-case typology of fragile states. This is shown in Table 2, together with some country examples.

Such a typology has eminent appeal since it effectively provides a *mutually exclusive* partitioning of fragile states. This can be illustrated graphically as in Figure 1. The Roman Numerals in Figure 1 match those in Table 2.

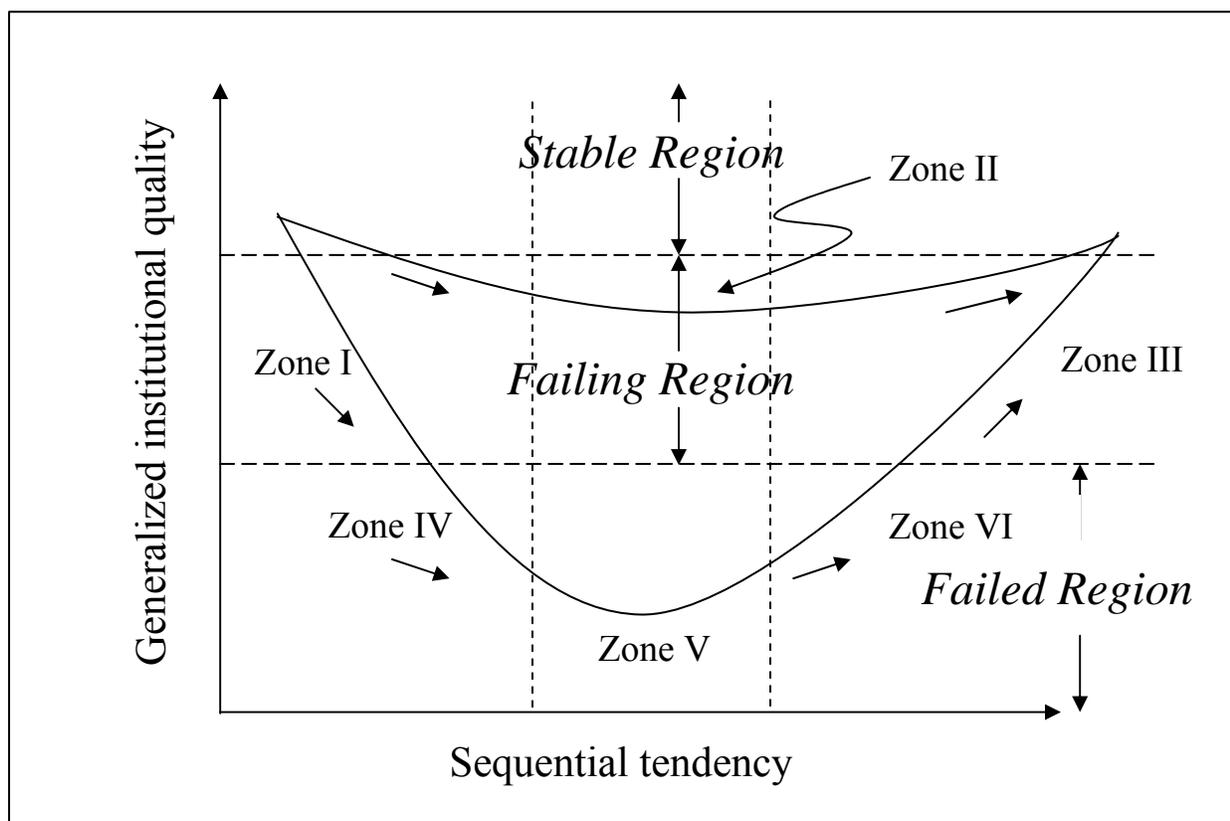
**Table 2: A descriptive typology of fragile states**

<i>Matrix View</i>			
	<i>Failing</i>	<i>Stagnant</i>	<i>Recovering</i>
<i>Functioning</i>	I (Zimbabwe)	II (Nigeria)	III (Uganda)
<i>Failed</i>	IV (Haiti)	V (Somalia)	VI (DR Congo)

While such a typology may be useful administratively, we stress that it is descriptive only, i.e., it is based on the *outcome* dynamics (tendencies) and levels (condition) of the countries concerned. It is not a typology based on causal considerations.

Is a descriptive typology enough? Are the local political, economic and social conditions of Haiti and of Somali similar enough such that they should receive the same treatment from USAID? But these are presumably both failed states. What about Afghanistan and East Timor? But these are presumably both recovering states. And what about Pakistan and Zimbabwe? But these are presumably both failing states. In short, while two countries may observationally display similar *outcomes*, the IRIS team recognized that it would not be generally possible to make prescriptive or normative inferences from a descriptive typology. Rather, a typology based on similar *causes* or *drivers* would be required.

**Figure 1: Six zones of dynamics for failing and failed states**



## 4.2 Step 2: The PESS-EL framework and stylized scenarios

### 4.2.1 The PESS-EL matrix

Creating a country typology more suitable for identifying remediation treatments for USAID interventions requires an approach recognizing the key role of institutional *causes* of a country’s stability or instability. Such causes help to identify the *drivers of change*, “*tipping points*”, and foundations of *resilience*. This requires an institutional “model”. Our model begins with several components:

- A state’s capacity may be assessed along four dimensions of state-society relations: political (who rules, and how much power do they have); economic (who has resources, and how much); social (what social identities are recognized, and what is the status of various identity groups); and security (how are police and the military used or misused). We refer to these as the “*PESS*” dimensions. The interaction of these dimensions is linked, in part, to the underlying *constitutional order*.

- State failure occurs through some combination of loss of *effectiveness* and *legitimacy (EL)* of the institutions of each of the PESS dimensions.
- Countries can be grouped according to common *stylized scenarios* (or archetypes), stemming from similar institutional causes.

Regarding the PESS dimensions, one may consider the economic, social, and security dimensions of a different order from the political dimension in Table 3. This is because while economic, social, and security problems of legitimacy and effectiveness may be signs that political problems are coming, they are not of themselves the critical factors. Thus a state may be economically unjust and ineffective, but if these problems are not seen as wholly the fault of the regime, then its political stability and security may be only modestly affected. Thus the most crucial assessment remains political legitimacy and effectiveness, although problems in the other domains are often signals of political troubles to come. Indeed, an effective and legitimate political system is the main resource that societies have in coping with economic, social, and security issues. It is generally ineffective or illegitimate governments that descend into failure when the other PESS dimensions deteriorate and create political pressures.

The PESS dimensions and the effectiveness-legitimacy (EL) framework can be useful as a practical check-list, both to make an operational diagnosis of a state's capacity as well as to plan remediation in regard to both effectiveness and legitimacy.<sup>6</sup> This can be done by collating PESS with EL to form a PESS-EL matrix. Such a matrix may be used to summarize the whole complex of a state's capacity, as in Table 3. Using this approach we can begin to assemble warning signs of failure as shown in Table 5.

Similarly, the matrix can be easily modified to contrast alternative states, as in Table 4 which provides illustrations of three fragile states cases: stable, somewhat unstable, very unstable. Finally, these examples show how these "simply" terms reveal an important class of fragile states, namely, those with adequate levels of effectiveness but low legitimacy. These may be classified as "brittle states" since a sudden fall in effectiveness, say from a currency or terms of trade shock that creates a sharp economic contraction, could lead to a sudden unraveling of apparent stability. Possible past or future examples of this phenomenon might be Saudi Arabia, Venezuela, and the Ivory Coast.

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<sup>6</sup> Note how issues of reconciliation may cross-cut several of these dimensions.

**Table 3: A PESS-EL matrix for state assessment**

	<i>Effectiveness</i>	<i>Legitimacy</i>
<i>Political</i>		
<i>Economic</i>		
<i>Social</i>		
<i>Security</i>		

**Table 4: An illustrative “PESS” grid for assessing three types\* of fragile state capacity**

	Stable		Unstable I		Unstable II	
	Effective-ness	Legitimacy	Effective-ness	Legitimacy	Effective-ness	Legitimacy
Political	High	Med.	Med.	Low	Low	Med.
Security	High	Med.	Med.	Low/Med.	Low	Med.
Economic	Med	Med.	Med.	Med.	Low	Low
Social	Med	Med	Low	Low	Low	Med.

\*Stable State: Medium effectiveness and legitimacy. Unstable State I: Medium effectiveness and low legitimacy. Unstable State II: Low effectiveness and Medium legitimacy. Failed State (not shown): Low effectiveness and legitimacy.

*Effectiveness.* In using this matrix to assess state effectiveness, the bottom-line of effectiveness is provision of minimal public services in each area. States that cannot enforce laws, collect sufficient revenue, or administer and control their territory, are politically ineffective. For the economic dimension, the critical issue is providing material sustenance. We thus ask if the state can provide food security, access to water, land, jobs, a stable currency, and other resources essential to maintaining material life. (Note: economic growth may be initial evidence of economic effectiveness, but it is not sufficient. If growth is narrowly focused and highly unequal, it may still leave a large portion of the population without economically secure access to resources needed to maintain their accustomed livings. What seems to matter most for perceptions of economic effectiveness is whether most of the population can generally maintain their accustomed livings, or not). For social effectiveness, what matters is whether the state provides expected social services (education, public health, usable transportation disaster relief, accommodation for cultural/religious expression). Finally, for security, an effective state can provide safety to its supporters and punish its enemies.

**Table 5: List of Warning Signs that a State Might be ‘Failing’**

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**Political**

*Effectiveness* Elections that are violent, whose results are contested, or judged to be improper and unfair by international observers; attempted *coup d'état*; 3 or more presidents or prime ministers in one year; government revenue 10% or less of GDP; government loses effective control of at least 5% of its territory or at least 1% of its population.

*Legitimacy* One or more groups are systematically excluded from political access, or political office, or full citizenship; political protests or strikes involving at least 0.5% of the population and repeated for 10 or more days.

**Economic**

*Effectiveness* Country is low or mid-income by World Bank classification, and one or more of the following obtains: GDP/capita has fallen for 3 or more years, or is lower than 5 years ago; national debt is over 10% of GDP; inflation has accelerated for 3 or more years and is 30% or more per year; currency has been devalued 50% or more in the last 3 years; unemployment is over 20% for three or more years.

*Legitimacy* One group (elite faction, ethnic group or subgroup, or family or cronies of state leaders) is corruptly dominating the economy for their private benefit; one or more groups face large-scale and systematic economic discrimination; state is taking 45% or more of GDP.

**Social**

*Effectiveness* Primary school enrollment is less than 60% and growing less than 5% per year; government fails to act to alleviate consequences of natural or accident disasters.

*Legitimacy* Specific regions or groups of population are deliberately not provided with public services that are provided to others; specific groups are prevented from practicing their important customs or language; government seen as too dependent on foreign support or otherwise betraying or departing from nationalist aspirations.

**Security**

*Effectiveness* More than 1,000 people killed in political violence in prior 3 years; more than 1% of population displaced by political violence in prior 3 years.

*Legitimacy* One or more groups systematically subjected to violence or deliberately not provided security by the state.

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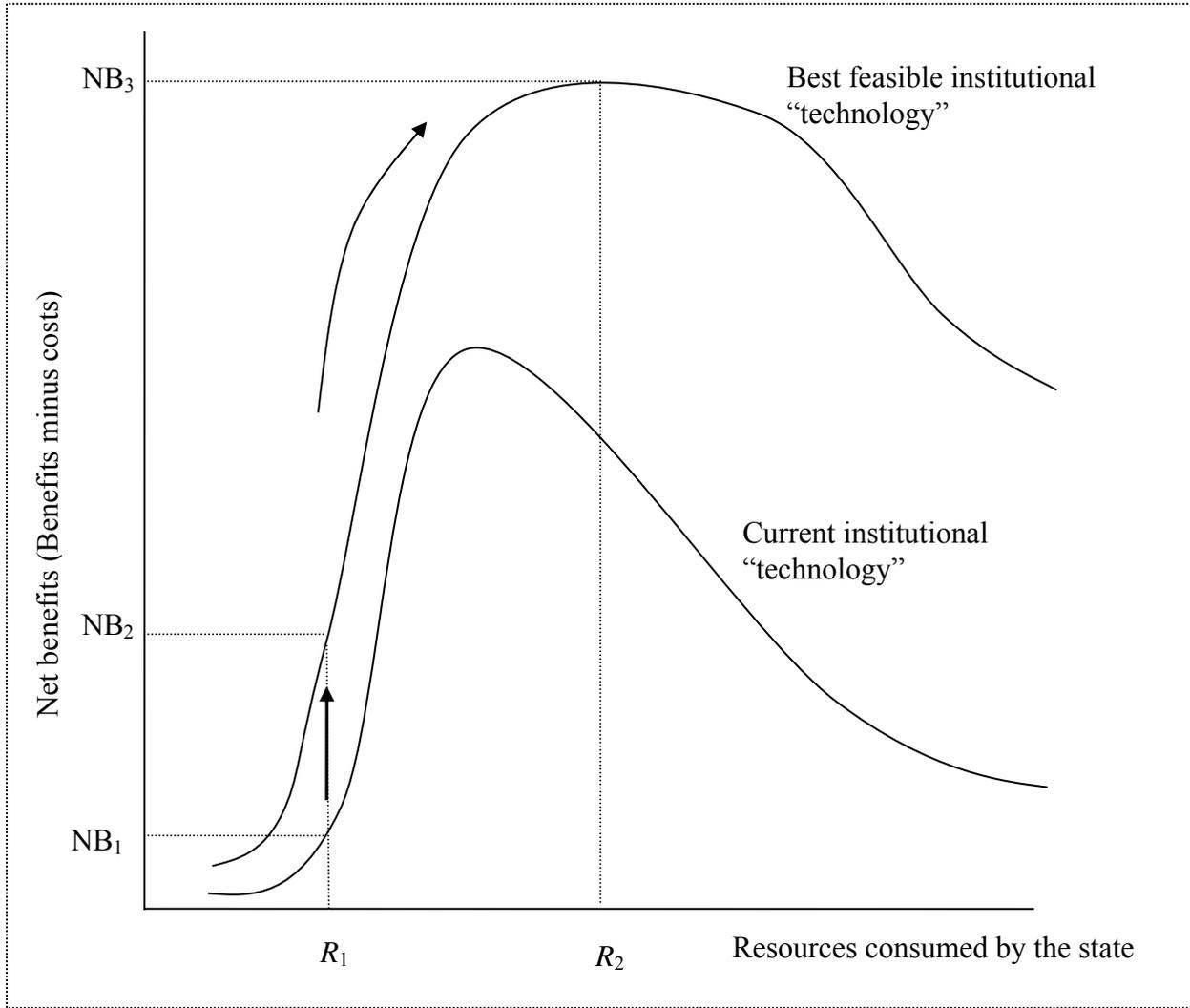
While effectiveness is clearly an intuitive concept, further reflection reveal just how slippery it can be. First, effectiveness has a relative and absolute aspect as far as perceptions are concerned. An institution considered effective in The Philippines may well be considered a poor performer if in Singapore. Thus, to understand effectiveness one requires a benchmark of what is feasible given the human, physical and financial capital available. Even if an institution is performing at its feasible limits in a particular context, if its absolute performance is below a threshold required for minimum services, then there will still be a perception of ineffectiveness.

As we show in Annex II, the degree of institutional effectiveness can be decomposed into or determined by two components. The first depends on which *institutional production frontier* the state (or the institution in question) embodies. This frontier (“function”) describes the administrative and organizational “technology” of an institution. It captures *for a given level of management and institutional incentives* the degree to which additional inputs—such as number of employees, amount of information technology, feedback from beneficiaries—produce or are converted into additional outputs, such as public goods or services. *Institutional efficiency* describes *for a given administrative technology* the quality of management and institutional incentives. For example, corruption or lack of interest by leadership of a ministry or agency can cause institutional efficiency to decline. On the other hand, even if a government agency is producing the maximum from the resource it is budgeted—for example, previous reforms put into place a high productivity institutional technology—it may not be allocated enough resources (such as may be the case with a national telephone company) or, perhaps, it may be allocated too many resources (such as may be the case with a national water company)—examples of low institutional efficiency.

Figure 2 shows this decomposition for two administrative technologies, the current one and the best feasible one given the country’s conditions. First, if the state is consuming inputs of, say,  $R_1$ , in its production of public goods and services with net benefits (value of outputs minus the value of inputs) of  $NB_1$  then by adopting through reforms the best feasible administrative technology for its conditions, its institutional productivity would increase and the *same level of inputs* would generate a higher level of net benefits,  $NB_2$  in the figure. Second, holding the administrative technology fixed (at its feasible best), efficient management would then expand

state output to  $R_2$ .<sup>7</sup> As observed, at  $R_2$  net benefits of institutional output are maximized and equal to  $NB_3$ .

**Figure 2: The decomposition of institutional effectiveness**



To help understand the distinction between the institutional frontier and institutional efficiency, consider two analogies. First, think of a racing car, think of the institutional frontier and efficiency as the distinction between the quality of the automobile and the incentive of the driver to win. Second, think of an assembly line. Its performance depends on both the type of engineering technology it uses as well as how well managed are its workers.

<sup>7</sup> We should underscore that we have abstracted in this example from the legitimacy dimension of effectiveness. For example, expansion of output to a narrow group may not radically change perceptions of effectiveness overall.

Why decompose institutional effectiveness this way? First, such decomposition allows the analyst to be more focused and concrete in her assessment of institutional weakness. Second, it allows one to propose more targeted and better tailored treatments. For example, the *increase* in institutional effectiveness in the Dominican Republic's customs system could be primarily due to reforms related to computerization (improvements in the administrative technology). On the other hand, the *decline* in institutional effectiveness in Romania in the 1990s could be primarily due to the corruption accompanying an immature democracy (a decline in institutional efficiency).

Legitimacy. Legitimacy can readily be made operational in terms of "fair shares." Politically, if specific elite or popular groups are systematically and explicitly excluded from power or actively repressed, then there is likely to be a perception of low legitimacy along the political dimension. In the economic sphere, if specific elite or popular groups are systematically excluded from economic roles or access to resources; or if specific groups are monopolizing economic gains, then there is likely to be a perception of low legitimacy along the economic dimension. In the social sphere, if specific ethnic or social identity groups are explicitly excluded from publicly provided goods and services by the state or faced with systematic discrimination, or their cultures and customs are not respected or suppressed, then there is likely to be a perception of low legitimacy along the social dimension. For security, if the security apparatus works to favor or repress a specific social group, works erratically or indiscriminately against the population at large, or fails to predictably and adequately enforce property rights then there is likely to be a perception of low legitimacy along this dimension.

As in the case of effectiveness, it is necessary to decompose legitimacy into several possible channels. One often found in the literature [KS's: REFERENCES] is between a legitimacy of ends (purpose) and legitimacy of means (process). The former refers to the perceived fairness or acceptability of the objectives, outcomes, or outputs of a state's institutions; the latter refers to the perceived fairness or acceptability of the means employed to achieve the ends. For example, if a country has a high rate in illiteracy, providing higher education rather than primary school education may be perceived as an illegitimate objective for social policy; providing primary school education mainly in the main cities (e.g., Nepal) may be perceived as an illegitimate means for social policy.

These two channels of legitimacy, themselves, can be further divided into four different perceptions, as summarized in Table 6. The perception of *onerous unfairness* refers to a “negative” aspect of legitimacy, i.e., the perception that one is not subjected to needless, discriminatory, or predatory restrictions, harassment, or other measures (e.g., excess taxation). The perception of *discretionary influence* refers to a “positive” aspect of legitimacy, i.e., the perception that one may, if one desires, exercise a right to influence one of the channels of legitimacy. The perception of *belief accordance* refers to a “positive” aspect of legitimacy, i.e., the perception that state follows precepts consistent with one’s beliefs, ideology, or custom. For example, Egypt is currently struggling with appropriate policy for female headscarves; this is a question of belief accordance as applied to ends. When the Iranian moral guard prevented girls from exiting from their burning school until they had put on their headscarves, this raised the question of belief accordance as applied to means. Finally, the perception of *state effectiveness* refers to a “positive” aspect of legitimacy, i.e., the perception that state is trying its best to exercise its responsibilities. This is different from our institutional effectiveness dimension, which is not meant as a subjective measure.

It is important to make the distinction between *channels* of legitimacy and *sources* of legitimacy. A state that scores poorly as per Table 6 on channels of legitimacy may still exude legitimacy if its sources are perceived as legitimate. Two examples might be from a symbol of authority, such as a monarch, or from a system, such as a parliamentary democracy.

*Implementation perspective.* It is not recommended that the first-pass construction of the PESS-EL matrix during Step 1 of the methodology include decomposition of effectiveness as illustrated in Figure 2 or of legitimacy to the levels found in Table 6. Execution of Step 3, below, and the identification of appropriate treatments, however, may require this be done for some rows of the PESS-EL matrix.

**Table 6: The various channels and perceptions of legitimacy**

<i>Perception</i>	<i>Channel of legitimacy</i>	
	Ends	Means
Onerous unfairness		
Discretionary influence		
Belief accordance		
State effectiveness		

To assess a states' condition, filling in the PESS-EL table provides a quick "diagnostic" indicating where problems lie, and how extensive they are. The cells in the PESS-EL matrix of Table 3 for example, can be filled in with the number of warning signs showing at a given time, taken from the list in Table 5 above. Thus one might have a zero, a one, or even a two or higher number in any of the eight cells. Countries with many zero cells and only a few if any ones can be seen as being at point "A" in the Figure 3 (page 41). Countries with roughly half of the marked zeros and half with warnings are at point "B." For such states, examining the cells with warnings helps pin down exactly what must be changed to move to point "C." On the other hand, if most cells are showing warnings, the country is either at, or soon will be at, point "D" and enter state collapse.

As a final illustration of the PESS-EL approach, Table 7 provides hypothetical matrices for fragile states showing warning signs for Type-I or Type-II instability.

*Further perspective.* In light of the exalted pedigree of the term, legitimacy, it is worth some brief asides before moving on. First, we have taken a fairly "open" view of legitimacy that rests, in the end, on perceptions of justice as access and fairness, in government treatment of all major groups. This is view, therefore is *not* dependent on a particular kind of regime—authoritarian regimes, if honest and fair, could be far more legitimate than democracies that are corrupt and exclude or discriminate against major groups. What matters is how a regime works, not merely how it is set up. Thus, one should not conclude from our approach that democratic elections by themselves, and without attention to how the resulting regime operates and how effective and legitimate its actions are, would solve fragility problems.<sup>8</sup>

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<sup>8</sup> In fact and as will be seen below, the selection of Nepal for a case study (an "analytic narrative" in our terminology) was in part, precisely because it is an example of how simply holding elections—in the 1990s, when the King created a constitutional monarchy and instituted parliamentary government—can lead to unwanted results.

**Table 7: Type-I and Type-II PESS-EL tables of instability in fragile states**

<b>(A) Type I Unstable Fragile State</b> (Medium effectiveness, Low legitimacy)		
	<i>Number of Warning Signs</i>	
	<i>Effectiveness</i>	<i>Legitimacy</i>
<i>Political</i>	0	2
<i>Economic</i>	0	1
<i>Social</i>	0	0
<i>Security</i>	1	1

<b>(B) Type II Unstable Fragile State</b> (Low effectiveness, Medium legitimacy)		
	<i>Number of Warning Signs</i>	
	<i>Effectiveness</i>	<i>Legitimacy</i>
<i>Political</i>	1	0
<i>Economic</i>	1	1
<i>Social</i>	2	0
<i>Security</i>	0	0

Second, our approach stresses the link between perception and legitimacy. Note, for example, the importance of symbolic reinforcement for legitimacy. Certain persons or institutions—charismatic leaders, monarchs, traditional councils, religious leaders—have a presumptive legitimacy due to a history of being identified with fair and inclusive leadership. The *loya jirga* in Afghanistan, the King in Nepal and Thailand, for example, have this character. Use of such symbolic actors or institutions as a foundation for building legitimate order can be helpful. At the same time, we would worry about going back too strictly to Weber's view of “legitimation”. Traditional authority—that of kings, for example—is not *inherently* legitimate. In Nepal, for example, the monarchy under King Birendra was very popular, in part due to the character of the King, and the monarchy was a powerful and unquestioned symbol of national unity. But after the massacre in the palace, and the actions of King Gyanendra, the monarchy seems to have suddenly lost much of its prestige and appeal, and this year calls for its abolition have become widespread. Efforts to bring back monarchy to Iraq, Iran, or Afghanistan all proved unsuccessful. In short, what matters is what people perceive as legitimate. In some countries at some times, the monarchy may have strong symbolic legitimacy; but that can quickly change as well.<sup>9</sup>

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<sup>9</sup> Charismatic authority also is a double-edged sword. Certainly, the United States would like to find someone of Afghanistan's interim president, Karzai's appeal and stature in Iraq. But would we want another Khomeini? Argu-

As has been pointed out, “[a]lthough lineage is probably not as salient today as it was when Weber wrote, the appeal of monarchs, particularly in transitional periods has popped up numerous times. Lineage may also underpin the durability of political families in some countries that dominate an ostensibly democratic system. Still, charisma as a source of legitimacy seems to be still very much in use, as we have seen with national liberation heroes as well as opposition leaders in post-communist Europe. The durability of that legitimacy has risen or fallen with effectiveness. The legal-bureaucratic model of legitimacy has been most closely married with effective liberal democracies.”<sup>10</sup>

Weber's third form of legitimacy—rational/bureaucratic legitimacy, in other words, legitimacy based on following widely-accepted rules—is close to what we are aiming at in Chapter IV in our description of constitutional order as a goal for stabilizing societies. However, Weber's concept of rational/bureaucratic legitimacy focused much more on the effectiveness and predictability of rule-governed states and did *not* explicitly attend to issues of fairness across all groups. Weber simply presumed that rational/bureaucratic states would be impartial; but Weber had scant experience with ethnically divided societies in which one group would use a rationally-ordered and efficient state apparatus to repress other groups.

#### **4.2.2 The stylized scenarios**

While the PESS-EL matrix is a powerful tool upon which to start to frame a fragile states strategy, it is not sufficient. First, having 70 PESS-EL matrices—one for each potential fragile state—do not constitute a typology and are too much detail for formulating a comprehensive set of fragile state strategies for USAID. Second, a state, as we stress throughout this document, is an organic, holistic system. Filling in a series of cells does not of itself ensure that the cell entries are mutually consistent.

Our approach, therefore, introduces an additional concept: the stylized scenario. These are brief vignettes capturing the essence of the PESS-EL dynamics being observed for a group of countries. The IRIS team found that a relatively small number of stylized scenarios were adequate,

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able, he was even more charismatic (as were Mussolini, Hitler, and Lenin), but charismatic authority can—as Weber himself observed -- be a source of revolutionary disorder, as charismatic figures often arise precisely to challenge and overturn prevailing institutions.

<sup>10</sup> Ann Phillips, paraphrase of personal communication.

ate to capture *all* fragile states currently in existence.<sup>11</sup> These stylized scenarios, listed in Table 9 and Table 10, are discussed briefly below and in detail in Chapter II and Chapter III.

To avoid confusion, it is important to be explicit about what the stylized scenario is and what it is not. It is not an accurate description of the idiosyncratic dynamics of a particular country. Rather, it captures the flavor of the principle game occurring in countries with similar PESS-EL drivers. Just as The World Bank uses a typology based on (official) income to classify countries for programmatic purposes, we propose USAID utilize a typology based on system dynamics to classify countries for fragile state intervention purpose. Such a classification is suggested in Table 11.

The stylized scenario helps in the first analysis to check and confirm the consistency of the entries in the PESS-EL matrix. If the two are at odds, then one or the other—or both—can be adjusted or enriched. This is an iterative process. Only once this process has converged should one move on to the next step of the methodology. In arriving at the stylized scenarios described in later chapters, this process has been allowed to run its course.

In practice, a country may manifest multiple stylized scenarios. Our maintained hypothesis is that one or two are adequate to capture the principle drivers of change that would lead to a tipping point.

***[FIX: begin]* Underpinning the stylized scenarios are "three logics of threats to order." These are also linked to the PESS-EL framework. logic of fear... logic of opportunity... logic of vengeance...1.**

**The logic of fear is countered by a state that exercises effective and legitimate security. The logic of opportunity cannot operate where political institutions are open to all and the economy and social services are provided impartially to all. The logic of vengeance can only be countered by removing (or putting to trial) the most egregious criminals; but to prevent a further spiral of vengeance it is necessary to provide security, and material support and public services, to impartially to all. In short, in states that are recovering or strong, maintenance of positive PESS-EL conditions helps to forestall the "logics of fear" that unravel social order. More concretely, examples of how third parties,**

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<sup>11</sup> Of course there is no reason why new stylized scenarios could not be developed if a country manifests previously unobserved PESS-EL dynamics.

donors, or state reformers have built institutions resistant to the logics of fear would be useful.

[Neutral ground; ex ante threat of violence (excess ambition; 2, and 3...)]

2. While neutral ground should improve the level of legitimacy and effectiveness in a country, it is not per se necessary. Neutral ground allows for system feedback, which generally improves performance.

3. Neutral ground perhaps has two general uses. First for recovery, it is likely a necessary condition. A second use, however, is to resolve disputes within the various PESS-EL dimensions. The former may require outside coordination and implementation; the latter should be part of the existing institutions within the constitutional order.

...

It seems to me Jack and I have the following disagreement. He thinks legitimacy and effectiveness block the three logics. The way I disagree is best explained with the example of the logic of fear. Logic of fear creates security dilemmas. And one extraordinarily useful way to void the security dilemma is to build up the power of defensive resources. Institutionally this means separating the parties (autonomy, federalism etc.) or giving them blocking mechanisms in the form of vetoes (and this adds up to some form of "power sharing"). Building up defenses is not the same as building up legitimacy or effectiveness. So while building effectiveness and legitimacy helps, so does building defenses (in the case of the logic of fear). That is why I suggested two dimensions (the neutral ground/legitimacy/effectiveness dimension and the propensity to violence dimension). With two dimensions the whole power sharing literature can be neatly integrated with what we do, as I think it must be (it gets at something very important). Without the two dimensions I don't see any good way to do it. [SEE CZ PARAGRAPH AT END OF SECTION 5.2 OF THIS CHAPTER]

...

To come full circle, it is useful to return to the simple trajectories of fragile states as shown in Figure 1 the IRIS Smile institutional quality measure should be based on neutral ground and propensity to violence. I believe it should be based on Legitimacy, E (or S), and A. Legitimacy, on the other hand while effecting the probability of state failure, only affects effectiveness to the extent that (i) a lack of Legitimacy leads to non-compliance or non-par-

**ticipation and (ii) that the non-compliance and non-participation reduces institutional effectiveness (which it may not in all cases). [FIX: end]**

### **4.3 Step 3: The analytic narrative**

Let us consider where we stand with the components of the methodology so far presented. Through the PESS-EL matrix for a country we have a description of the key institutions whose performance determines the degree and manner in which a state is fragile. By selecting the stylized scenario(s) for a country we have a simplified description of the dynamics driving change. It is tempting to ask why develop an additional apparatus for analysis. There are several compelling reasons, which we present as a series of questions.

First, consider the PESS-EL matrix. It contains four rows. Each row may cover a plethora of institutions. Which of these institutions are important in order to understand the underlying dynamics of the stylized scenario? Likewise, how much disaggregated detail should one develop for each row in the PESS-EL matrix? And to what extent are the dynamics (sub-stories) for each cell themselves potentially important in order to understand overall country dynamics? For example, assume our assessment leads us to know precisely the strategic interactions within the institutions of the state (i.e., the “game”) responsible for the failing performance in the health sector. Treating the problem may nonetheless be addressing merely a symptom of a larger (deeper) political-economic problem, say, of why the government does not care enough (or is unaccountable to the affected constituencies) to reverse the situation?

Second, consider the stylized scenarios. By necessity, these are more or less context-free in order for them to be generic. Moreover, more than one may apply simultaneously. How does one tie the context-rich idiosyncrasies of a country’s institutions as described in the PESS-EL matrix into the general dynamics of the stylized scenarios?

Finally, even if we felt satisfied with the institutional assessment as framed by the PESS-EL matrix and stylized scenarios, how can we know how a treatment that we develop affects the overall institutional dynamics in a society? For example, how can we know whether a donor intervention to improve a government’s military capacity will strengthen or undermine that government’s legitimacy? And if we propose, as is typically done, treatments to correct particular institutional failures or weaknesses within a PESS-EL row, do we not risk falling back into a practice of “stove piping”?

To address these methodological gaps we introduce a third component to our approach, the *analytic narrative*. The analytic narrative is a (game-theoretically) consistent and organic story or mini case study of (i) the initial conditions (ii) the players' (stakeholders') beliefs, stakes (payoffs or rewards), and strategies, and (iii) the rules of the institutions governing the PESS dimensions underlying the stylized scenario. It is important to note that one should describe the stakes of each key stakeholder, even if the particular realization (outcome) did not or has not occurred. Thus, for example, if a rebel movement escalates a conflict into all-out war rather than negotiate, the analyst should still describe the stake the rebels would have in peace so as to more richly understand their perspective. Likewise, particular attention should be paid to identifying information asymmetries among players.<sup>12</sup>

The analytic narrative permits one to test that the beliefs and strategies ascribed to the players in a country are consistent with the PESS-EL institutions and resultant payoffs presumed to exist under the stylized scenario. Conversely, the stylized scenarios are guides to constructing the analytic narrative, in that elements of the scenarios can be drawn upon to construct a more precise analysis of the actors and actions that matter in the country.

Putting these elements together, the PESS-EL matrix is a kind of accounting tool that helps identify (and, as we show below, keep track of) what is changing or needs change. The stylized scenarios are general accounts of actors and events that lead to changes in the institutions within the PESS-EL cells. The analytic narrative is then the country-specific account that identifies the particular actors and actions in the country, and their effects on the PESS-EL institutions in that country.

We can now address how the analytic narrative fills the methodological gaps raised by the questions posed at the outset.

How much disaggregation is necessary for the PESS-EL rows? The analytic narrative instructs us as to when to stop the descriptions of the individual cells. One disaggregates only so far and to the extent required to establish the context of the stylized scenarios so as to ensure a consistent analytic narrative. Have the key stakeholders (players) been identified? Are their strategies consistent with their beliefs and actions? This process is aided by the analytic narrative

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<sup>12</sup> Information asymmetries refer to the distribution of knowledge about the facts on the ground or the beliefs, strategies, and even objectives of the other players.

matrix whose template is illustrated in Table 8. Likewise, it is the analytic narrative that allows one to tie the context-rich idiosyncrasies of a country’s institutions as described in the PESS-EL matrix into the general dynamics of the stylized scenarios.

**Table 8: Examples of an analytic narrative matrix template**

<i>Players*</i>	<i>Beliefs</i>	<i>Strategies</i>	<i>Stakes**</i>
Oligarchy			
Military			
<i>Juntas</i> and civilian governments			
Rebel groups			
Multilateral organizations			
U.S.			
Etc.			

\*The list of players is only suggestive. The list will vary depending on the country application.

\*\*In game theory, this is referred to as the payoff.

Finally, the analytic narrative provides a consistent and rich scenario within which to consider how a proposed treatment affects the overall institutional dynamics. In this way, we can avoid the practice of “stove piped” treatments since we begin from a more systemic framework. In particular, regardless of whether the issue is one of transition process or policy objectives, the analytic narrative allows us to run or “test” scenarios so as to create a more nuanced view of country dynamics. This adds transparency to the assessment and makes the motivations behind the treatments proposed explicit. This allows the difficult dimensions of legitimacy and effectiveness to be debated with more clarity and focus within the donor community as well as with their client governments.

For a state to move from a “fragile” condition to a “stable” condition implies that there are endogenous social and institutional forces ensuring that the equilibrium is self-enforcing (self-maintaining) and not riding a knife edge or a slippery slope. For most applications, the stylized scenarios will not be detailed enough to adequately capture how such dynamics operate. Without such an understanding, introducing (promoting) a particular set of treatments can be problematic, since they may not support the self-enforcing forces. It is the analytic narrative’s job to address this gap.

Prior to proceeding to the next step, it is worth pointing out a number of methodological issues surrounding the analytic narrative. First, the analytic narrative can be seen to assist in several ways. At its most straightforward and in a fashion analogous to PESS-EL matrix, the

analytic narrative matrix as is as much a check-list as a framework for bringing together what is known about the dynamics occurring.

Once a PESS-EL matrix has been developed for the specific time period of interest (different periods require different narratives), one begins by trying to tell a logical story of events over the period. This normally leads to identifying the appropriate set of stylized scenarios. To begin drafting an analytic narrative, one endeavors to place flesh on the skeleton of the stylized scenarios. One approach is to ask why the main problem cells in the PESS-EL matrix are acting the way they are. Tell stories about them. For the important ones, develop a rudimentary analytic narrative matrix. Then look for overarching commonalities of the stories. While there are likely to be several “games” being played, there is usually a primary game. Each side to the conflict may have within its group a subsidiary game going on as well, which may or may not need to be described in an analytic narrative matrix. In cases where there are more than two primary players in the main game, say the elite, the military, and the rebels, it is generally not possible to develop a very rigorous formulation. Nonetheless, the story (narrative) developed should be consistent with the beliefs, strategies and payoffs ascribed—as well as vice versa. This typically requires quite a bit of back-and-forth. Inconsistencies point to the need for additional fine structure to the story or further qualitative field work (or deeper examination primary sources) to refine player beliefs, strategies and payoff attributions. The end product of these efforts is to have the simplest, logically consistent story possible to explain the overall dynamics of the country and a completed analytic narrative matrix summarizing it.

To conclude, we reiterate that, while a closed-form solution to most—and even the simplest games—imposes rather greater analytic demands than are normally available, such a formal solution is *not* the goal of the analytic narrative exercise. In fact, the simpler the narrative, the more likely it is to be successful (useful). What is important is to identify the institutional landscape within which one expects to intervene or influence and to do so in a systemic or holistic way. The stylized scenarios are given the specificity of country context and implicit assumptions are shed in favor of naked—and therefore potentially consistent—appraisal. Like any good science, its practice is mostly art.

#### 4.4 Step 4: Treatments

By now it has probably become much clearer why most treatments to date to address fragility have met with limited success. First, contrary to “stove-piped” approaches to problems, ameliorating fragility requires a holistic approach. For example, fixing economic growth problems (the economic effectiveness cell) will not be sufficient to stabilize a state with political and social illegitimacy. Rather, stabilizing fragile states requires an integrated strategy that addresses problems across the PESS table cells.

Second, fixing any one cell in a PESS-EL matrix is already a tough job. For example, knowing that a state is failing in part because of some weakness in a PESS-EL matrix cell—say due to corrupt government—does not tell us how to fix that problem. For this we argue herein that only from the analytic narrative can *incentive-compatible* treatments be constructed. Treatments must address causes and/or symptoms, depending on which is perpetuating state failures.

[1-2 PAGES ON: EXPLANATION OF HOW TO INFER TREATMENTS FROM THE ANALYTIC NARRATIVE. Also, how sub-stories (at the level of one or a group of PESS-EL matrix rows) may be required to design treatments - Still to be drafted]

Finally, several points bear repeating. First, while we can indicate some institutional requirements or guidelines for stable solutions, we cannot here develop appropriate treatment strategies for every problem in every country. Designers of country-level PESS strategies will have to work with country-experts and experts on procedures to develop policies that address the specific problems in specific countries. PESS simply helps ensure that no major institutional components of a stabilization strategy are missed—and that the legitimacy dimension is kept in central view.

Second, the existing skills at USAID may need to be augmented by new specializations or cooperation with NGOs with requisite skills. For example, establishing political legitimacy generally requires three distinct phases: holding elections, engineering political party systems capable of repeated competitive elections, and establishing institutions (strong legislatures and courts) that will constrain executive authority. Different donors or agencies may be assigned these distinct tasks. Of course, this creates coordination problems, and some thought will need to

be given to establishing “stabilization” teams for specific countries that orchestrate joint efforts by different donors and agencies to pursue the common aim.

#### **4.5 Caveats and further considerations**

Prior to launching into a summary of our conclusions from the application of the above methodology, the following caveats should be taken into consideration:

1. Recommendations are not constraints or dictates, but only meant to inform and offer guidance.
2. Our focus on stylized scenarios is (i) to avoid having to argue about precise classifications of particular countries at specific point in time and (ii) because a fragile states strategy for USAID should be based on generalized needs to prevent and treat fragile states, not on the idiosyncrasies of particular countries.
3. Treatments should not be implemented without first having a team of experts visit the country to assess the appropriateness of a treatment and to tailor it to the specific institutional and economic conditions of the country.
4. Some of the recommendations will likely be infeasible until and unless preceded by programmatic and organizational reform within USAID.
5. Much of what we propose has been said before, including by reports produced by the USAID Office of Transition Initiatives as well as by the report of the Commission on Post-Conflict Reconstruction.

Clearly the proof of the framework presented here will lie in its implementation. In this regard we would like to underscore that any player wishing to influence the outcome of a strategically difficult situation (a “game”) must accept the fact that they are an outsider and acting without “complete” or “perfect” information. This carries a clarion implication that a strong modicum of humility is in order on what one can know and orchestrate; this is true as much concerning the importance of the path/trajectory as much as for the destination, which we may not be able to know.

...Clearly, the approach we promulgate here is to develop a holistic strategy. This is one whose chief aim is to maintain various important forms of balance, to make sure that no

important consideration is crowded out. What are then the most important considerations that need to be balanced? In a rough way our general method should include the following balances:

- Balance between what needs to be done in a situation (if only it could be), and the opportunities in it for effective intervention (perhaps not the most needed, but possible). A good program must be flexible enough to take advantage of opportunities as they arise.
- Balance between building institutions (both their effectiveness and their legitimacy) and developing minds. The chief instruments for developing minds are mass media and educational organizations (from elementary schools to universities); and
- Balance between short term and long term thinking.

Scope for new options. Fragile states offer novel opportunities not available for more robust states:

- Secession, accession and agglomeration
- Do we need to wait for chaos or precipitate a crisis?
- When should USAID be proactive?

## **5. Summary**

The main body of this document comprises chapters covering failed and failing states, a chapter on recovery experience and strategies, and a final chapter on implementation considerations. We summarize the main conclusions and findings of these chapters below.

### **5.1 Failing states**

If we are to avoid simply compiling long lists of factors sometimes implicated in failing states, or simply enumerate case studies, we need to look for broader patterns or trajectories that commonly underlie cases of failing states. We can identify five such “stylized scenarios” of pathways to failure, as summarized in Table 9. These are analyzed in greater detail in Chapter II.

Each of these stylized scenarios can be thought of as representing a “mode” (or set of “modes” of state failure, or more analytically, a set of interactions by which the equilibrium underlying stable governance breaks down. Recent advances in the theory of political economy have argued that government should not be looked at as a single rational actor disposing of resources and directing institutions. Rather, “government” is a set of institutions through which

individuals or groups exercise control over people and resources. Whether or not a government is stable depends on whether an equilibrium is achieved in which those individuals and/or groups who participate in the government have incentives to keep participating, and in which neither groups within or outside the government have strong incentives to seek to capture or escape the government by non-institutional means. This means that both conditions by which government breaks down, and policy interventions to avert such breakdown, need to be analyzed in terms of the incentives and opportunities faced by various groups and individuals.

In Chapter II we illustrate analytic narratives for each of the five stylized scenarios above. These stylized scenarios show that states can collapse in varied ways. However, all the pathways involve some combination of events or actions that leads to a loss of state effectiveness, state legitimacy, or both. The loss of effectiveness and/or legitimacy removes the incentives for leaders and groups to participate in the state, or creates opportunities and incentives for them to defect or oppose it. States can survive in a fragile state if they are moderately effective, or moderately legitimate, even if the other characteristic of state capacity is weak. Yet when states become weak on both counts, total collapse is likely to come soon. Yet, we begin to see some guidelines emerging that may suggest ways to do the least harm:

**Table 9: Stylized Scenarios for Failing States**

<b>Stylized Scenarios*</b>	<b>Countries</b>
Escalation of communal group (ethnic or religious) conflicts**	Rwanda, Liberia, Ivory Coast, Nigeria, Sudan
State predation (corrupt or crony corraling of resources at the expense of other groups)	Nicaragua, Philippines (1996), Iran (1979), Haiti (Duvaliers)
Regional or guerilla rebellion**	Colombia, Indonesia, Georgia, Chechnya
Democratic collapse (into civil war or <i>coup d'état</i> )	Nigeria, Pakistan, Haiti (Aristide), Bolivia
Succession or reform crisis in authoritarian states	Indonesia (Suharto), Nepal, Pakistan (1971) Soviet Union (1991)
Humanitarian and refugee disasters	Ethiopia, Mozambique, HIV affected Sub-Saharan Africa

\*Also referred to as canonical cases or archetypes.

\*\* May also result from an external intervention or spillover of an adjacent conflict (e.g., Liberia, Lebanon).

Carefully examine actions for their impact on both effectiveness and legitimacy. For example, military or financial aid to an unjust regime may help keep its effectiveness up and prolong it in power; but it may also undermine its legitimacy, and thus do nothing to ameliorate, or may even worsen, its situation as an unstable state, failing in its lack of legitimacy. Giving education or medical help to a country's population through NGO's that circumvent the government may help provide services to that population; but it may also undercut perceptions of the effectiveness or justice of that government, thus increasing the risks of state collapse.

Carefully examine how actions affect incentives and opportunities of leaders/groups. Creating a flow of free resources (through oil development, large capital projects, or flows of external aid) may simply provide an opportunity for corruption or for conflict among elite factions over access to or exclusion from those resources. Such a resource flow can therefore undermine the equilibrium based on prior perceptions of state fairness and effectiveness.

The cases where external intervention is most likely to avert collapse are cases where regimes retain medium or high legitimacy, but have low effectiveness. If likely success is the criterion for intervention, then these cases should have highest priority. In such cases, aiding the government in delivery of services, or in provision of economic or physical security, is likely to help restore stability to the nation. In some cases, the use of third-party military forces to provide security for both parties to a conflict may be necessary to create a climate of effective govern-

ance in which parties can work toward an equilibrium agreement on how to restore institutions that are seen as both effective and legitimate.

Where regimes are effective but lack legitimacy. These are states we defined as “brittle”, above. Here, it is difficult to intervene to restore legitimacy. Efforts to do so (e.g., by holding elections) are often undermined by the illegitimate authorities who fear losing power. It may be better, if possible, in such cases to seek to terminate the illegitimate regime and replace it before it loses effectiveness and then undergoes collapse. However, replacement can itself produce chaos and collapse unless undertaken with very strong external intervention committed to providing a framework of effective institutions until domestic forces can reconstitute effective and legitimate institutions of governance. It also is crucial that replacement efforts draw on any available prior individuals, symbols, or processes that are strongly associated with fairness and hence legitimacy in the eyes of leaders and popular groups. These might be individuals who suffered under the old regime (e.g., Mandela in South Africa, Aquino in the Philippines), or political processes that had legitimacy prior to the replaced regime (e.g., the use of a *loya jirga* council to choose leaders in Afghanistan). These are likely to be the highest cost and highest risk interventions, but not impossible (e.g., 1986 Philippines).

## **5.2 Failed states**

We have identified 36 states that failed at some time since 1980; 27 were war-torn. 15 are still failed states. Persistent failure is typically, but not always, associated with war. More precisely:

- All countries with civil wars fail (essentially by definition).
- A few states fail without full-blown civil war.
- State failure, whether or not associated with civil war, does not necessarily consign a state to persistent failure (e.g., El Salvador; Uganda).

These observations are made more precise in Chapter III and result in the five stylized scenarios summarized in Table 10.

**Table 10: Stylized Scenarios for Failed States**

<b>Stylized Scenarios*</b>	<b>Representative Countries</b>
<u><i>External Intervention</i></u> The war was ended by external intervention, and the occupying authority is either still in charge or has recently handed over power.	East Timor, Bosnia, Lebanon, Cambodia, Liberia,
<u><i>Negotiated Settlement</i></u> The main antagonists reached a negotiated settlement and have laid down their arms.	Nicaragua, El Salvador, Ethiopia and Eritrea
<u><i>Clear Winner</i></u> One party to the conflict emerged as a decisive winner.	Uganda (in civil war), Mozambique, Angola, Peru
<u><i>Rebels Contained by the Government.</i></u> The government remains largely in control, but rebel activity continues and there is no evident prospect of an end to the violence.	Colombia, Algeria, Indonesia (in Aceh), Uganda (in the north)
<u><i>Ongoing State Failure</i></u> The state remains mired in failure, and the prospects of a resolution in the near future are dim or extremely uncertain. Violence is most likely to be intermittent.	Somalia, Sudan, D. R. Congo

\*Also referred to as canonical cases or archetypes.

For completeness, let us illustrate how “stylized scenarios” might reflect the dynamics manifested in the persistent failures categories in Figure 1. An expansion of such examples would be the job of the analytic narratives.

- *Zone IV.* Case of failure without full civil war or ethnic divisions. Example: Haiti (Perhaps hard to generalize, but an important case for USAID if only because it is close to the US.).
- *Zone VI.* Effectiveness and legitimacy declined over a period of two decades, and is proving difficult to reverse. GDP/capita was at its highest in the 1970s. Plenty of room to consider roads not taken, role of aid, etc. The category is dramatic, but represents most Sub-Saharan African cases of persistent failure. Example: D. R. Congo.

Among the questions to answer might include: For each “PESS” dimension, what institutional capacity needs to be built urgently? How can a country achieve sufficient fiscal health to provide the essential publicly-provided goods and services? Indeed, which goods and services are essential? Usually, failure is accompanied by poor quality leadership (e.g., Mobutu, Kabila

Snr; Duvalier; Aristide; Ratsiraka; Taylor). Contrast these with El Salvador or Uganda. While strengthening governments—making them more efficient and legitimate—helps avoid persistent failure; but some governments are not worth strengthening. How does one distinguish between the two groups: Charles Taylor vs. Yoweri Museveni?

**[[[CZ TO FINISH: As an aside, it is interesting to note that while most state failure is accompanied by violent conflict, this is not always the case. Examples include most republics in the former Soviet Union, all of Eastern Europe—and most recently Georgia, Madagascar and Haiti. How might we use the framework developed above to explain—or even predict—these two different paths? The answer lies in the nature of the constitutional order—and its legitimacy— and on level of economic conditions, which is related to the degree of state effectiveness. [Cost-benefit calculus of non-government antagonists: how much do they have to lose? And is this really what underlies KS’s belief in the propensity-for-violence dimension, together with institutional quality (legitimacy and effectiveness) as the best way to capture these two failure paths? Where the underlying constitutional order is deemed sufficiently legitimate, it may become the focal point for coordination of a non-violent negotiated resolution to a conflict]]]]**

We may now assign the stylized scenarios presented to the fragile states USAID is likely to encounter. This is summarized in Table 11.

### **5.3 Recovery strategies**

While work on failing and failed states has begun with causal similarities and then proceeding toward identifying treatments, work on recovery lesions has begun with identifying treatments and then seeking initial conditions required for their success. This work is also endeavoring to identify the underlying dynamics of the PESS characteristics required for a successful recovery strategy. Based on the work below, the group will analyze the various recoveries (or failed recoveries) we have identified. Here, we pursue several.

First, we find two features which seem to moderate the recovery. One feature is the nature of the basic conflict (whether ideological, e.g., Islamist movement vs. secular regime as in Algeria and Iran, or revolutionary socialist movement as in Germany at the end of 19th century or Nicaragua; or whether cultural-ethnic-religious, for which there is a long list of countries). The other feature is the structure of conflicting groups. Key properties here are the number of

groups (e.g., a two-group system as in Cyprus, N. Ireland, Sri Lanka; a few groups—more than two—introducing coalitional dynamics, but small enough to make veto power for each group a practical possibility; or many group which generally makes unanimity unworkable). A second characteristic of group structure relates to the distribution of resources, key among these are population, wealth, and the armed forces. Important special case here are (i) all groups disarmed vs. all groups armed and (ii) “market-dominant ethnic minorities”, i.e., small groups combined with a great deal of wealth.

**Table 11: Countries classified by fragile state stylized scenarios [INCOMPLETE]**

<i>Country/Year</i>	<i>Failing*</i>					<i>Failed*</i>				
	<i>EC</i>	<i>SP</i>	<i>RG</i>	<i>DC</i>	<i>SR</i>	<i>EI</i>	<i>NS</i>	<i>CW</i>	<i>RC</i>	<i>OF</i>
Albania					X					
Angola						X			X	
Bangladesh										
Cote d’Ivoire					X					
Cambodia						X				
D. R. Congo/2002										X
Ecuador										
El Salvador/Early 1990s		X	X				X			
Guatemala										
Haiti/Duvaliers		X			X					
Kenya/2001		X		X						
Lebanon	X					X				
Mozambique								X		
Nicaragua							X			
Nepal/2003			X							
North Korea										
Peru/1990s	X							X		
Rwanda/1999	X									
Somalia/2000	X									X
Sudan										X
Uganda								X	X	
Venezuela/2000+				X						
Vietnam										
Zimbabwe		X		X	X					

*Note:* “Recovering states” is relative to whether it was originally a failing or failed state.

\*Codes refer to the scenarios found in Table 9 and Table 10.

Second, is the dimension is how groups interact. At the most general level we must solve the problem of separate action (making it possible for the groups to act on some issues without

outside interference) and the problem of collective action (making it possible for the groups to act together on some issues). If we solve only the problem of separate action, the outcome is secession. If we solve only the problem of collective action, the outcome is likely to be a highly coercive unitary state. Both of these at least avoid war. In the case of the problem of separation, there is the sub-issue of economic, social, and territorial boundaries, the allocation of powers to the center and to the provinces (federalism, subsidiary), and the sequence of creating the boundaries—bottom up or top down. For the problem of joint action, two models are found. Under “consociation”, the central decisions are made using the unanimity rule by a committee of representatives of all the politically relevant ethnic groups or pillars recognized in the system. Alternatively, decisions can be delegated to some neutral party. But that requires the existence of neutral parties. This leads us to identify ways of avoiding deadlock and building neutral ground (or avoiding capture).

The third dimension relates to the constitution of the transition. Here we have one of the more promising innovations in recent political experience: the development of distinctive institutions and practices designed to be temporary and guiding the process of “recovery” in its early stages. Examples of these are:

- Roundtable negotiations in transitions to democracy.
- The interim constitutional arrangements in South Africa
- Transitional intervention by international bodies (e.g., the UN in East Timor, the U.S. transition in Afghanistan)

There are some distinctive problems of such arrangements. First, appointed (rather than elected) decision making bodies pose distinctive institutional design problems (e.g., the appointment procedures). Second is the issue of how to set deadlines and how to create the credibility of the exit point from the transition.

The fourth dimension is the differentiation between what should or could be done in the short run and what is suitable for the longer run. In either case, experience indicates that donor success is diminished the greater is the perception of weak commitment and donor failure is almost guaranteed if such a commitment is lacking from the outset. Collier (2002) has argued that frequently donors actually provide the wrong pattern of assistance over time to failed states—too much too soon and too little thereafter.

Finally, we note that military action is likely to be part and parcel of a failed state technical assistance implementation.

## Chapter II. Failing States<sup>13</sup>

[Introduction and summary of chapter]

### 1. The dual nature of institutions in failing states

#### 1.1 State capacity: effectiveness and legitimacy

States react differently to pressures and crises depending on their capacity to respond. States whose governments have adequate resources and solid elite and popular support can survive powerful adverse pressures—ethnic competition, military setbacks, economic downturns, even rural rebellions and revolutionary movements. For example, Argentina has continued to function, even with high executive turnover and popular protests in the wake of a massive fiscal and economic collapse. By contrast, even relatively mild pressures can be fatal to states with weak capacity to respond; thus the recent ethnic conflicts in Liberia and Cote d’Ivoire were no more overwhelming than those currently found in Nigeria or Zimbabwe; but in Liberia and Cote d’Ivoire the governments were so weak that they could not contain these conflicts and prevent civil wars. Thus the most general principle regarding failing states is that such states lack the capacity to deal with adverse pressures; to rescue them before they become failed states it would be necessary (if possible) to shore up and restore, or in some cases to create, institutions that provide greater state capacity.

State capacity has been shown, in both comparative studies (Goldstone 2001) and expert surveys (Levy 2003), to rest on two separate dimensions of government. One dimension can be labeled “effectiveness”—having the administrative capability and the resources to carry out tasks of governance. This consists of having adequate financial resources to pay state employees and particularly to reward loyal elites and military forces; a disciplined military and bureaucracy that is capable of providing administration, defense, and security; and sufficient intelligence/administrative capability to identify threats/problems and act on them. Both ruthless dictatorships and open democracies can be effective, or ineffective. This dimension is a matter of getting tasks done, not how the government is chosen or what its policies may be. Thus the governments of western democracies are highly effective, but so too are many absolute dictatorships such as

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<sup>13</sup> The principal author of this chapter was Jack Goldstone.

those of most Middle Eastern nations, Communist China, and the regime of Libyan strong man Mu'amar Qaddafi.

A second dimension can be labeled “legitimacy.” This consists of rulers being judged—by both elites and popular groups—as being reasonably fair and just in their exercise of power. Perceptions of justice or injustice are extremely powerful in regard to state stability or collapse. Ethnic groups can co-exist peaceably as long as they are confident they are being fairly treated by the government; but systematic discrimination generally triggers opposition and rebellion. Elite factions can co-exist if confident they will share in power and status; but when such competition is seen as rigged to exclude certain groups, the latter commonly rebel. Such competition frequently arises in succession crises, where dictators such as Suharto in Indonesia, or earlier, Porfirio Diaz in Mexico, who had scattered favors widely, seemed to be on the verge of favoring one particular successor who—it was feared – would exclude other elites from power and fortune.

It should be noted that both dictatorships and democracies can be seen as legitimate or not. We are using “legitimacy” here to describe how a regime acts in power, regardless of how that regime was chosen or came to power. Even dictatorships that have seized power in anti-democratic coups can gain legitimacy if they act to stabilize living standards, limit or share corruption, and treat all sub-groups equally well or poorly. By contrast, even popularly-elected leaders, if they favor specific ethnic groups or elite factions (cronies), or show visible and narrowly-based corruption, or direct repression too widely or too harshly (not merely at obvious regime opponents), will come to be judged as unjust and therefore lose legitimacy. For example, the Somoza dictatorship in Nicaragua lasted for many decades under a system of “shared spoils” in which elites of various parties were given government rewards and positions, and the government sponsored moderate commercial growth. However, after the 1975 Managua earthquake, the dictator Anastasio Somoza used the opportunity of massive aid flows to create “shell” companies that directed earthquake assistance funds to his own family accounts, excluding other elites and leaving much of Managua still in ruins. In doing so, the dictatorship lost legitimacy; the result was loss of elite support, and indeed critical business and political leaders defected to the rebel opposition.

Democracies, if fairly elected and showing reasonable checks and balances, are generally highly legitimate. However, merely having elections is no guarantee of legitimacy. If the elec-

tions result in a dominant majority that largely excludes minority groups from power or legislates against them; or if elections produce a leader who has uninhibited authority and uses it to favor a particular circle of cronies or relations, then even such democracies can have very low legitimacy (as often occurred in Pakistan and Nigeria, leading to welcomed military takeovers).

Although we can treat effectiveness (whether regimes get things done) and legitimacy (whether what they do is judged as fair to varied elite and popular groups) as separate dimensions of state capacity, they do of course interact. That is, governments that attempt to increase their effectiveness by lavishly rewarding certain supporters or spreading repression so widely as to attack innocent bystanders can thereby be perceived as grossly unjust, and thus lose legitimacy. Conversely, a government that tries to gain legitimacy by giving financial favors to too many different groups or supporters may undermine its fiscal health, and thus undermine its future effectiveness. *Indeed, it is precisely because there are often trade-offs between effectiveness and legitimacy that regimes find it hard to strike a balance, and in losing one or the other begin a descent into state failure.*

## **1.2 Types of instability and “tipping points”**

In general, one can determine the health of a state by assessing its legitimacy and effectiveness. A state that has both high legitimacy and high effectiveness is almost inevitably highly resilient, and can withstand serious adverse pressures and internal conflicts without failing, or even sliding toward failure. Examples include most modern industrialized democracies, but also popular one-party states and populist dictators, such as the PRI regime in Mexico in the first decades after the Mexican Revolution, or the Castro regime in Cuba.

Unstable states lack either legitimacy or effectiveness. A state that has high effectiveness, but low legitimacy, can survive a long time, as its ability to reward elites can establish military and bureaucratic domination, while fear of state reprisals can inhibit popular protest. Yet such a state, if it is seen to be losing effectiveness, will suffer rapid defections of elite supporters and popular protest, and can collapse rather suddenly. This is particularly the case when the effectiveness of the government is seen to depend on external support, and that support is reduced or removed. This pattern was behind the sudden collapse of communism in Eastern Europe, where a variety of regimes that had slowly been losing legitimacy, and whose effectiveness was felt to hinge on support from the USSR, suddenly faced a Soviet policy of non-interference under Gor-

bachev's push for reforms. This pattern also lay behind the sudden collapse of the Marcos regime in the Philippines, and of the Iranian regime of Shah Reza Pahlevi.

We can thus define one condition of instability, or one kind of "tipping point," as *Type I Instability*. This occurs when regimes have low legitimacy, but moderate to high effectiveness. In such states, *any changes that undermine perceptions of state effectiveness can lead to sudden defections of elite and popular support and quickly push regimes into failure.*

It can also happen that states lose effectiveness, but retain legitimacy. The regimes of many African states (such as Tanzania under Nyerere and Ghana under Nkrumah) were grossly ineffective in managing their economies, but retained legitimacy from their independence struggles, in which they acquired a role as foci of national unity. Under such conditions, states can persist in distressed conditions for a long time, while no effective opposition to the regime can gather strength for change.

We can thus define a second condition of instability, or another kind of "tipping point," as *Type II Instability*. This occurs when regimes have low effectiveness, but moderate to high legitimacy. In such states, *any changes that undermine perceptions of state legitimacy can lead to sudden defections of elite and popular support and quickly push regimes into failure.*

States that are seen as both ineffective and unjust are well on their way to collapse. States that lose both effectiveness *and* legitimacy have no basis for support, and are almost inevitably overthrown by elite coups or popular revolt.

**Table 12: The consequences of state legitimacy and effectiveness for stability**

		<i>Legitimacy</i>	
		High	Low
<i>Effectiveness</i>	High	Stable	<i>Unstable</i>
	Low	<i>Unstable</i>	Failed

This simple collation of effectiveness and legitimacy as summarized in Table 12 and illustrated in Figure 3 offers a guide to the diagnosis and treatment of failing states. States that are both effective and legitimate are at point "A" in the diagram. States that lack *either* legitimacy or effectiveness are at point "B;" they are candidates for failure if they face adverse internal or external pressures. Such pressures can overwhelm the effectiveness of an unjust regime, or force an ineffective regime into actions that are seen as unjust and illegitimate. In either case,

these pressures move a state to point “D”—state collapse. The prescription for such states is, if they are identified at point B, to shore up the component of state capacity that is lacking.

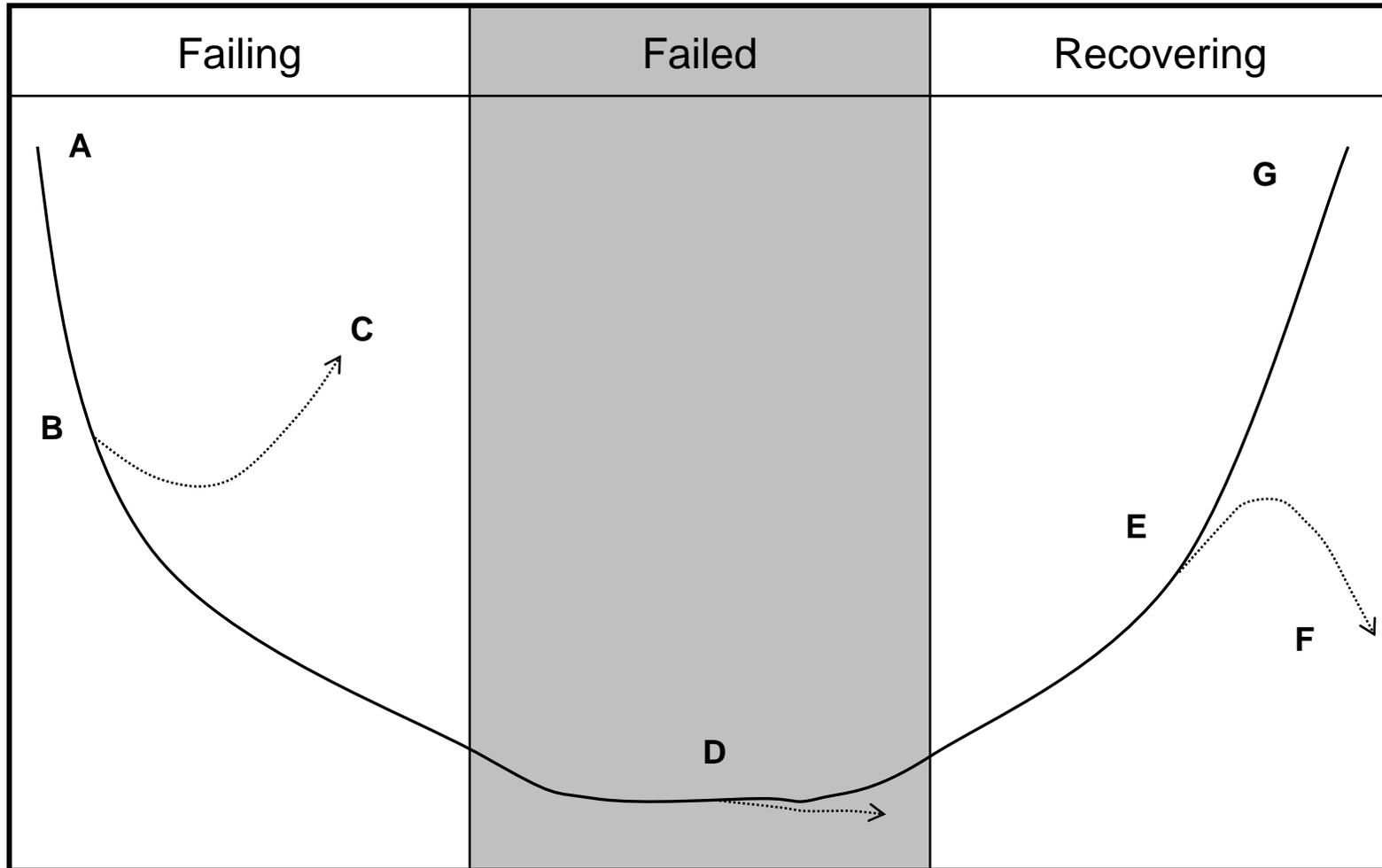
## **2. Averting Failure: Remediation or Rescue of Failing States**

Remedial action is generally easier for Type II instability – states that retain legitimacy but lack effectiveness. In such states, while discontent may be widespread, the potential opposition is likely to be limited, so that rural rebellions may not attract broad support, and elites are willing to work to restore state power. In such cases, a careful analysis of effectiveness problems (see below) can yield policies to address specific defects.

Rescue of failing states is more difficult where regimes retain effectiveness but have lost legitimacy, that is, Type I instability. This was the situation faced by the U.S. in Nicaragua and Iran in the 1970s and in Zimbabwe today. Efforts to make the government act more justly (tolerate the opposition, disperse favors more widely, limit repression) may be resisted, or if acted upon erratically, may in fact reduce legitimacy further while undermining effectiveness. Thus in Iran, the Shah’s zigs and zags on toleration of opposition in the 1970s provoked the opposition to express itself, and then become outraged when they were met with further repression; meanwhile U.S. pressure to tolerate dissent, along with the Shah’s mounting debts to the U.S., were taken as evidence that the Shah could not act freely. The result was a rapid escalation of opposition in the late 1970s, as the Shah’s regime was increasingly seen as unjust and ineffective. Regimes that are effective but lack legitimacy are highly unstable, because the potential opposition is vast. Any changes of policy that indicate weakness or ineffectiveness on the part of the regime can thus unleash a rapid escalation of protest and create a state crisis or even failure.

When a state has lost both effectiveness and legitimacy, it becomes doubtful whether it can be quickly rescued. Restoring both legitimacy and effectiveness where both are lacking often falls victim to dangerous trade-offs.

Figure 3: Illustration of "tipping points" and "critical junctures" for failing states



For example in Haiti a failing state was ‘rescued’ by US actions to force the military junta to yield power to the democratic opposition led by Aristide. However, the Aristide regime lacked the resources to exercise effective rule, and gave way to factional strife. That regime is now losing legitimacy as well as effectiveness, and is a candidate for renewed failure. The difficulties in establishing *both* effective and legitimate governance after both have been lost is one of the reasons that state failures so often persist and recur in fragile states, and lengthy and sustained intervention is required before stability is secured.

Thus unless a careful plan is drafted to build *both* effectiveness and legitimacy, rescue and recovery of states may falter. The result on the “Critical Junctures” diagram is that state recovery may move from point “D” to point “E,” but then instead of building *both* legitimacy and effectiveness and moving to point “G,” the recovering state remains at point “E” until it degenerates again and turns to pathway “F.”

## **2.1 Remediation strategies for specific aspects of failing states**

Let us now present examples of remediation strategies for each of the PESS/EL cells. The section following that then examines particular cases of failing states, and shows how they could be diagnosed with the PESS/EL approach. These “stylized scenarios” show in more detail the processes by which states descend into state failure.

The preceding sections of this essay suggest that the way to prevent state collapse is to identify states that are failing with regard to *either* legitimacy or effectiveness, but which have not lost both, and to intervene to shore up or restore the weak component of state capacity.

Yet this can be a tricky process, because of the trade-offs that often occur between legitimacy and effectiveness. Making a regime more brutal and authoritarian can increase effectiveness, but at the cost of even greater loss of legitimacy. Launching democratic processes and holding elections can make a state more legitimate – but only if such elections are truly free and fair. Moreover, if the elections produce a stalemate, or results unacceptable to a major group or leader, then effectiveness of the state may be undermined. As Ottoway (1995, p.239) points out, “Democratization is thus no panacea for a collapsing state. It can lead toward democracy, but it can also hasten state collapse.” The very fact that state leaders themselves often hasten their own demise by trying to carry out reforms aimed at strengthening their position indicates how difficult is the task of averting collapse in failing states.

Still, we can suggest both some general guidelines for overall approach, and specific interventions.

### **2.1.1 General guidelines**

We begin by proposing a series of general guidelines for USAID interventions. Perhaps the most basic is to determine whether a state in question is facing Type I or Type II instability.

If Type I instability is found (low legitimacy, med to high effectiveness), one should determine whether it is likely that the government can be returned to legitimacy. Usually it cannot—efforts to do so (e.g. by holding elections) are often undermined by the illegitimate authorities who fear losing power. If only one dimension of legitimacy is lacking (political, social, economic, or security), it may be possible to identify and correct that failing. However, if legitimacy is lacking on multiple PESS dimensions, it may be better, if possible, to seek to terminate the illegitimate regime and replace it before it loses effectiveness and then undergoes collapse.

Leaders or institutions should be sought that have ‘pre-established’ legitimacy (i.e. are considered fair and not tied to particular groups or interests) in the eyes of leaders and popular groups. These might be individuals who suffered under the old regime (e.g. Mandela in South Africa, Aquino in the Philippines), or political processes that had legitimacy prior to the replaced regime (e.g., the use of a Loya Jirga council to choose leaders in Afghanistan). These are likely to be the highest cost and highest risk interventions, but not impossible (e.g. 1986 Philippines).

If a state is facing Type II instability (high legitimacy, low effectiveness), it is usually possible to restore stability. It is then necessary to identify the areas of low effectiveness, and seek remedies appropriate to that state. In some cases, financial help will suffice, at other times organizational assistance. In many cases, third-party provision of neutral security forces to increase state effectiveness in safeguarding groups or property is sufficient to move toward stability.

In each case, one must carefully examine policy assistance actions for their impact on both effectiveness and legitimacy. For example, military or financial aid to an unjust regime may help keep its effectiveness up and prolong it in power; but it may also undermine its legitimacy, and thus do nothing to ameliorate, or may even worsen, its situation as an unstable state.

Similarly, one must carefully examine how any actions affect the incentives and opportunities of leaders and groups. Creating a flow of free resources (through oil development, large capital projects, or flows of external aid) to aid effectiveness only helps if the revenues are certain to be used in legitimate and effective ways. However, such new revenue flows may also provide an opportunity for corruption, or for conflict among elite factions over access to or exclusion from those resources. Such a resource flow can therefore undermine stability by increasing illegitimacy of rewards, unless carefully monitored or controlled by donors or NGOs.

Where many warning signs of fragility or failure are evident, the highest priority should be given to establishing security effectiveness, security legitimacy, and political legitimacy. If these are established, other remediations can develop. However, if security is lacking, or biased against particular groups, or if the political system is perceived as biased toward particular groups, other efforts to rebuild stability will likely be opposed by considerable elements in the population, and most often will be stymied or unproductive.

### **2.1.2 Cell-by-cell interventions**

We can also identify a series of proven interventions for each of the four PESS/EL categories, for both the effectiveness and legitimacy dimensions.

*Political effectiveness.* Interventions need to provide or build institutions for effective government. These are essentially two:

- *A civil service that is professional, well-regulated, and adequately and regularly paid.* Where a skilled civil service exists, it may simply be necessary to intervene to pay salaries and offer incentives and external supervision to avoid corruption; where inadequate administrative personnel exists, it may be necessary to bring in foreign administrators until a domestic civil service can be trained.
- *A revenue source for supporting government activities, including security, public services (health, infrastructure, education, pension), civil administration and regulation, and cultural activities.* Estimates of required government revenues should be matched to plausible revenue sources. While donor aid can bridge short-term deficits in government budget needs, efforts must be made to identify resources that will allow governments to support themselves.

*Political legitimacy.* Interventions need to provide institutions that do not favor, exclude, or repress particular groups. This requires at least four, and possibly five features.

- *A government seen to be open and accessible to all major groups in society.* This is most often provided by holding open and competitive elections. This strategy generally works, however rigged, coerced or suspect elections can severely undermine legitimacy. Where fair and free elections are judged difficult or infeasible prior to further political organization or security provision, legitimate government can be provided in the short term by a third party or appointed provisional government that has established trust with all major groups in society. This may be based on control by an international body (UN or regional association), or an indigenous institution or individual leader who has high trust and credibility with all major groups (e.g., independence heroes such as Nyrere or Kenyatta; regime opponents such as Vaclav Havel or Nelson Mandela; religious or tribal leadership councils).
- *A government with strong and independent legislature and judiciary systems that can constrain executive authority; preferably with legislative control over appointments and budget actions.* This is partly a matter of having a proper constitution with checks and balances, partly a matter of getting varied elites to agree to share power in governance.
- *A political party system that requires coalitions spanning particular regional, ethnic, or identity group interests, to channel and regulate competition.* Recent experiments with party engineering in Nigeria and Indonesia demonstrate that 3rd party specification of conditions for party registration can shape party systems along more inclusive and national lines.
- *A stream of revenue that depends on popular consent and is transparent in regard to receipts and expenses, and is sufficient to fund government expenses.* Countries with revenue streams easily captured by government or a few private parties (e.g., oil, minerals, timber, even donor aid) tend to become corrupt, opaque, and operate without regard to popular consent or welfare. Where such revenue streams exist, they must be put on a transparent foundation, whether privatized or state-run. Preferably, such revenue would be returned to citizens or placed in a public trust, to be disbursed only when a legislature votes for taxation or public spending. Longer term, a more diversified economy should be encouraged to reduce the ability of the government or a few private actors to capture excessively large fractions of economic activity.
- *Where crimes were committed against the population or major groups by identifiable leaders, they should be brought to justice by international or domestic tribunals.* In addition,

compensation should be sought for the affected parties, and efforts should be made to recover corruptly-acquired wealth.

*Economic effectiveness.* This may entail meeting immediate humanitarian needs for food and shelter. However, in the longer term it requires interventions to provide:

- provision of infrastructure : road, seeds, and fertilizers for an agrarian economy;
- electricity, ports, and urban infrastructure for an industrializing economy;
- a stable currency;
- a tax system that does not stifle economic activity or entrepreneurship;
- a system of market prices that is not distorted by government action;
- access to regional and international markets on favorable terms;
- training/apprenticeship programs for jobs or techniques to best exploit local resources; and
- an accessible and well-regulated banking/credit system to finance and channel investment.

*Economic Legitimacy.* This is most difficult to enforce if political effectiveness and legitimacy are lacking. However, it requires interventions to provide:

- a transparent system of taxation and revenue that does not favor particular political or social groups at the expense of others;
- a fair and reliable legal and judiciary system that impartially assigns and enforces property rights and contracts;
- avoidance of narrowly concentrated or substantial corruption that short-circuits, competes with, or drives out legitimate economic activity and favors particular political or social groups at the expense of others;
- if economic resources are in areas claimed by particular social groups, those groups; and
- are not arbitrarily excluded from economic activity or benefits obtained from those resources.

*Social effectiveness.* This is a broad area, and there is room for selectivity here. In many societies, social services are provided at the local level with minimal government involvement. NGOs can also deliver services, especially in the short term. However, the longer-term goal is for government agencies and/or indigenous private parties to acquire the capacity to provide desired social services. Services that may be considered and targeted for intervention include:

- education, particularly basic literacy;

- health (including basic nutrition, vaccinations, sanitation, and disease control as well as treatment of individual injuries and illness);
- child care (especially important where war, famine, or disease have left large numbers of orphans and single-parent families or traumatized youth); and
- cultural and religious activities.

*Social Legitimacy*. This area is actually easily achieved, but often sadly neglected. Intervention here is required to ensure that:

- social services do not exclude, neglect, or impose undue costs on any particular social or political group;
- groups that have suffered past exclusion, neglect, or undue costs are compensated or given assistance in achieving integration into society; and
- cultural, religious, or social practices of particular groups are respected and not suppressed or restricted, except where deemed necessary by constitutional actions of governments with high political legitimacy.

*Security effectiveness*. This is an absolute *sine qua non* of ameliorating fragile state conditions. Intervention here must provide – by importation of foreign forces, or training and supervision of domestic forces – sufficient forces in two respects:

- civil police to provide security from theft, robbery, assault, rape, murder, and other violent crimes, especially in urban centers and
- military forces to provide security from rebel or foreign military actions to vulnerable civilian populations.

*Security legitimacy*. This too is essential for rescuing failing states, as effective security that is not legitimate defers, but does not resolve, greater instability problems. Intervention by imposition of foreign forces, or by training and supervision, must provide:

- civil police whose corruption levels are not so great as to void their ability to provide public safety and
- military forces that integrate and act impartially toward all groups in society.

This is actually a short list of measures to stabilize failing states—a manual for even basic auto repairs, for example, would be many times longer. However, it may still seem daunting for donors with limited resources.

Nonetheless, there is no getting around the fact that there are many ways that states can fail, and if they are simultaneously failing in many regards, the task of restoring or stabilizing them is a large task, requiring coordination of many discrete operations, most likely taken by a variety of different NGO and donor agencies. What we are presenting here is a guide to identifying and organizing treatments for specific components of fragile state conditions.

Restoring a state that is failing on many counts is not unlike fixing a car which has been badly neglected. If the tires are flat and the radiator is empty and the steering bearings are shot and the fuel line is clogged, then all these must be repaired in order for the car to be safe to drive.

If USAID takes the view that it has certain skills and capacities, and wants to harness these to dealing with fragile states, then it must avoid the situation of trying to fix cars when it only has skill in changing tires. Of course it is perfectly fine to specialize in certain tasks and develop expertise and experience therein. But this is different from addressing the broader and holistic problems involved in restoring fragile states to stability.

We suggest that if USAID wants to take the lead in the difficult task of fixing fragile states, it needs to identify the full range of capacities needed, and determine whether it wishes to build that range of capacities in-house, or work with other USG agencies, international agencies, and NGO's to coordinate in provision of those capacities.

The prior pages list 29 distinct objectives or areas of intervention for restoring and constructing state capacity. At some, AID already has considerable experience and expertise. This list may help determining how those capacities can best be integrated into a more comprehensive strategy for addressing fragile states.

### **3. Applying the PESS/EL framework to failing states**

We may now utilize the framework developed in Chapter I and detailed above to two applications. The first relates to a series of countries for which USAID has expressed particular concern. The second applies the framework to a series of stylized scenarios which, broadly, encompass the usual pathways experience has shown that a country may develop a failing state.

### **3.1 Cases highlighted by USAID**

USAID wanted ideas on how to apply this analytical framework to specific fragile states. Here-with follow some characterizations, which could be amplified by USAID experts with greater area knowledge.

#### **3.1.1 Examples of countries in danger of failing<sup>14</sup>**

Pakistan, Burma, Nepal and North Korea are examples of countries that are in danger of becoming failed states. Let us consider them in turn.

Pakistan and Nepal are in danger. Pakistan's government made a sudden switch from supporting the Taliban to supporting the United States; many (especially in the Northwest and even in the armed forces) see this as culturally illegitimate.

The Musharraf regime also appears to have acted questionably in elections, thus adding political illegitimacy. As long as US assistance and military loyal render the regime effective, it can hold, but is clearly Type I unstable. But ending this instability would require holding free elections for Musharraf to face Islamic opponents, and possibly shifting foreign policy; these may not be desirable from US policy viewpoints.

Nepal is also Type I unstable. The new king came to power in suspicious and unusual circumstances, and thus lacks political legitimacy. His regime has also been ineffective in regard to the economy and security vs. the Maoist rebels. This state has multiple problems and is descending into failure. Not clear how to reverse these multiple weaknesses. Elections/referenda on the king might aid political legitimacy; external aid and regime reorganization probably needed to increase effectiveness.

Burma and North Korea, however, seem not to be fragile. Burma has high political effectiveness, and while economic effectiveness is low, that by itself is not a severe failing. Legitimacy may be low among supporters of the oppressed democracy movement and tribal groups, but appears high among members of the armed services and state civil servants. North Korea appears similar—high political effectiveness, and high legitimacy among military and state elites. No competing elites (e.g. business, religious) serve as foci for dissent. Thus despite eco-

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<sup>14</sup> The ANE Bureau recommended these countries be examined.

conomic ineffectiveness and low legitimacy among pro-democracy groups (if any in N. Korea,) these factors by themselves are not likely to produce failing states.

### **3.1.2 Examples of countries exhibiting resilience<sup>15</sup>**

Philippines, Bangladesh, India, Indonesia and Macedonia are examples of states that have been prone to failure but demonstrated resiliency, while Cote d'Ivoire could serve as an example of a country that failed despite serious interventions to forestall it. Let us consider these in turn.

The Philippines under Aquino was a classic Type-II instability—low effectiveness, but high legitimacy due to inclusive and fair, open regime. Effectiveness has been enhanced by active and overt U.S. support for Aquino regime when it was threatened by military coups. The Estrada regime lost legitimacy due to corruption, but the peaceful removal of Estrada and replacement by Gloria Arroyo, restored legitimacy. The regime is still low on effectiveness, but recovering.

Bangladesh has had repeated failures (e.g., democratic regimes overturned by military coups). However, current regime has both higher political legitimacy from democratic elections, *and* higher economic and political effectiveness due to progress on textile industry and improved public services. Currently there is no longer an immediate risk of failure. Corrupt elections, however, could wreck political legitimacy and create renewed fragility.

India has never been so ineffective or illegitimate as to be seriously at risk of state failure, despite high levels of local religious violence. The federal government has never systematically favored one religious group (although election of Hindu nationalist parties is worrisome), and the Indian military and civil service have remained loyal and effective. Economic effectiveness had been somewhat low at times, but currently is fairly high. Not a current failure risk.

Indonesia clearly showed many signs of a failing state in the wake of the 1998 economic crisis in conjunction with the Suharto succession crisis. The Suharto regime had enjoyed economic effectiveness during 1990s economic growth boom, and legitimacy from nationalist Muslim party organization. But revelations of extreme family corruption reduced Suharto's legitimacy while 1998 crises undermined effectiveness. Post-Suharto regimes had very weak legitimacy and effectiveness, with low control of the military (which was increasingly predatory and

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<sup>15</sup> The ANE and OTI Bureaus recommended these countries be examined.

avored specific ethnic groups and regions). In many ways, regional and ethnic wars and low control of army create major problems of political and security effectiveness and legitimacy. However, elections that were viewed as fair helped provide legitimate leadership, and headed off state failure. Still, many signs of political and security ineffectiveness remain, and the country is still recovering, not yet stable.

Macedonia, by contrast, is like India – some local ethno-religious group violence, but *no* systematic government favoring of specific groups, thus solid political legitimacy. In addition, strong NATO support provides effectiveness in controlling violence, thus good security effectiveness. While ethnic domination by one group would risk delegitimation of the government, and loss of NATO support would erode effectiveness, as long as these elements do not arise, Macedonia should continue stable.

Cote d'Ivoire is a classic case of a country that moved from stable to Type-I instability to failure through one ethnic group using the government to dominate others. Felix Houphouët-Boigny, founding President from 1960 to 1993, treated all groups equally and presided over relatively peaceful development. However, after he died, politicians began building support on regional/religious lines. His first successor, Bedie was identified with the Christian southerners. When in the next election, the northern and immigrant Muslims (who make up 60 percent of the population) sought power, the Christian-dominated National Assembly outlawed foreign-born candidates for President. However, the leader of the Muslim parties was foreign-born and ran anyway. In the violence that followed the elections, a military coup occurred and then another election was held with Laurent Gbagbo, a Christian, elected President.

Following Gbagbo's victory, security forces began targeting civilians solely and explicitly on the basis of their religion, ethnic group, or national origin. This destroyed the legitimacy of the regime, and triggered an attempted coup and armed uprising by northern Muslims. Although there have been attempts by France to stabilize the country, the French are worried that Gbagbo's socialist regime will deny access to French companies. Thus the French too are suspected of being complicit in ethnic factional divisions. With no government that persuades both Christians and Muslims that they will receive equal treatment, the government lacks political legitimacy. As it also lost security effectiveness in the face of the armed Muslim rebellion, the country descended into chaos. This cost economic effectiveness as well, compounding the regime's weakness. Cote d'Ivoire is thus constantly in or on the edge of failure. There is no way to fully

reverse this and restore stability without a President who is accepted as fair by all groups. This is proving *very* hard to find. Thus even major attempts to head off state failure have been unsuccessful.

### 3.2 Failure scenarios

We can reduce some of the variability in the above cases by clustering them under five “stylized scenarios” by which states descend into state failure, losing effectiveness and legitimacy. These are not exclusive, and may combine in various sequences. However, we feel these are the major events constituting failure trajectories.

- *Escalation of communal group (ethnic or religious) conflicts.* Examples: Rwanda, Liberia, Yugoslavia, Lebanon.
- *State predation* (corrupt or crony corralling of resources at the expense of other groups). Examples: Nicaragua, Philippines.
- *Regional or guerrilla rebellion.* Examples: Colombia, Vietnam
- *Democratic collapse* (into civil war or by *coup d'état*). Examples: Nigeria, Madagascar
- *Succession or Reform Crisis in Authoritarian States.* Examples: Indonesia under Suharto, Iran under Shah, Soviet Union

Each of these stylized scenarios can be thought of as representing a “mode” (or set of “modes”) of state failure, or more analytically, a set of interactions by which the equilibrium underlying stable governance breaks down. In the real world, these are usually not encountered in “pure” form. For example, the collapse of the Soviet Union was mainly a Reform crisis in response to Gorbachev’s efforts to improve the popularity and efficiency of the Communist Party; but it also involved escalation of nationalist conflict over Russian control in the Baltic and Central Asian territories, and state predation (party corruption under Brezhnev) was also an issue. However, the vast majority of state failures fall primarily into one of the above categories.

In each of these scenarios, the state loses legitimacy, or effectiveness, or both, in regard to either the entire population or specific communal or regional groups. Examples in the appendix below illustrate how this occurs in each scenario. Our emphasis here is not on whether a state is fragile at a given time but on the dynamics of how it is moving along the critical con-

juncture curve of Figure 3. Thus we focus on changes in the PESS/EL dimensions of state capacity to identify the specific problems that are arising and which need remedies.

## 4. Stylized Scenarios of Failing States

### 4.1 “Escalation of ethnic conflicts” scenario

In stylized scenario “escalation of ethnic or religious conflicts”, breakdown occurs because a major communal group has no incentives to participate in the government, and the other players in the government are unable to prevent its rebellion. This mode has two “sub-modes,” corresponding to Type I and Type II instability, depending on whether the communal group that is the focus of opposition was formerly within, or excluded from, the government.

The first mode occurs when a moderately effective government excludes (or has excluded) certain communal groups from power and the economy, and then loses effectiveness, allowing the opposing groups to mount a rebellion. The dynamics of this situation are shown in the PESS/EL table below

**Table 13: PESS-EL matrix for ethnic conflict (Type I instability)**

	<i>Effectiveness</i>			<i>Legitimacy</i>		
	High	Medium	Low	High	Medium	Low
Political		X →	X			X
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Economic		X →	X			X
Social			X			X
Security		X →	X			X

*Notes:* Ethnic conflict under Type-I Instability reflects a regime with low legitimacy and moderate effectiveness; then loses that effectiveness in an economic crisis.

*Example: Liberia 1990.* Prior to 1980, American-Liberians had controlled the army and government of the country in a stable, but one-party, state, most recently under Charles Tolbert. However, Tolbert engaged in weak, vacillating policies of reform during an economic downswing, and was assassinated in an army rebellion by a small circle of enlisted men led by Samuel Doe. Though nothing fundamental changed, Doe then used control of the government to enrich

his own tribal group (the Krahn). Descent into failure began when Doe began to seize control of Liberia's resources to enrich his group more brutally and thoroughly than any prior Liberian regime, destroying the material security of all other groups, with Doe's army taking control of farms and businesses and overturning any previous checks on state and military authority. Yet Doe's regime was also incompetent, unable to restrain its military from gross corruption and human rights abuses, or to avoid economic collapse. In the mid-1980s, a stolen election thoroughly destroyed the political as well as economic legitimacy of the regime, and in 1989, in the wake of severe economic troubles, an opposition led by Charles Taylor and supported by other West African states invaded Liberia and initiated a civil war that has since devastated the country.

*Diagnosis for prevention of failure.* This is the more difficult case, noted above, of an illegitimate regime that stays in power by effective repression of opponents and rewarding of followers. If international intervention had occurred earlier in Doe's rule – either as soon as the gross corruption and human rights abuses were evident, or immediately upon the 1985 election fraud, perhaps the lengthy civil war that began in 1989 could have been averted. But perhaps not; by 1985 Liberian society was strongly polarized and the military personally loyal to Doe. A sustained military campaign might have been inevitable in order to end Doe's regime.

The second mode begins with a moderately weak but democratic government. Despite being democratic, if certain regional or ethnic interests fear they will lose from the policies of this regime, then they may decide to withdraw and rebel from government. This situation can be shown in PESS/EL table below.

**Table 14: PESS-EL matrix for ethnic conflict (Type-II instability)**

**A weak democracy where an included group fears exclusion**

	<i>Effectiveness</i>			<i>Legitimacy</i>		
	High	Medium	Low	High	Medium	Low
Political			X	X	→	X
-----						
Economic			X		X →	X
Social			X		X →	X
Security			X		X →	X

*Notes:* Ethnic conflict under Type-II Instability reflects a weakly effective government with some legitimacy, but risks collapse if political legitimacy is forfeited

*Example: Rwanda 1994.* In Rwanda prior to 1990, a fairly stable one-party regime had been in power for 15 years under leadership of the Hutu majority. Following a Tutsi armed attack from Uganda, in 1991 President Habyarimana began negotiations leading to a relatively weak multi-party government that included power-sharing among Hutu and Tutsi groups. A faction of Hutus that wanted to retain all-Hutu power, and feared being excluded by the new Habyarimana/Tutsi power-sharing regime, planned to move against the government (this group now lacked incentives to participate and considered the new power-sharing regime as illegitimate). Upon the death of President Habyarimana in a plane crash in 1994, this faction unleashed a genocidal terror against Tutsis and those Hutus who were involved with them in the power-sharing regime.

The key problems in Rwanda were not merely ethnic divisions (which had been contained for 15 years), but rather the internal shift among political players, such that by 1994 a previously dominant group (the all-Hutu power faction) feared being excluded in the new power-sharing arrangements. The new government did not have the effectiveness to deal with this group (when Habyarimana died, his power-sharing regime collapsed and was pushed aside by the all-Hutu faction); nor in the eyes of the previously dominant all-Hutu power faction was the new government fair and worthy of participation. The result was a highly unstable state that collapsed suddenly into ethnic fratricide when Habyarimana was removed.

*Diagnosis for prevention of failure.* In this case, state failure arose because a relatively ineffective government embarked on a change of course (power-sharing with Tutsi opposition) that was seen as illegitimate by a previously powerful faction. The government should have either ensured (1) that it was strong and effective enough to deal with any opposition to the new power-sharing regime, OR (2) made sure to include incentives for participation to gain legitimacy with all factions, and not merely include the Tutsis at the expense of a major Hutu faction. Excluding a powerful faction from governance while being too weak to close off their opposition was a recipe for state failure.

*Other similar cases.* In the cases of Cote d’Ivoire, Nigeria, Sudan, the common element is that political institutions or economic resources are captured by one group, or groups believe that institutions or resources are about to be captured by another group. Ethnic conflict then breaks out when regime lacks effectiveness to suppress it.

#### 4.2 “State predation” scenario

The PESS pattern for State Predation scenario is Type-I instability, as shown in the table below.

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**PREDATORY STATE Type-I instability (Regime with low legitimacy and moderate effectiveness; then loses that effectiveness in an economic crisis)**

	<i>Effectiveness</i>			<i>Legitimacy</i>		
	High	Medium	Low	High	Medium	Low
<b>Political</b>		X →	X			X
-----						
<b>Economic</b>		X →	X			X
<b>Social</b>			X			X
<b>Security</b>		X →	X			X

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The situation is that of a regime seen as illegitimate, preying economically on the populace, but to enrich the family or faction that controls the regime, rather than a particular ethnic or religious group. The regime stays in power only as long as it is effective enough to reward followers and repress its opponents. Once that effectiveness falters—whether because an economic downturn deprives the regime of resources, or a country giving external support withdraws that support, or because an error by the regime alienates its own supporters—such regimes collapse

quickly, for the large potential opposition can be readily mobilized if they perceive the regime as weakened.

*Example: Nicaragua 1979.* Nicaragua had long been ruled by a family dictatorship, the Somozas, established with U.S. support in the 1930s, and supported through the 1960s by the business community and the Church as well as the U.S. This dictatorship shared political power and economic wealth, to a degree, with the country's business elites in a shared spoils system, while exploiting the peasantry. Although there were periodic peasant rebellions (as in the 1920s which led to the rise of the Somozas), these were generally suppressed and the Marxist opposition (the Sandinistas) remained small.

However, in the 1970s, the youngest member of the Somoza family took power; formerly head of the army, he had no use for business leaders and simply used his military to enrich himself. He used government revenues to purchase vast amounts of land for his family, and then in the mid-1970s committed two outrages. First, in the aftermath of the devastating Managua earthquake that destroyed much of the capital city, Somoza diverted aid revenues to his own pockets and failed to rebuild the city. Second, his forces assassinated a popular member of the business elite—Pedro Chamorro—whose media empire criticized Somoza's actions. This left Somoza with very low legitimacy, and he relied simply on U.S. backing and the National Guard's effectiveness to retain power. However, in the wake of these events, the business community and Church establishment encouraged the U.S. to withdraw support from Somoza, and gave support to the Sandinista insurgency. Thrown back solely on military support, Somoza waged a brutal war of repression against his enemies, but when he clearly lost U.S. support, military desertions paved the way for Sandinista forces to take power.

*Diagnosis for Prevention of Failure.* When Somoza clearly lost legitimacy with the business community, the U.S. could have insisted on immediate elections to create a legitimate regime. Instead, the U.S. initially sought to simply replace Somoza with an alternative autocrat (a policy labeled by opponents as "Somocista without Somoza."). This policy was followed more successfully in the similar case of the Philippines in 1986, when Marcos – who had acted similarly to Somoza, even to assassinating a popular businessman and critic, Ninoy Aquino, and lost legitimacy with the elite – was told to hold elections or lose U.S. support. When Marcos tried to rig the election outcome, the U.S. swung support to the elected victor, Cory Aquino, and eased Marcos out of the country. The new regime lacked effectiveness, facing numerous military

revolts, but its effectiveness was reinforced by U.S. support, and the regime survived. Again, the point arises that, among fragile states, a legitimate regime with weak effectiveness (e.g. the Cory Aquino regime) can be more readily shored up and stabilized than an illegitimate regime surviving by effectiveness of repression when its effectiveness is lost (e.g. the Somoza and Marcos regimes). In the latter case, arranging a swift termination of the illegitimate regime by outside intervention appears the better way to avert a collapsed regime.

*Other similar cases: Philippines 1996, Iran 1979, Haiti under Duvaliers.* In all these cases, regimes that were authoritarian, but had some legitimacy with elites from sharing economic resources and elements of power, became wholly illegitimate through the excessive corruption and selfishness of a leader and/or his cronies. They then relied heavily on foreign support and military security to stay in power. When external support was withdrawn and the leaders' military declined in effectiveness, these leaders were quickly overthrown.

#### 4.3 “Regional or guerrilla rebellion” scenario

The regional or guerrilla rebellion mode of state failure is usually of Type II, as shown in the PESS/EL figure below.

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#### **REGIONAL REBELLION, Type II instability (moderately legitimate government, but too weak to control rebellion by one group or region)**

**A weak democracy where an included group fears exclusion**

	<i>Effectiveness</i>			<i>Legitimacy</i>		
	<b>High</b>	<b>Medium</b>	<b>Low</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>
<b>Political</b>			<b>X</b>		<b>X</b>	
-----						
<b>Economic</b>			<b>X</b>		<b>X</b>	
<b>Social</b>			<b>X</b>		<b>X</b>	
<b>Security</b>			<b>X</b>		<b>X</b>	

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The situation is that a regional group or economic class, rather than an ethnic group, suffers discrimination or exclusion that is the locus of low legitimacy. It is generally economic deprivation or exclusion that is at stake, and political exclusion is illegitimate insofar as it rein-

forces the economic deprivation (e.g Maoist guerrillas in Peru and Nepal make claims of both economic discrimination and political exclusion). Here, a moderately legitimate state faces a situation in which one group—in this case a regional or ideological group, rather than a religious or ethnic community—is excluded politically or economically from the regime, and because of some change in conditions (usually a change in governance) the government lacks the effectiveness to suppress it.

*Example: Colombia 2000.* In Colombia, rebel groups have long been active, but when the government of Columbia, with U.S. assistance, curtailed the Cali and Medellin cocaine cartels, the rebel groups (mainly the FARC) moved in to establish control of the cocaine growing regions. This gave the FARC the resources to expand its operations and challenge the government over a wider area. The Colombia government has not been able to suppress the rebellions, nor is likely to be able to do so unless the balance of resources between the government and rebels changes.

*Diagnosis for prevention of failure.* The Colombian regime is not likely to collapse as long as it remains effective and legitimate in its operations in the urban and northern parts of the country. However, as long as the rebels control their own independent resource base in the drug trade, they will be difficult to dislodge.

For comparison, the Peruvian *Sendero Luminoso* movement was similar, but the *Sendero* movement itself lost legitimacy in the region it controlled by its overly brutal repression of villagers who did not support it. A combination of expansion of the Peruvian army's capability and government authority, plus some loss of popular support in its base region, allowed the *Sendero* leadership to be captured and movement suppressed. But unless the FARC alienates the population of its own base area, or the Colombian government becomes far more authoritarian and militarized than its supporters are likely to allow, the stalemate will most likely continue.

*Other similar cases:* Russia/Chechnya, Indonesia/Aceh, Georgia/Ossetia are all states in which regional ethnic groups felt threatened or neglected by the government and the central government lacked the effectiveness to gain or enforce their allegiance.

#### **4.4 Democratic Collapse (into civil war or by *coup d'état*)**

Democratic regimes usually have legitimacy to the extent that they include and respect the interests of diverse groups. However, even democratic regimes can be paralyzed by factionalism,

or rendered ineffective by lack of adequate resources to maintain the security of the population. In such conditions, democracies that are perceived as ineffective are often replaced by military regimes in coups. In many cases, lacking an adequate legitimate source of revenues in taxation, the government will turn to corruption, which can further undermine its effectiveness and its legitimacy as well.

The PESS chart for such regimes is shown below; it is a Type-II instability. The main problem is ineffectiveness and inability to provide economic and physical security, although this is often exacerbated by loss of economic and political legitimacy where there is severe corruption.

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**DEMOCRATIC COLLAPSE, Type II instability (moderately legitimate government, but too weak to provide economic and security effectiveness)**

	<i>Effectiveness</i>			<i>Legitimacy</i>		
	<b>High</b>	<b>Medium</b>	<b>Low</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>
<b>Political</b>			<b>X</b>		<b>X</b>	
-----						
<b>Economic</b>			<b>X</b>		<b>X</b>	
<b>Social</b>			<b>X</b>		<b>X</b>	
<b>Security</b>			<b>X</b>		<b>X</b>	

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*Example: Nigera 1983.* The Second Nigerian Republic took office amid high hopes in 1979. However, the oil boom in Nigeria soon petered out, and seeking to gain support by pork spending, the minority government ran up debts of billions of dollars. Corruption flourished as well, and when the minority government managed to win re-election in a fraudulent election in 1983, it was shortly overthrown by the Army, which justified its actions both by the economic chaos and the rigged election.

*Diagnosis for prevention of failure.* The Second Republic did not lack legitimacy, but it squandered it and never gained effectiveness. If more attention had been paid to balancing government spending and revenues, and more emphasis placed on controlling corruption, it seems likely that the democracy could have lasted longer, and possibly been stabilized. But with unfettered debt-based spending and corruption, its demise came soon.

*Other similar cases.* These include Pakistan, Haiti (under Aristide), Bolivia, Georgia, all democracies that were too ineffective to keep popular support or suppress opposition, overthrown by military coups or popular protests.

#### 4.5 “Succession or reform crisis in authoritarian states” scenario

The problems of succession or reform crises in authoritarian states arise directly from failure to manage the trade-offs between state effectiveness and state legitimacy.

In a succession crisis, a government whose legitimacy (or in some cases effectiveness) is dependent on the presence or political skill of a single powerful ruler finds itself in a quandary as to how to maintain power as that leader ages and approaches death, or if that leader dies unexpectedly. Unless a successor is groomed to be an effective ruler, and accepted as legitimate by the major business, military, and religious elites, the absence of such a successor leaves the state open to widespread potential opposition as different factions vie for power. In most cases, if one faction aims to seize power, even if effective, they will be viewed as illegitimate. Regional or group-based rebellions are likely to arise. On the other hand, if some cooperate power-sharing arrangement is made to divide power, such arrangements may produce weak governance, leading to ineffectiveness and disintegration of the state as various regional or ethnic groups seek greater control over their own security. In terms of the PESS/EL chart, succession crises show up as a sudden shift of *both* effectiveness and legitimacy from medium/high to low as the loss of the stabilizing personal leader grows closer or suddenly occurs.

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**SUCCESSION CRISIS IN AUTHORITARIAN STATE: Sudden instability (groups anticipate sudden shifts in legitimacy and effectiveness)**

	<i>Effectiveness</i>			<i>Legitimacy</i>		
	<b>High</b>	<b>Medium</b>	<b>Low</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>
<b>Political</b>		<b>X → X</b>			<b>X → X</b>	
-----						
<b>Economic</b>		<b>X → X</b>			<b>X → X</b>	
<b>Social</b>		<b>X → X</b>			<b>X → X</b>	
<b>Security</b>		<b>X → X</b>			<b>X → X</b>	

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*Examples: Nepal and Indonesia.* The first situation (illegitimate succession) is well-exemplified by Nepal, where the sudden death of the King left a dubious succession with low legitimacy. The second situation (weak and ineffective government with power-sharing) is well-exemplified by Indonesia, where in the wake of an effort to replace the illegitimate succession of Suharto by a family member, the various power-sharing arrangements in parliament failed to produce a strong government and left various regions in turmoil as the army preys on them and they seek their own security. Only new elections and political party organization, plus UN intervention in East Timor, produced political legitimacy and security effectiveness and legitimacy.

A variation of this mode of state failure occurs when a state whose leadership wishes to increase its effectiveness or legitimacy embarks on reforms. In some cases, the reforms aimed at increasing effectiveness do little in that regard, but have the side-effect of reducing legitimacy. For example, efforts to raise taxes, or to manipulate the currency, or add debts, or increases in corruption, may aim to raise the resources available to state leaders, but may not succeed in doing so. They may, however, weaken the state's perceived justice, and thus reduce its legitimacy. Conversely, efforts to raise legitimacy, for example by extending advisory roles to numerous groups, or having elections, may increase perceptions of justice. But they may also undercut the regime's ability to make and implement decisions, reducing effectiveness. Or, if the advice is ignored or the elections are rigged, such actions may have the reverse of the intended effect, and reduce rather than increase legitimacy. In short, there are many ways that leaders "get it wrong," and take actions that fail to deliver the intended results.

*Examples: Pakistan 1971, USSR 1991.* In 1970, to increase the legitimacy of the Pakistani government, which was dominated by non-Bengalis from the western wing of Pakistan, general elections were held for a Federal Parliament. However, when the Bengalis won a majority of seats, the non-Bengalis disavowed the results as unacceptable, leading to Bengali revolt, civil war, and the eventual partition of East and West Pakistan into Bangladesh and Pakistan, respectively.

A second example is the dissolution of the Soviet Union. Gorbachev tried to increase the effectiveness of the Soviet regime by removing Communist placeholders and corrupt party hacks. Unable to reform the Party from within, he called for elections and external criticism to target and force out bad officials. Yet the calls for elections and criticism revealed such manifest incompetence and corruption in the Party that the entire Party lost any remaining legitimacy and

became the target of calls for change. The Party gained nothing in effectiveness, but lost all legitimacy, and much elite, military, and popular support swung to anti-communist reformers led by Yeltsin. Fearing Yeltsin's rise, a military faction tried to replace Gorbachev and end his experiment with reform. However, while Gorbachev was deposed by the military faction, the latter were unable to overcome Yeltsin and his supporters, who then came to power and dissolved Communist control and the Union.

*Diagnosis for prevention of failure.* Succession and reform are risky periods for countries that are failing, that is, at Stage B in Figure 3. Absence of a legitimate or skilled successor can knock the remaining pins of legitimacy or effectiveness from under a weak regime. Aside from adequately attending to planning succession so that a power vacuum or loss of legitimacy or effectiveness does not arise, there is little to do but treat the state as a collapsed state and seek to rebuild. As to reform, it is crucial to think ahead and be sure—insofar as possible—that efforts to improve the situation do *not* create incentives for individuals or groups to defect from or oppose the state. Reforms aiming for greater effectiveness or legitimacy can easily have unintended consequences for both factors of capacity, and these need to be anticipated as much as possible, or the effects of reform can be to hasten, rather than avert, the collapse of the regime.

To sum up this long section, states can collapse in varied ways. However, all the pathways involve some combination of events or actions that leads to a loss of state effectiveness, state legitimacy, or both. The loss of effectiveness and/or legitimacy removes the incentives for leaders and groups to participate in the state, or creates opportunities and incentives for them to defect or oppose it. States can survive in a fragile state if they are moderately effective, or moderately legitimate, even if the other characteristic of state capacity is weak. Yet when states become weak on both counts, total collapse is likely to come soon.

## Chapter III. Failed States<sup>16</sup>

### 1. Introduction

What role should USAID (or any aid agency) play in states that have failed? This includes states that are currently in failure, or which have failed at some point in the past decade and appear to be emerging from failure.

We begin with a brief consideration of how to define and identify state failure (section 2), and then summarize the political, economic, social and security features that typically characterize failed states (section 3). This is followed by a discussion of the pathways to state decline and the factors that impel states towards outright failure (section 4).

Given that a state has failed, what steps do donor agencies need to take? We summarize the conventional “treatments” for failed or just-recovering states (section 5) and conclude that a more complete and nuanced approach is needed in which the treatments are rooted in the way in which the state emerges from failure. We then identify five “stylized scenarios” and for each of the five cases we sketch the short-run and longer-run needs for recovery, suggest appropriate treatments, and illustrate the analysis with examples (section 6). In the final section we identify some of the unresolved issues.

This paper has benefited enormously from the writings and discussions of the IRIS “fragile states” project team and their USAID counterparts. For now, please consider this as still very much a work in progress; comments would be most welcome.

### 2. Definition of Failed State

There is no definition of “failed state” that commands universal agreement, although it is widely felt that a state has failed when it loses the ability to provide security and “basic services” to at least a substantial part of its population.

In some cases it is obvious when a state has failed; Liberia under Charles Taylor is a good example. It is harder to classify states that provide security but not basic services (widely defined as those tasks that we think states should do). North Korea maintains security, and in

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<sup>16</sup> The principal author of this chapter was Jonathan Haughton.

that sense is a functionally successful state (see Chapter II), but it has clearly failed to bring economic development to its populace, and so has failed as a developmental state.

The more problematic cases are those where states display some, but not all, of the symptoms of decline and/or failure. A set of useful measures is shown in Table 15, based on earlier work done by the group (see Chapter II). In classifying states, the use of indicators should be:

- Parsimonious. With too many criteria, judgment becomes more necessary (ironically).
- Based on data that are available for almost all countries and are reliable and comparable. This typically rules out measures such as poverty rates, which are not so readily available, and unemployment rates, which are unreliable.
- Based on a sensible operationalization of the typology.
- Based on enough dimensions to capture the complexity of the issue.

The choice of measures, and their relative importance, is somewhat arbitrary, but that is unavoidable in any classification scheme.

A state may be considered to have failed functionally if it meets any one of the political or security criteria for failure; and to have failed as a development state if it meets any one of the economic or social criteria for failure.

### **3. Features of Failed States**

All failed states experience serious political violence, and most go through civil war. A common definition of war is that at least 0.5% of the population was killed in conflict during the period under consideration (e.g., Stewart 1993, p.364).

Conflict-ridden economies share many common traits that set them apart from more peaceful countries, or even from countries that have been hit by natural disasters; “a civil war cannot be compared to an earthquake” (World Bank 2000, p.31). It is useful to summarize the main differences, and this is done schematically in Table 16 for peaceful and for conflict-torn countries. Table 16 also shows the situations for Nicaragua, Uganda, East Timor, Bosnia and Cambodia during their periods of civil war.

**Table 15: Indicators of state decline and failure**

	<b>Effectiveness</b>	<b>Legitimacy</b>
<i>Political</i>		
Failing	Attempted coup d'état	One or more significant groups systematically excluded from political access or office or citizenship
	At least 3 or more presidents or prime ministers in one year	Political protests or strikes involving at least 0.5% of the population and repeated for 10 or more days
	Government revenue 10% or less of GDP	Government is seen as too dependent on foreign support
	Government loses control of at least 5% of territory or at least 1% of population	
	Violent elections whose results, judged internationally to be improper or unfair	
Failed	Successful coup d'état or extra-constitutional overthrow of the regime	
	Government has lost control of 20% or more of territory or population to armed opposition forces	
<i>Economic</i>		
Failing	Country is classified as low- or mid-income by the World Bank	One relatively small group (elite faction, ethnic group/subgroup, family, cronies) is corruptly dominating the economy for their private benefit.
	GDP/capita is lower than 5 years ago	One or more groups face large-scale and systematic economic discrimination.
		Government revenue 45% or more of GDP
Failed	Inflation above 100%	
	GDP is at least 20% below its highest level of the past decade	
<i>Social</i>		
Failing	The net primary school enrolment rate is less 80% and is no higher than 5 years ago.	Specific groups are prevented from practising important customs or language.
Failed	The NPSER is at least 20% below its all-time high, and is below 70%.	
<i>Security</i>		
Failing	More than 1,000 killed in political violence in prior 3 years.	One or more groups systematically subjected to violence or deliberately not protected by the state.
	More than 10,000 (or at least 0.5% of the population) displaced by political violence in prior 3 years.	
	State Department warnings related to security issues, in effect for at least 6 months over the past 5 years.	
	At least two major powers have recalled their ambassadors, and/or evacuated embassy personnel, over the past year.	
Failed	At least 0.5% of the population was killed in civil war since 1980.	
	At least 20,000 refugees and internally displaced, or at least 1% of the population.	

The negatives dominate. Even when the fighting stops, conflict-ridden economies typically face an intimidating array of handicaps: low incomes that may still be falling, large numbers of refugees, a lack of skilled personnel because of emigration, some continuing civil disorder, run-down infrastructure, high inflation, an overvalued exchange rate, a weak banking system, a distorted tax structure, high foreign debt, small industrial and service sectors, worsening social indicators in health and education, low investment, an erosion of property rights and of trust, and very poor information.

This is a formidable list of hurdles, making the job of ending conflict and pursuing reconstruction difficult and long. There are, however, a few assets, including:

- Donors are typically interested in supporting rehabilitation and reconstruction. Among countries with at least a million people, the biggest recipients of foreign aid in 2001 in per capita terms were Bosnia (\$157), Honduras (\$103), Macedonia (\$122), Nicaragua (\$178) and Serbia (\$123), all of them recovering war-torn states.
- Second, émigrés will have amassed wealth and skills overseas, and will begin to send back remittances, to invest, and even to return home.
- Third, there is typically a group of wartime entrepreneurs who have accumulated liquid assets and who have the ability to operate even in very difficult circumstances; under the right conditions they could be persuaded to use their talents and money productively in peacetime too.
- Fourth, in many cases resistance to economic reform is typically low, because there are few entrenched interests. In the words of one World Bank commentator on Cambodia, "the extreme void ... in a way makes [institution building] easier."

**Table 16: Characteristics of Selected War-Torn Economies During Civil War**

	Non war torn LDCs	Conflict -torn ecs.	East Timor		Nicaragua 1978-89	Uganda 1971-89	Bosnia 1992-95	Cambodia 1975-89
			End 1999	Mar. 2001				
<b>Politics</b> [xxx Insert here]								
<b>Economics</b>								
<b>Population movement</b>								
Many refugees	—	✓	✓	✓	✓	✓	✓	✓
Many internally displaced	—	✓	✓	—	✓	✓	✓	✓
Brain drain	—	✓	?	?	✓	✓	—	✓
<b>Infrastructure</b>								
Infrastructure: damaged	—	(✓)	✓	(✓)	(✓)	✓	✓	✓
Infrastructure: worn out	✓	✓	—	(✓)	✓	✓	✓	✓
Project appraisal ability	(✓)	—	—	—	—	—	?	—
<b>Macroeconomics</b>								
GDP/capita falls	(—)	✓	✓	—	✓	✓	✓	✓
GDP shrinking	?	✓	✓	—	(✓)	✓	✓	✓
Exports down > 50%	—	(✓)	✓	?	✓	—	✓	✓
High inflation	—	✓	—	—	✓	✓	✓	✓
Dollarization	—	✓	—	✓	✓	✓	✓	✓
State-owned banks dominate	✓	✓	—	—	✓	✓	✓	✓
<b>Fiscal System</b>								
Budget deficit > 5% GDP	(✓)	✓	—	—	✓	—	✓?	✓?
Govt. tax revenue < 15% GDP	—	✓	✓	✓	✓	✓	✓	✓
Foreign debt > 100% GDP	—	—	—	—	✓	—	—	✓
Adequate budget info	✓	—?	—	✓	✓	—	—	—
Adequate NIPA	✓	—?	—	—	✓	—	—	—
ODA > 10% GDP p.a.?	—	—	✓	✓	—	—	—	—
Investment < 10% GDP	—	(✓)	?	(—)	—	✓	—	✓
<b>Property Rights</b>								
Land reform an issue	—	✓	—	(—)	✓	—	✓	—
Many assets confiscated	—	✓	(✓)	(✓)	✓	✓	✓	✓
<b>Social Infrastructure</b>								
Gov. ed. sp. < 2% GDP	—	—	—	—	—	✓	—	✓
Gov. health sp. < 2% GDP	(✓)	—	—	—	—	✓	—	✓
Many orphans	—	✓	—	—	✓	✓	✓	✓
<b>Security</b>								
Large army	—	✓	—	—	✓	—?	✓	✓
Unprofessional police	—	✓	(—)	(—)	✓	✓	✓	✓
External threat	—	—	✓	—	—	—	✓	—
Landmines widespread	—	✓	—	—	✓	✓	✓	✓

Key: ✓ = yes; (✓) = qualified yes; ? = uncertain; — = no; blank = insufficient information.  
Source. Adapted from Haughton (2002).

#### 4. What Causes State Failure?

An underlying premise of the IRIS Fragile States Project is that state failures substantially reflect a society's institutional arrangements and the incentives for human behavior that flow from these arrangements. This is not to deny a role for other factors such as the legacy of social capital, economic inequality, or the contribution of extraordinary individuals. However the “new institu-

tionalist” view does open up space for interventions that work by changing institutions, while admitting that this process will be neither quick nor easy.

As argued in Chapter I, the robustness of a state may be judged along two key dimensions: legitimacy and effectiveness. The states of Western Europe are clearly effective and have high legitimacy by any measure. The same cannot be said for most less-developed countries. Chapter II suggests that one needs to be particularly concerned about two situations:

- *Type I instability* occurs in the context of regimes with low legitimacy but moderate to high effectiveness (e.g., Iran under the Shah). Any weakening in the perception of effectiveness can lead to the erosion of key support for the regime and its rapid demise.
- *Type II instability* occurs in the opposite case, where regimes have high legitimacy but low effectiveness (e.g., Tanzania under Nyerere). In this case a weakening of perceived legitimacy can push the regime into failure.

There are a number of pathways by which Type I or Type II instability may be translated into a weakening, and potential failure, of the state. Chapter II identifies five such “stylized scenarios” and discusses how the pathway arises, gives an example, and proposes a diagnosis for averting failure.

These stylized scenarios are appropriate when examining how states begin to slide towards failure, but they do not guarantee failure per se. For that an additional dimension is typically needed: militarization. As Collier et al. (2003, p.54) put it, “civil war occurs if a group of people forms a private military organization that attacks government forces and ordinary civilians on a large scale and with a degree of persistence.”

If the emergence of military groups is a precursor to civil war, it is appropriate to ask what factors are associated with their emergence. Robert Bates has examined this question using data for 46 Sub-Saharan African countries (excluding the Republic of South Africa) for 1970-95. At the end of this time just under a quarter of the countries were multi-party states, half had one political party, and the remainder had no political parties. Based on his statistical analysis, Bates concludes that

- Multipartyism increases the probability that military groups will form in the short-run, but is associated with a reduced probability in the long run.
- Slower growth in GDP raises the risk that military groups will form.

- A higher GDP is associated with a higher probability that military groups will form (!).
- A higher level of government revenue, as a proportion of GDP, is associated with a lower risk that military groups will form, at least up to a maximum (42% of GDP). The revenue provides governments with the means to pay the security forces and spread benefits.
- During the period prior to elections there is less militarization.
- Neighborhood effects are important, so conflict in one country is apt to spread to its neighbors.

The formation of a military threat does not guarantee civil war, but it raises the risk considerably, especially if the country is hit by a shock – such as a drought, a political assassination, or a sudden reduction in economic growth (due, for instance, to a terms of trade shock).

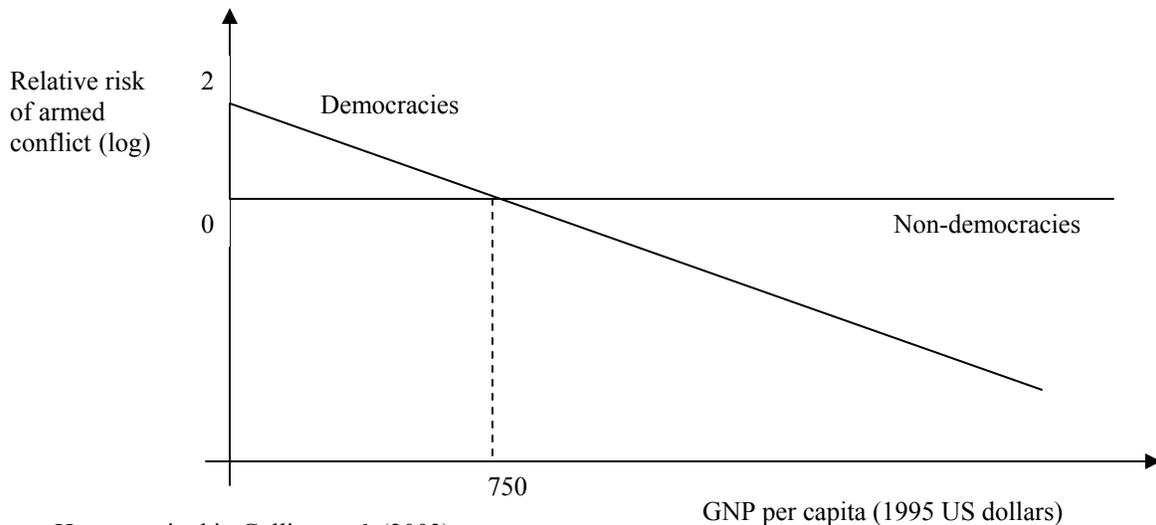
Similar results have been found by other researchers. For instance, Collier and Hoeffler analyzed 55 cases of civil wars in the period 1960-1999. They divided these four decades into eight five-year periods; in any given period a country might be at war or at peace, and this was the dependent variable in their regression analysis. They found that the risk of civil war:

- was lower if income per capita was higher or economic growth was higher and
- was higher if the share of primary commodities in exports was higher, there was a recent civil war, or the largest ethnic group constituted 45-90% of the population.

Bates argues that his findings create a dilemma: multipartyism is good in the long run, but risky in the short-run. How, then, does one make the transition to democracy? This echoes the finding of the state failure Task Force that countries with “partial democracies” are especially prone to failure. Hegre (as cited in Collier et al.) shows his version of the result in the form of a graph, reproduced below as Figure 4.

The observation that states with a recent history of conflict are prone to revert to conflict is important, because it suggests that if one is to reduce the number of war-torn societies significantly, it is necessary to engage with these societies during and immediately after the periods of conflict.

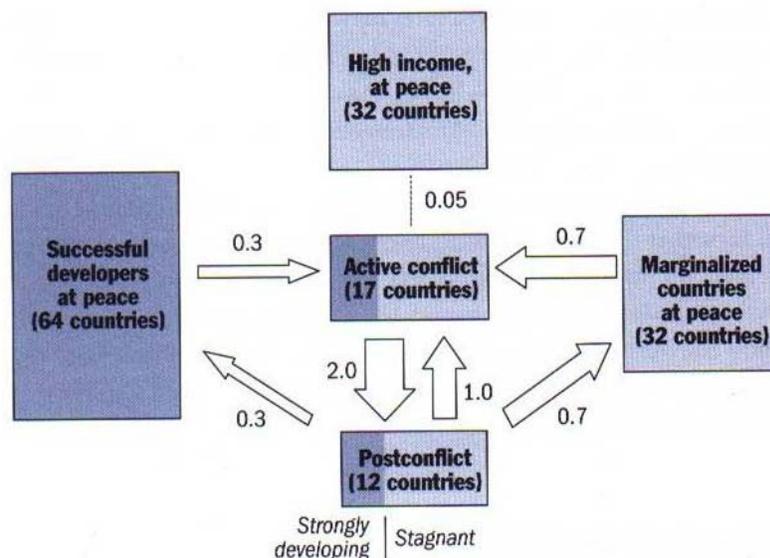
**Figure 4: The conflict trap**



Source: Hegre as cited in Collier *et al.* (2003)

The situation is dramatized in the form of a diagram showing the “conflict trap” for 2000, reproduced here directly from Collier *et al.* (2003). In 2000 there was active conflict in 17 countries; in round numbers, conflict ends in two countries in any given year (so the average length of such conflict is over eight years) and two countries slide into conflict (including one country that experienced conflict recently).

**Figure 5: The conflict trap in 2000—Annual flows in and out of conflict**



*Note:* Numbers next to the arrows indicate the number of countries per year that move between the different states of conflict in the self-sustaining state. Numbers in boxes indicate the self-sustaining number of countries in each conflict state. See appendix 1 for fuller coverage.  
*Source:* Based on a revised version of Collier and Hoeffler (2002c).

## 5. Stylized Scenarios of Failed and Post-Failed States

Could one do better than the conventional treatment strategies for currently or recently failed states? It could be argued that the path taken to failure is of limited relevance when designing treatments for failed or recovering states; instead what matters is the manner in which the conflict ended, and hence the institutions that are currently in place. In this spirit we identify five “stylized scenarios” for failed and recently failed societies.

*External Intervention.* The war was ended by external intervention, and the occupying authority is either still in charge or has recently handed over power. Examples here might include East Timor, Bosnia, Lebanon, and Cambodia.

*Negotiated Settlement.* The main antagonists reached a negotiated settlement and have laid down their arms. Examples here might include Nicaragua, El Salvador, Ethiopia and Eritrea.

*Clear Winner.* One party to the conflict emerged as a decisive winner. Examples here might include Uganda (in civil war), Mozambique, Angola, and Peru.

Rebels Contained by the Government. The government remains largely in control, but rebel activity continues and there is no evident prospect of an end to the violence. Examples here might include Colombia, Algeria, Indonesia (in Aceh), Uganda (in the north).

Ongoing State Failure. The state remains mired in failure, and the prospects of a resolution in the near future are dim or extremely uncertain. Violence is most likely to be intermittent. Examples here might include Somalia, Sudan, and the D. R. Congo.

We now amplify on these stylized scenarios and present examples.

### 1.1 “External Intervention”

External intervention usually occurs in response to serious violence for which no solution is in sight. The intervention is typically motivated by concerns about genocide (e.g. Bosnia, East Timor) or by the danger of conflict spilling over into another country (e.g. Vietnam’s invasion of Cambodia in 1978; Syria’s invasion of Lebanon; Liberia recently).

A situation serious enough to trigger an external intervention is typically a situation where the economic and political structures have been seriously damaged and are dysfunctional.

In the short run, the external force often has considerable legitimacy, particularly if it brings peace and security. However, the honeymoon wears off very quickly, especially if the occupying power is not seen as particularly effective.

**Table 17: PESS-EL Matrix for "External Intervention Ends the War"**

	<i>Effectiveness</i>	<i>Legitimacy</i>
<i>Political</i>	Initially low; devastated by war. Handover often premature.	Intervening power has short honeymoon; must turn over power in the long run.
<i>Economic</i>	Initially low; widespread damage. Sometimes rapid rebound.	
<i>Social</i>	Initially low; health and education neglected. Recovers slowly.	
<i>Security</i>	Intervention brings security.	Heavy-handed actions by intervening power can erode its ability to function effectively.

In the long run the external power must return control to the local population. There are strong pressures for this to occur prematurely, as local political groups position themselves for power in the post-occupation regime. An easy and powerful platform for rising politicians is to

take a stance against the occupying power. Occupying powers can oversee the creation of a constitution and hold and supervise elections.

### **Box 1: Example—East Timor**

In September 1999 the Indonesian army and its local allies went on the rampage in East Timor; an estimated 250,000 people (out of a total population of 800,000) fled the country, as many again were internally displaced, and 1,500 were killed. Rapid intervention by an Australian-led force, followed by a strong United Nations presence, put an end to the violence and in due course established the Transitional Administration for East Timor (UNTAET).

- *Politically*, it was necessary to start almost from scratch, since East Timor had never been self governing and a new generation had to learn to be politicians.
- *Economically*, the UNTAET administration found devastation, with a per capita GDP of \$330 in 2000, coffee exports down by two thirds, and cereal output down by 30%. Most of the skilled workers and managers had left, returning home to other provinces of Indonesia; most public buildings had been burned down; the infrastructure was in poor condition, especially electricity and communications; revenue mobilization was low (below 8% of GDP even in good times). The legal situation was confused, with up to four potentially conflicting legal systems having a role in such issues as land ownership.
- *Socially*, the school enrolment rate for 7-12 year olds fell from an already low 76% and most schools lacked roofs. The number of physicians and dentists fell from 190 in 1999 to about 35 by 2000.
- *Security* was established quickly once the Australian and United Nations soldiers arrived, although local militias operating in the refugee camps in West Timor slowed down the flow of returnees.

Well funded and well run, UNTAET quickly established a functioning administration. The aid effort was large and generally well managed. Almost from the start there were calls for the UN to leave immediately and to let the East Timorese run their own country. By 2001 (?) a constitution was approved, followed by elections. Although the new government is facing some teething pains, the country has emerged from conflict relatively successfully. The bigger challenge will be to put the substantial flows of oil revenue that are anticipated over the coming decade to good and productive use.

*Reference:* Hill and Saldanha (eds.), 2001.

## **1.2 “Negotiated Settlement”**

In this scenario, the main antagonists reach a negotiated settlement that proves to be tenable. This is arguably the best way to end a conflict. The key advantage is that it gives the new regime legitimacy, to negotiate with donors, and to focus on the practicalities of enhancing effective-

ness. Good examples are El Salvador and Nicaragua. More recently there have been serious efforts to arrive at negotiated settlements in Burundi and (more tentatively for now) in Sri Lanka. The case of Bosnia is a hybrid – part negotiated settlement, part external pressure.

Viable negotiated settlements are difficult to achieve, and frequently come unraveled, as in the case of the Oslo Accords (between Israel and the Palestinian Authority) and agreements between the government of Angola and the rebel group UNITA led by Jonas Savimbi (until his death in February 2002). Sometimes outside pressure can be brought to bear on the government or rebels, especially by governments that sponsor one side or the other; but horses led to water will not always drink.

The parties to an armed conflict are unlikely to want to negotiate until it is quite clear that outright victory is unlikely. This may take some time. Rebel groups in particular will be reluctant to disarm as a precondition for participation; there is a time inconsistency problem here, because once rebels disarm, why should anyone continue to negotiate seriously with them. This problem is at the heart of the slow progress toward political normalization in Northern Ireland, where the Irish Republican Army is unwilling to relinquish all of its arms caches.

In the short run, attention is needed to demobilizing the armed forces and creating a neutral police force (and perhaps army). This is not easy (see comments on the example of El Salvador below).

Over a medium (but not long) period, the post-war regime has a high potential for failure. Trust may be hard to establish between the signatories, especially if one or the other party attempts to press its agenda too hard. Bates and others have pointed out that a particularly delicate point occurs when the first major post-conflict elections are held, typically 4-6 years after hostilities have ended. Post-war governments are seldom very popular, and there is always the question of whether the government will peacefully accept a change of regime, should that be the will of the voters.

**Table 18: PESS-EL Matrix for "Negotiated Settlement Ends the War"**

	<i>Effectiveness</i>	<i>Legitimacy</i>
<i>Political</i>	Moderate to good, if the sides were capable of reaching a negotiated settlement.	Initially high. Major test occurs at time of election 4-6 years out.
<i>Economic</i>	Varies.	
<i>Social</i>	Varies, but typically low.	
<i>Security</i>	Low, with two competing forces on the national territory. Needs professional police.	Low, until an impartial force has been put in place, which is slow.

**Box 2: Example—Bosnia**

After Croatia and Slovenia made declarations of independence in June 1991, Yugoslavia began to fall apart. A referendum in Bosnia and Herzegovina in February 1992 approved the establishment of an independent state, but was not accepted by the Bosnian Serb leadership. The ensuing three years of war, including widespread “ethnic cleansing”, led to 250,000 deaths; a million fled, mainly taking refuge in western Europe. Peace talks in 1995 culminated in the Dayton Accords, signed in December. This led to the creation of a single weak state within which there are two “entities” – the Federation of Bosnia and Herzegovina, and the *Republika Srpska*. Communication between the two entities is poor and mutual suspicion is strong.

Despite this unpromising environment, the World Bank took a lead role in providing support for economic reconstruction and, ultimately, economic development. World Bank officials began to develop working relations with officials in Bosnia several months before the ceasefire of October 1995, and were ready to move once the political situation stabilized. They put in place sixteen “emergency” projects, which were largely financed by subsidized loans, though IDA or a special trust fund. A local project implementation unit was established for each project, and disbursement began rapidly.

Partly as a result of the projects, GDP rebounded in 1996, rising by 50% over the level of the previous year. An evaluation of the World Bank’s efforts in Bosnia praised the timeliness of the interventions, the effectiveness of coordination with other donors, the attention to economic management, and the “balanced inclusion” of social sector projects (Kreimer et al. 2000a).

**Box 3: Example—El Salvador**

After more than a decade of conflict, the Chapultepec peace accords were signed in January 1992 between the government of El Salvador and the Farabundo Marti National Liberation Front (FMNL). Even before the accords had been signed, the World Bank had begun to provide macroeconomic advice to the government, and played an important role in coordinating the efforts of the main donors.

El Salvador is one of the few countries where a serious effort has been made to reform the police force. Under the Chapultepec accords, a new depoliticized National Civilian Police (PNC) force was to be established. Just 20% of the officers were to be drawn from each of the FMLN and the old national police force, with the remainder consisting of new recruits. All the commanders were to be civilian recruits. The powers of the armed forces were to be reduced, half of all personnel demobilized, and the old national police force eliminated. Substantial technical assistance was expected to come from the United States and Spain.

The National Civilian Police force got off to a slow start. The training center was poorly equipped, and put too little emphasis on practical skills. There were initial problems in screening recruits. Government support was lukewarm. And after initial public support, the PNC gradually lost public goodwill, because

- reforms in the judicial system were slow, so there was often insufficient jail space, and some judges were biased;
- some appointments were politicized;
- the United Nations police force (ONUSAL), helpful initially, suspended cooperation for a while;
- the new police were too quick to use force;
- donors provided less aid than expected.

Stanley and Call (1997) argue that better systems of accountability to the public, and popular control, were needed from the start; and that it is easier to teach techniques than to change attitudes. Some of these themes are echoed by O'Neil (1999), who argues that the United Nations took too active a role in "peacebuilding" measures and the implementation of the peace accords, an area where it has insufficient expertise.

### 1.3 “Clear Winner”

In some cases the conflict ends when a clear winner emerges. The Ugandan civil war came to a close once Yoweri Museveni had consolidated his grip on power (see example). The Peruvian army defeated the Shining Path guerrillas, who did not help their own cause by treating local populations in a heavy-handed manner. In Mozambique, the main independence movement, FRELIMO, came to power and saw off a challenge from its South-African backed rival RENAMO. Similarly, the government of Angola emerged as the decisive winner against the UNITA rebels, although only after the death of UNITA leader Jonas Savimbi.

In the short run there is typically a need to consolidate security. This is because even when a clear winner emerges, large parts of the country are likely to remain unsettled. In areas or among groups associated with the rebels there is often a “wait and see” attitude; they distrust the newly-ascendant government, and the feeling is reciprocated. Measures to build links with the defeated groups, to pull them in to the mainstream, are likely to be needed.

In the long run the challenges are somewhat different. Governments that emerge as clear winners typically need to confirm and even consolidate their legitimacy, and often seek to do so by holding stage-managed elections. The more adroit leaders work to co-opt the opposition leaders, making it harder for new rebel groups to form. However, not all governments are able to achieve an adequate degree of legitimacy; where this is so, Chapter II argues, political change is inevitable.

Winner governments may have some degree of effectiveness, if only because they managed to pull together enough resources to win. However, they may be unattractive. The current regime in Angola is an oil-fattened elite; Pol Pot won the first round of the civil war in Cambodia; Charles Taylor was initially hailed as the savior of Liberia and received 75% of the vote in the 199x presidential election (which raises an interesting question about how long elections confer legitimacy for); Augusto Pinochet allowed the army a free hand to impose peace in Chile.

**Table 19: PESS-EL Matrix for "Clear Winner Ends the War"**

	<i>Effectiveness</i>	<i>Legitimacy</i>
<i>Political</i>	Moderate to good, given that one side succeeded in winning.	Varies, but not necessarily high.
<i>Economic</i>	Varies.	
<i>Social</i>	Varies, but typically low.	
<i>Security</i>	Moderate, but winner needs to tread warily in former rebel areas.	Low in former rebel areas.

**Box 4: Example—Uganda**

After independence in 1963, the Obote government in Uganda gradually became more autocratic and political conflict increased. Following the military coup led by Idi Amin in 1971 there was increased violence and severe economic decline. The second Obote administration (1980-85) lacked experience, and peace did not come to most of the country until the National Resistance Movement came to power in 1986. The economic rebound was slow until the government introduced serious economic reforms in 1992.

The World Bank was heavily involved in financing the post-war recovery program in Uganda. An evaluation of its activities in Uganda, published in 2000, praised the World Bank for its work in strengthening the capacity of the Ministry of Finance and Central Bank, for its road rehabilitation projects, and for its successful effort in ending the monopoly of the Coffee Board (Kreimer et al. 2000b). However the World Bank's efforts to improve the health services were not effective, and many of the supplies were sold by medical personnel for personal profit. Nor did the World Bank have much success in reviving the primary education sector; just 37% of the disbursed funds reached the schools, their intended beneficiaries.

Why did the social sector projects fail? The evaluation report blames weak ministries, and argues that it was premature to rely on structures that first needed to be strengthened. It also appears that the World Bank did not build enough consensus around its projects (it mainly talked with the Ministry of Finance); that it attached too many conditions to its loans; that its projects were not flexible enough; and that its time horizon was too short.

**1.4 "Rebels Contained by the Government"**

There are several states that have managed to contain, but not eliminate, the threat of armed rebellion. Among the examples:

- India has grown rapidly over the past decade, and its political institutions have remained functional, despite separatism in Kashmir.

- The Philippines has kept the threat from Muslim guerrillas in Mindanao and other southern islands under control.
- Most of Colombia is firmly under government control, but FARC and other rebel groups control large swathes of the country and can cause trouble elsewhere.
- The rebellion in Aceh province in northern Sumatra is a long-running problem, but does not seriously threaten the Indonesian state or regime.

In these and similar cases, armed rebellion is real, but is not now a serious threat to the central government. However it does dampen economic growth, because it deters investors, obliges the government to spend more on the military, and creates a climate of uncertainty, especially when rebels explode bombs or kidnap children.

In the short run, the problem is containable. But in the long run the sore festers, impeding economic and political development. A clever government can gradually whittle away the threat with a mixture of force, rewards, and guile; the government of Cambodia eventually eliminated the Khmer Rouge by co-opting some leaders and using the army as a stick to beat the rump of the guerrilla movement.

**Table 20: PESS-EL Matrix for "Rebels Contained by the Government"**

	<i>Effectiveness</i>	<i>Legitimacy</i>
<i>Political</i>	Low to moderate. Unable to end the war.	Varies, but fragile.
<i>Economic</i>	Varies, but often moderately good.	
<i>Social</i>	Varies.	
<i>Security</i>	Moderate in territory controlled by the government.	Moderate, unless security forces lose restraint, or rebels kidnap and bomb with impunity.

### 1.5 "Ongoing State Failure"

At any given point in time, between 15 and 20 countries are in the throes of civil conflict. The state has clearly failed, but the road to a resolution may not yet be clear (e.g., Palestine), or it may be premature to celebrate (Democratic Republic of Congo).

Even during a civil war, there is often scope for fostering political development, and for creating the foundations of subsequent economic recovery. This is the case for continued donor engagement.

**Table 21: PESS-EL Matrix for "Rebels Contained by the Government"**

	<i>Effectiveness</i>	<i>Legitimacy</i>
<i>Political</i>	Low, with poor prospects.	Low.
<i>Economic</i>	Low.	
<i>Social</i>	Low.	
<i>Security</i>	Low.	Low.

## 6. Unresolved Issues

[To be expanded.]

There are a number of issues that require further examination. Here is a list:

- What type of resolution to a war is associated with faster recovery? And does this matter (as it would only if there is sometimes a choice about how to end a conflict)?
- When is it better not to support a regime?
- If donors are keen to provide aid, particularly on a broad basis, then they have little bargaining power. That is one reason why conditionality fails. The new term for conditionality is “commitment.” But how much commitment from a country can one expect? Can George Bush be held to all the commitments made by Bill Clinton?
- The new conventional wisdom—aid to well-run states works, aid to others does not—rests on very fragile foundations (see Easterly’s blistering critique). The MCA may be built on a false premise. \$10 million spent in Liberia now would probably do more good than an equivalent sum given to Egypt, China (to fund space travel?) or Senegal.
- The broader context: USAID is a donor agency. Could, should it transform itself into an advocate for economic development? Then it would want to voice its opinions on the pernicious effects, on the third world, of US agricultural subsidies, etc.

- The major donors tend to create centralization. They give to central governments, which weakens provincial and local governments and the private sector. It's not clear that this is good for failed/fragile states.

## Chapter IV. Recovery Strategies<sup>17</sup>

The second half of the Twentieth Century has provided a surfeit of failed and failing states. Some of these have been lucky enough to have either gone into remission, have been restored or have exhibited some period of recovery. These new leases on life should hold a rich array of experience—and lessons—for treatment options to consider or adapt when addressing a fragile state.

To properly identify the relevant lessons, though, requires viewing fragility through the lens of theory. This chapter begins, therefore, with an overview of the principles of recovery as inferred from existing experience. Through the theory lens and with the help of the PESS-EL framework, we then return to the stylized scenarios developed in the earlier chapters and propose treatment options.

### 1. Principles of recovery

There are three primary areas which may form our understanding of recovery. The first is the need for some sort of constitutional order or rules of the game. The second is the need to understand the various pathways and drivers leading to a propensity to violence. Finally, we need to arrive at the importance of creating and strengthening the neutral ground upon which to (re)build civil society and a functional state.

#### 1.1 Constitutional order

##### 1.1.1 What to build: nation, state, constitutional order

Consider a country recovering from a collapse into catastrophic civil war. How should we describe the task of recovery it faces? There are three main possibilities: nation-building, state-building, and (most appropriately, as we will argue) building constitutional order.

In much of contemporary journalism, and among many politicians and some policy professionals, the task is described as nation-building. Most of the time this seems to be simply a thoughtless use of a misleading term, when people really mean state building.

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<sup>17</sup> The principal author of this chapter was Karol Soltan, with the assistance of Ambassador Tariq Karim and Patrick Meagher.

But it can really mean nation-building, when the goal is to build or to strengthen a collective *identity*, or to promote assimilation, understood as a cultural transformation in which new identities are created. Non-coercive assimilation is often successful in immigrant societies (such as US, Canada or Australia). In other societies assimilation policies have often been coercive, and rarely successful. Given this record, assimilation policies (and hence also nation building understood literally) have little to recommend them outside the narrow range of immigrant societies.

To take a current example: in Iraq real nation-building would require influencing the identity of Kurds to make them feel Iraqi first, and Kurdish second. It is extremely unlikely that outsiders can have much influence in such matters. And if they attempt to have some influence they will be perceived as aiming to subvert the Kurdish identity, an act certainly hostile toward the Kurds, threatening their most basic interest in the preservation of Kurdish identity. Building the state or building constitutional order, by contrast, leaves the evolution of identities in the hands of those whose identities they are.

But if *nation-building* is a sloppy phrase for *state-building*, and if we are concerned with fragile, failing, failed and recovering *states*, why not simply stick to the latter: the task is to rebuild the state. Building various component institutions of a state, as well as enhancing their capacity, is certainly involved in recovery. But it is at least misleading to adopt it as a goal. It encounters what in the context of our discussions we might call the North Korea problem, since it might suggest that a stronger and more extensive state is always better. North Korea suggests otherwise. Both for economic development and for democracy a *limited* but *effective* state is preferred.

### **1.1.2 Constitutional order and *The Federalist***

The difficulty of the task is well described in Federalist #51 (Madison):

In framing a government which is to be administered by men over men, the great difficulty lies in this: you must first enable the government to control the governed; and in the next place, oblige it to control itself.

We need a name to describe this task, so let us call it building constitutional order.

The two key elements of the structure of constitutional order can be seen in the early essays of *The Federalist*, which draw the attention of their audience to the most important issues

facing the young republic: the possibility of domestic and international war (*The Federalist* #3-#9) and the problem of faction (*The Federalist* #10). These are not issues specific only to that time and place; they are not distinctly American, nor have they been left behind in the 18th century.

In adopting the task of building constitutional order, we can anticipate some continuity with the way of thinking represented by the Federalist, and the Founders of the US Constitution, as seems distinctly appropriate for a US government program. This will not be a continuity in the institutional and policy solutions we propose (such as, for example, those contained in the US Constitution), but in some of the premises and goals (famously formulated in *The Federalist* #10 or #51). The solutions will need to be adapted to the very different circumstances of the countries we are concerned with. And they will reflect the experience and knowledge we have accumulated since the work of the Founding Fathers.

The two fundamental dimensions of constitutional order can be reformulated as two tasks facing a recovering state as it attempts to rebuild constitutional order. The first task is to diminish and control violence, as well as what Schelling has called latent violence, or coercion. The second task is to enhance the role and influence of impersonal principles and neutral institutions or persons. To do the latter is to diminish the bite of Madison's famous "problem of faction." He writes in *The Federalist* #10:

No man is allowed to be a judge in his own cause, because his interest would certainly bias his judgment... With equal, nay, with greater reason, a body of men are unfit to be both judges and parties at the same time; yet what are many of the most important acts of legislation, but so many judicial determinations... concerning the rights of large bodies of citizens...

This problem can be solved only to the extent we can arrange governmental institutions, and their social context, in such a way that neutral principles, neutral decision-makers and neutral institutions, have a chance to exist and to be *effective* in influencing outcomes. We must build neutral ground.

### **1.1.3 Common confusions about constitutional order**

Constitutional order can be seen as a certain kind of power structure, characterized abstractly by the diminished influence of the means of destruction, and the enhanced influence of neutral prin-

ciples. We can think of it, as Madison did in the quote above, as a court of law writ large, and made more general. It is above all a peaceful and principled instrument for making collective decisions and resolving conflicts.

This idea of constitutional order is subject to at least two serious misunderstandings. The word constitutional suggest to some that this is an order created by a constitution. But actually the conceptual connection is not with constitutions but with constitutionalism, the ideal of government limited by law. Promotion of constitutional order is a natural generalization of the constitutionalist idea. Certain kinds of constitutions (but not all) are effective instruments for the creation and maintenance of constitutional order. But so are many other institutions, policies, human character types, ways of thinking, and so on.

The second misunderstanding is more political, suggesting that the objective of enhancing constitutional order is identical with promoting some notion of a minimal state. Thus the promotion of constitutional order is identified exclusively with the political programs of a Margaret Thatcher in the UK or Ronald Reagan in the US. But the notion of constitutional order is more encompassing, and allows for greater diversity. In both Sweden and the US we find a vigorous constitutional order. In North Korea and Liberia we do not.

#### **1.1.4 Constitutional order and conflict avoidance**

Building constitutional order involves diminishing propensity to violence and building neutral ground. Without building neutral ground we eliminate the long term horizon for hope, the prospects of the neutral and effective enforcement of rules (the basis of the rule of law), and the effective pursuit of neutral ends (the possibility of a neutral and effective civil administration with the capacity to deliver public goods, for example). We act then as if security has absolute priority over all other goals.

The contrast between conflict avoidance and building constitutional order goes deeper. There is a decisive political difference between avoiding conflict and avoiding violence. If you are engaged in the first task you are in essence treating all conflict as potential violence. But while some conflicts raise the probability of violence, others diminish it. In some cases peaceful conflict can escalate into war. But peaceful conflict is also a powerful substitute for war. That is how we argue, to those who will likely remain untouched by more principled arguments, in favor

of courts of law as peaceful substitutes for vendettas, or in favor of peaceful elections as methods of changing government

In the task of building constitutional order it is violence and not conflict that is to be avoided. Furthermore, peaceful (nonviolent) conflict, to the extent it helps prevent violence, needs to be encouraged. In short, conflict avoidance may be an impediment in the task of avoiding violence. Both in real terms and symbolically it matters a great deal that we avoid violence, not conflict.

The likely outcome of conflict avoidance in the short term is the protection of the status quo and support for coercive arrangements. Authoritarian regimes have the coercive capacities to suppress conflict. And all change will need to be suppressed, because any changes are likely to be an occasion of conflict. In the long term, grievances and moral outrage are likely to accumulate and prospects of violent conflict will increase correspondingly. Incremental and decentralized changes, and incremental and decentralized conflicts, are key ingredients of a strategy that diminishes the prospects of violence in the long term. They show that the political system is reformable, and a revolution is not necessary. A peaceful revolution is not impossible, but it is much harder to achieve than peaceful piecemeal reform.

### **1.1.5 Constitutional order, legitimacy and effectiveness**

In relying on the related concepts of constitutional order, legitimacy, and effectiveness, as we do, we trespass on the territory of many disciplines, among them political science, sociology, economics, law and philosophy. Since our task here is practical, it is best to bypass the conceptual and analytical battles that we could so easily fall into. An overlapping and rough conceptual consensus is all we need.

The roughly Weberian notion of legitimacy makes legitimacy of an institution (say) a function of its acceptance by the population, independent of the incentives favoring such acceptance. But for our purposes it is important to distinguish two forms of acceptance: acceptance as “ours,” and acceptance as “neutral.” Acceptance as ours requires as a prerequisite a strong enough collective identity (a “we”). If this is the legitimacy we have in mind, then strengthening legitimacy will in fact often require nation building, or—more generally—strengthening collective identities. But acceptance as *neutral* does not require a shared collective identity. To build

this form of legitimacy we need to build up, rather, neutral institutions, as in a constitutional order.

One key way of building neutral ground involves improving effectiveness in the pursuit of neutral goals. It involves legitimacy and effectiveness, or the effectiveness of legitimate institutions. These do not need to be state institutions, however, and when they are state institutions, we will often need to consider them separately. To build neutral ground we disaggregate the state into its component parts: security apparatus, civil administration, courts and so on.

In the dynamic of state breakdown we need to distinguish the generalized effectiveness of institutions (their capacity to reach whatever goals they have) from what we might call the coercive capacity of the state. And we also need to distinguish the state's coercive capacity from its actual coerciveness.

To take an example, the coercive capacity of the US government is very substantial. Starting a war or a domestic rebellion against the US is not generally advisable. Nonetheless the US is not a very coercive system, because of the elaborate protections which limit the use of this coercion.

And when the coercive capacity of a state breaks down, the logic of fear, which I describe below, can get started, producing a war, even when all parties intended only to defend themselves.

In the next two sections of the paper we identify two classes of instruments for the construction of constitutional order, those that diminish the propensity to violence, and those that build neutral ground. For each we provide a broad range of examples.

## **1.2 The propensity to violence**

In the popular literature on ethnic conflict and war, there is much talk about background conditions favorable to violence, such as "primordial hatreds" or "conflicts over scarce resources." But it is striking how primordial hatreds can be forgotten or suppressed for decades if not centuries, and how conflicts over scarce resources can become simply tough aspects of routine politics, or can be depoliticized altogether.

These are not the real drivers of change whether toward violence, or away from it. They are also not the causal mechanisms that provide opportunities for beneficial human intervention: you cannot do much about primordial hatreds.

Much of the older literature on inter-state war, to the extent it proposes any hypotheses on the causes of war, also does not identify causal processes which human intervention can modify. One common example is to distinguish different patterns of power distribution (bilateral, multilateral, balanced, unbalanced) as causal factors contributing to the propensity to war. But these are not modifiable in the short term, and hence not useful for an analysis of sources of resilience of peace. There is a more recent literature, however, that is more explicitly concerned with causal processes that can be affected by human intervention. Even though this literature is primarily concerned with interstate war, it is more directly relevant as we consider what can diminish the proclivity to violence within a territory of a state. It converges with an increasingly integrated literature on the security dilemma and on “the logic of fear” at both the domestic and interstate level.

So we can now begin to identify a class of causal mechanisms driving the propensity to violence, which also allow for human intervention. They are, fortunately for the task at hand, a subject of a growing, though still very uneven, research literature.

### **1.2.1 Violence-producing mechanisms**

We can identify three mechanisms that can lead to violence. Let us call them: the logic of fear, the logic of optimistic ambitions, and the logic of moral outrage. We can identify with some precision the initial conditions that get each one of these processes going. And we can also identify for each a family of interventions that can weaken or block the operation of each mechanism. These are three causal mechanisms which increase the propensity to violence. They are also mechanisms that can be, and have been, successfully neutralized through human intervention. Our task is to learn from the experiences of these successes. Table 22 gives some examples.

*The logic of fear.* The logic of fear begins operating when the perceived first strike advantage in an inter-group conflict is sufficiently strong. This will occur only in settings where the underlying conflict between the players is sufficiently great that there is much to gain from a war. And the strategic situation, the distribution of resources is such that there is an advantage to striking first. A player then will attack first in order to defend himself. Fear produces a preemptive or preventive war. This logic is dramatically expressed by an old woman in Sarajevo in the midst of the post-Yugoslav wars: “The Serbs will kill us all, we need to slaughter them first.” (Melander, 1999: 192). For this group, we look at deeply divided societies (ones where we would

expect civil war, and ones in which there has been civil war in the past) that have a reasonably well developed and stable constitutional order.

*The logic of optimistic ambitions.* We find this logic in political movements confident they are on the verge of creating a Heaven on Earth. The prize is so worthy that for these movements even the most extreme sacrifices are worth imposing on others and on themselves. Where the typical example of the logic of fear will be found in ethnic wars, a typical example of this logic will be found in ideological wars, with revolutionary movements aiming at a deep transformation not just in the political system, but in economics and society at large. But ambitious ethnic groups (Greater Serbia) can also add their costs and expected benefits and conclude in favor of war. For this group, we look at countries in which deep transitions were achieved without breakdown of constitutional order.

*The logic of moral outrage.* Moral outrage, a product of injury or humiliation, can be channeled and given satisfaction in a variety of ways. Criminal prosecution and truth and reconciliation commissions are two prominent examples. But it can also fuel powerful outbursts of violence. For this group, we look at countries in which victims do not turn into victimizers, and the cycle of vengeance and retribution is avoided. In normal circumstances this is achieved primarily through systems of criminal justice (police, criminal law, courts, etc.) In extraordinary situations of accumulated moral outrage, we now have elaborate examples of systems of transitional justice that handle moral outrage.

**Table 22: Mechanisms leading to violence and country examples**

<i>Mechanism</i>	<i>Country examples</i>
Logic of Fear	European Union (counting World War I and World War II as European civil wars, India, consociational democracies )
Logic of Optimistic	Spain and Portugal, most transitions from communism, South Africa, Mexico
Logic of Moral Outrage	Examples of transitional justice – a number of Latin American countries, South Africa, East Timor

### **1.2.2 The logic of fear**

We can distinguish two methods of keeping fear in check in deeply divided societies. One method is for a dominant group to keep all others subordinate. Fear leads to violence when it prompts preventive or preemptive war. But fear of a hegemonic power does not produce this response, since a preventive strike against a hegemon has no chance of success. When the

dominance of the hegemonic group (which may be the state) declines however, fear begins to argue in favor of preemption and violence, unless some alternative institutional framework is found. This happens typically when the coercive capacity of the state falters, and the security apparatus of the state is no longer capable of effective deterrence. The declining effectiveness of the military and police constitutes a key element in the initial conditions for the violence generating mechanism of the logic of fear to get started.

The most often used, and the most effective, alternative to coercive hegemony as an instrument to block the logic of fear is now conventionally called “power sharing,” but it involves in fact some combination of power sharing (checks and balances), resource sharing, and power separation (including decentralization).

It is misleading to think of power sharing as one alternative. We have rather a wide variety of arrangements, which perform at least two functions. They allow the groups involved in conflict to act separately, without interference from others. And they also allow the groups to act jointly, in a way that does not undermine the security of any of them. This involves some combination of power sharing (checks and balances, veto powers, organizational integration, and so on), power separation (mainly territorial and personal autonomy), and resource sharing.

It may be useful to consider quickly the development of the relevant literature. It evolved from “nation-building” studies in the 60s to a debate between consociational (Lijphart) and integrationist (Horowitz) approaches, followed by the more detailed and complex analyses of power sharing schemes (e.g., Sisk) that tend to dominate current discussion. But power sharing is at the very least a misleading name for what needs to be the simultaneous solution of two problems, and hence, if you like, both power sharing and power separation. Nonetheless, lacking a better term I will keep this one, misleading though it may be.

### **1.2.3 Overview of power sharing**

The main elements of a full power-sharing package include at least the following:

- Political power sharing: a grand coalition government and minority veto;
- Power separation and territorial or non-territorial autonomy;
- Integration of legislative, administrative, judicial and quasi-judicial institutions, frequently relying on proportional quota package deals;
- Integration of the police and the military.

- Sharing of economic resources, especially when these are significant (e.g., oil or diamond mines)

[give example of Malaysia]

Almost all (38 out of 39) negotiated peace settlements for civil wars in the period 1945 - 1998 included some form of “power sharing” in this broad sense (they incorporated at least one of these five types of arrangements). A number of settlements included all five of these arrangements. And there is evidence that combining these various institutional design features (incorporating a political, economic, security and social dimension) contributes to their peace preserving effectiveness. There may be a cumulative effect of fear reduction; since each provides some insurance if other features of the arrangement fail.

Power sharing arrangements thus have a demonstrated significance for peace. They are also apparently useful for the resilience of democracy in deeply divided societies, as research on “consociational democracy” has suggested. The classic examples of democracy with power sharing, or consociational democracy, from Europe were Austria, Belgium, Switzerland and Netherlands, especially during roughly the thirty years after World War II.

In Austria the power sharing system was established after World War II in a very self-conscious effort to avoid the prewar political situation of a near civil war between the Catholic and the Socialist camp. In addition to these two, the system also recognized a smaller Liberal-National camp. In the Netherlands the power sharing system was also established by a “pact,” known as the “Pacification of 1917.” While there was not then any real prospect of civil war, the Prime Minister justified the new system by noting that “a wedge... [is] driven into our national life, and it is splitting our nation into two...” [REF. REQUIRED] The Dutch system consisted of four “pillars:” Catholic, Socialist, Protestant and Liberal. The Swiss system evolved over a longer period, bringing together a remarkably diverse collection of polities. War and threat of war were a common experience. The last civil war, in 1848, led to the establishment of the Swiss system, more or less as it exists today. Many of these arrangements, especially the Austrian and the Dutch, evolved during or just after a war, with the external threat providing the additional incentive favoring a more consensual solution over an imposed one.

#### 1.2.4 Elements of power sharing

Let us first look at the elements of this system in more detail. We will then consider what conditions are favorable to the success of power sharing arrangements. We end the discussion of power sharing with a consideration of some of the problems it encounters.

Grand Coalition. Here, a typical example would be an inclusive government coalition of ethnic, religious and linguistic parties (Austria, Malaysia, South Africa). Other possibilities might entail:

- Formation of grand governing coalitions outside the cabinet. Example: permanent or *ad hoc* “grand” councils or committees which are formally just advisory, but play a much more important role in fact (Netherlands)
- Cabinet coalitions which are not inclusive of all parties, but are inclusive of all ethnic groups. Example: the constitution requires that there must be equal number of Flemish and Walloon cabinet members in a Belgian government.
- Allocation of a range of top government offices to various ethnic groups. In Lebanon this has included the presidency, prime ministership and assembly speakership. In the short-lived arrangement for Cyprus it included the presidency and vice-presidency.
- In some cases the dominant party may be the vehicle of an inclusive coalition. The examples would include the Congress Party in India when it was a dominant party, and perhaps the ANC in South Africa.

Political Integration. Here, the following forms bear describing:

- Elected legislatures: The most effective way to integrate a legislature is by the use of some PR voting method. This is not absolutely necessary however. Malaysia achieves the result by giving its Indian and Chinese minorities full control of nominations in some districts. India has maintained rough proportionality simply because its many minorities tend to be geographically concentrated.
- Administration and security apparatus (military and police): The most common method of integration has been through quotas. Quotas, however, also generate their own conflicts, and they often create perverse incentives for new groups to form ( ). In any case quotas are often not essential, as the example of El Salvador illustrates. The Chapultepec Accords ended the war in El Salvador. One of the main goals of the Farabundo Marti Liberation Front (FLMN)

during the negotiation was to reform the state security system, incorporating FLMN troops in order to erode the alliance between the military and the landed oligarchy on which power rested until then. The point was not to achieve some fair quotas but to make out of the military a more neutral instrument.

- o Integrated judiciary and quasi-judiciary bodies: [TBA]

*Separation and Autonomy.* A security dilemma arises -- in the standard account -- when each party builds up their military capacity to gain security, and in the process diminishes the security of others. The security dilemma is avoided if the military assets that are built are purely defensive, such as walls or fortifications. Having surrounded oneself by a wall I can feel more secure, without threatening others. Boundaries that are hard to cross have this effect, but so do other resources that work like walls, fences, boundaries or shields (e.g. property rights); or resources that allow us to hide; or resources that give you mobility, allowing us to run. Power sharing arrangements concentrate on building institutional boundaries that are hard to cross, establishing the autonomy of various sub units of a polity. I discuss these below. It should be remembered, however, that hard to cross boundaries are not the only instrument of separation. The capacity to run and to hide can be quite significant, both politically and economically. The capacity of capital to move across borders (capital flight) can certainly be important: when the Chinese in Indonesia started getting massacred, Chinese capital moved out fairly quickly, giving extra incentive to the government to stop the riots [need to check details].

*Boundaries.* When we introduce significant internal boundaries in a political system we can call the result “federal”. There are many forms of such federalism largely distinguished by the powers they allocate to the center and those they distribute among the “pillars” (as these might be called in a consociational democracy) or the provinces. But we need to make also a more basic distinction between territorial and non-territorial (personal or corporate) divisions.

The first division refers to non-territorial (personal or corporate) divisions. In these systems boundaries are defined not territorially but in terms of personal membership. A member of an ethnic or religious group, say, can be governed (on some issues) by his or her “pillar” no matter where they live. If we want homogeneous pillars, and the ethnic groups are not separated territorially, this is the method of division that we must use. The pillars can be given powers in areas where territoriality is not a significant constraint (as in the provision of education). The Ottoman millet system is a much cited historical precedent. Among contemporary examples are

systems that give ethnic minorities the right to establish and control their own schools, supported by public funds, as in Belgium, India or the Netherlands. A voucher system could be seen as a more flexible alternative (in which there is no need to negotiate ahead of time which groups have this right and which do not), with each person having a choice of education system to join, and all those systems with sufficient membership to be viable gaining the support of the state. A different set of examples of non-territorial decentralization is provided in countries (Lebanon or India are among them) that recognize for their various religious groups autonomous legal systems that govern such matters as marriage and divorce, children, or inheritance.

The second division is territorial. In these systems boundaries are territorial, and we have a variety of choices in boundary determination. In many federal systems state and ethnic group boundaries mostly coincide, thus providing as large a degree of autonomy to these groups, as the powers given to these states. Perhaps the purest examples are Belgium and Czechoslovakia in its dying days. There are many more examples where boundary determination is more mixed, but often follows linguistic lines (Switzerland, India)

### **1.2.5 Favorable and unfavorable conditions for power sharing**

Let us consider each of these in turn.

*Presence of a dominant majority group* (unfavorable). This is most common when there are only two groups. It was the main reason for the quick failure of the Cyprus power-sharing arrangements, and an important factor in the breakdown of the Arusha Peace settlement in Rwanda. In Angola (Peace Accord of 199x) there was a dual system (two groups) that was roughly balanced, and both sides were convinced they could win a winner take all election. One side (UNITA) was wrong, and promptly restarted the war. The problem in Angola was a by-product of a combination of the intrinsic instability of a dual system, and false beliefs, or at the very least misplaced confidence, in the outcome. A dual system is not required for a dominant majority to arise; we find it also when there are more groups. The division of Iraq into Shiia, Arab Sunni and Kurd Sunni may provide another example.

Interestingly, Madison is very much concerned with this problem (the problem of majority tyranny, as he calls it), and proposes the increase in the scale of the polity (regional integration we might call it) as the solution. Large scale is useful, Madison says, because it makes it less likely that one faction will dominate. Increasing the scale of a country will not often be a feasi-

ble alternative, however. Perhaps the size of India (universally assumed to be a source of difficulty for Indian democracy and good government) has at least this advantage, as long as ethnic as well as religious divisions are salient. It should be noted that what really matters for Madison's argument is not so much size as such, but a certain kind of diversity which is more likely in larger countries.

The pure model of power sharing establishes a system of effective defensive weapons, combining separation through various autonomy arrangements and a veto power in collective decisions. In the classic majority tyranny situation this arrangement is likely to lack legitimacy in the eyes of the majority group, since it undermines their apparently legitimate democratic right to rule.

But this legitimacy deficit applies only to the veto powers in the joint decision making component of the arrangement. It seems unfair for a small minority to have the same veto power as a large majority (think of this as a clear violation of the one person one vote principle). The separation component of the arrangements is not illegitimate in this way. So we will not be surprised by the eventual outcome in Cyprus. These appear to be situations where the community autonomy component of the power sharing arrangements should be especially strong. Unlike the veto powers these need not be equal: budget, territory and other resources can be allocated in a manner proportional to population size.

*Major power differences between groups, based on differences in wealth or access to other resources* (unfavorable). Malaysian solution: Malays are given political dominance to balance Chinese economic dominance

*Too many groups.* (unfavorable)

*A fixed number of ethnic groups that need to be accommodated* (favorable). But in reality salient ethnic identity is fluid, and evolves in part to serve the various interests at play in the political game

It has been argued for example that India's growing reliance on various quota systems leads to more violence, rather than preventing it. Examples here include the conflict between the Malas and the Madigas in Andhra Pradesh (India). (See Wilkinson 2000:788).

More generally: these arrangements tend to break down when faced with changing conditions, as in the changes in the salience of group identities (in this case caused by quota systems that are part of power sharing, or more broadly resource sharing arrangements).

Solution suggested by Lijphart (1995 see Wilkinson as above): regular elections using PR which allows groups to define themselves however they wish. This is completely flexible because it depends on the number of people at each election voting in support of whatever group they want. Or registering as members of cultural groups (which would not even require elections).

### **1.2.6 Power sharing as a developing project**

Two problems are inherent in power sharing systems: their propensity to deadlock (because of the veto given to all major groups in the pure case of power sharing), and the conflicts that are the logical consequence of the nested game structure of these arrangements.

*Problem of avoiding deadlock.* The propensity to deadlock may be diminished if we create incentives for moderation. One method for doing so is based on the adoption of an election procedure for the Grand Coalition in which the election of representatives of each group depends in part on the votes of those outside that group. A version is found in the old Lebanese system. The EU system provides a second method. Here, an integrated (and hence neutral) bureaucracy is the source of proposals for the ruling committee.

A third method is relaxing the veto requirement (easier to do when the number of groups is larger). This can be done by limiting the number of vetoes each representative has, or by requiring a larger blocking coalition (e.g., 2), and hence eliminating the veto entirely.

*Problem of the nested game.* Grand Coalition members can play a nested game: a game within the coalition and another game within their ethnic group. From the point of view of the resilience of the system this game works best when the Grand Coalition members are inclined to accommodate each other, and when the ethnic group rank and file is disinclined to challenge their representatives within the Grand Coalition. But usually the incentives in the game produce a different result. Challenges to the ethnic group representative are likely since he is likely to be on the accommodationist end of the spectrum. Such challenges also strengthen the bargaining position of the group within the Grand Coalition, creating the sort of good cop/ bad cop routine that is often very effective in politics.

To weaken the internal contradiction inherent in a nested game of this sort, it is not enough to create pro-accommodationist incentives within the Grand Coalition itself. We need to create them also more broadly within the rank and file of the ethnic group. Perhaps the best model here is suggested by the mechanism used in the development of the EU. It combines the continuing maintenance of secure borders, separating the two parties (crucial for security), with institutions that serve as bridges. The central institutional arrangement is a combination of the Commission, a supranational integrated bureaucracy, multiple ministerial Councils where initially each country had a veto, and a Court of Justice. We can think of this system as involving multiple Grand Coalitions (each issue had a separate Council) supported by a neutral bureaucracy.

Both the problem of propensity to deadlock and the contradictions inherent in a nested game can be reduced over time, so we can usefully think of these arrangements as a project that should evolve shifting from its original priority of securing boundaries and providing veto powers, creating in short a system that need not rely on trust, to a new priority on building multiple institutional bridges (councils to promote cross-border trade, to deal with crime, with health issues, with environmental problems, and so on) and thus strengthening trust.

### **1.2.7 The logic of optimistic ambitions**

The propensity to violence of a player increases the greater are the gains (the improvements of the world, as they see it) they are pursuing, and the more optimistic they are about achieving those gains. Violence is costly, but the greater expected gains justify the cost. So when deep political and social transformation enters the agenda of major players, or when players with such an agenda become major, the prospects of violence and of breakdown of constitutional order increase.

When is this likely to occur? First, it is likely as a response to deterioration, as in the failing states (due to decline in legitimacy and effectiveness). Second, it is also possible as a response to emerging opportunities of improvement, as in revolutions of rising expectations.

Two important examples of the latter pattern are familiar from European history. The Renaissance unleashed an enthusiasm for improvement and reform in many spheres of life, including religion. But effort to reform eventually led to increasingly brutal wars of religion, in

which the issues at stake were much bigger (and hence worth fighting for) than the issues that prompted the original efforts at reform.

A second prominent example can be found within the French Revolution. The sequence of events that begins the revolution is clearly a response to deterioration. But again, this provides an opportunity for improvement on a scale much greater than the original decline suggested (a program of rationalization of the state and the society, recognition of natural rights and new principles of constitutional design, replacement of a monarchy with a republic, and so on). And those large stakes then support the political logic of turning to violence.

One way to undercut this logic of large stakes and optimistic ambitions is to incrementalize programs for improvement and transformation. Many of our examples of deep transformation successfully achieved without breakdown of constitutional order involve various forms of such incrementalization. Examples here include transitions in Mexico, Spain, Portugal, and South Africa as well as the collapse of communism in Europe.

A second way to undercut the logic of large stakes is to decentralize improvement, and to establish programs of improvement separate from the state. There are two key examples in our transition successes: civil societies and market. [explain]

A prominent role in our success stories of deep transformations without civil war is played by various forms of non-violent and self-limiting movements of social reform along the lines more or less invented by Gandhi, but copied and modified extensively by others. In some cases these movements were nonviolent only on pragmatic grounds. And there are certainly examples of nonviolent movements who later turn to violence. For purposes of preserving and enhancing constitutional order one needs to distinguish those political organizations, whose commitment to nonviolence is credible and long term, from others. Supporting such principled and credible nonviolent political movements is a key element in promoting constitutional order in many situations.

The recent wave of nonviolent politics involves disruptive but nonviolent action, it involves participants willing to suffer and even risk death, but unwilling to risk killing others. In its more fully developed Gandhian version it also involves a careful choice of limited and “neutral” objectives, that in the language of Gandhi, serve the function of “truth.” Satyagraha or truth-force is Gandhi’s term for his political method.

The objectives of a satyagraha are ones even the opponent might accept: In one of the early satyagrahas in India the goal was the elimination of a new tax which would have bankrupted the Indian peasants on whom it was imposed. When a nonviolent campaign was directed against Marcos in the Philippines the goal was in essence the restoration of the presumed election results. For Solidarity in the 1980-81 period in Poland the goal was the creation under communism of free trade unions, consistent with the preservation of the fundamental regime principle of “the leading role of the party.” These broadly legitimate, but often limited, goals enhance the moral advantage already gained through the principled commitment to nonviolence. And the moral advantage is a significant weapon in the battle for legitimacy especially when it is backed up by the modern technology for the transmission of information (TV, radio, but also cell phones and e-mail).

Principled non-violent movements have been used both to support great transformation and to block coups d'état. But they don't succeed easily or always. It is widely believed that they cannot succeed against a very repressive regime. While this is not literally true, it is certainly the case that extreme ruthlessness of a regime makes such movements less effective. More importantly they are also less effective in regimes that restrict access to information. The moral advantage these movements possess in their political struggles can be most effectively translated into real power only when it is possible to attract widespread national and international attention. So making it possible for them to attract attention is also one of the most important ways these movements can be helped.

These movements require military-like discipline. First, they need discipline to maintain nonviolence, and degeneration into violence eliminates their moral advantage, and undermines their prospects for success. They also need discipline to maintain the initiative in a nonviolent campaign. Accounts of strategic requirements of nonviolent campaigns rightly borrow from the literature on military strategy. Training and professionalizing are helpful for nonviolent effectiveness as they are for the military.

The choice between nonviolence and violence is a matter of calculation of costs and benefits when it is entirely a pragmatic and not a principled choice. But the calculation will inevitably have some effect even on the most principled of movements. To support nonviolence we need to improve the perceived cost effectiveness of nonviolent campaigns and diminish the cost effectiveness of violent campaigns.

### 1.2.8 The logic of moral outrage

We find the most dramatic efforts to respond constructively to moral outrage in situations where a great deal of this outrage has accumulated: a thoroughly outrageous regime has just collapsed, or a genocidal war has just ended. And the response has been some combination of the following elements:

- Criminal justice: Nuremburg, Yugoslavia, Rwanda
- Amnesty and reconciliation
- Establishing the truth about the past
- Restitution, rehabilitation, compensation
- Purifying the body politic: denazification, lustration, etc.

This list gives us a good idea of the range of choices available to deal with moral outrage.

To understand what needs to be done it helps to keep in mind that courts, and the criminal justice system in general (including courts, but also police and prosecutors) are at the heart of the task of preventing the accumulation of moral outrage in a well functioning state.

A typical reason for the accumulation of moral outrage is that some group in the population is protected from the reach of criminal law, or some range of activities is illegitimately protected. Some people and some criminal activities are *de facto* above the law.

The solution is some combination of, first, repairing of the routine means of response to moral outrage, and second, establishing extraordinary means of response which have sufficient neutrality and effectiveness. An example of the first strategy would be a reform of the court system, of criminal law and procedure or of the police. An example of the second strategy would be a special investigatory commission set up in response to a scandal.

The form and direction of moral outrage is powerfully influenced by complex judgments concerning the causal sequence which gave rise to the events the outrage is about, and concerning the allocation of responsibility. One function of a well operating system of response to moral outrage is therefore to investigate this causal sequence, and when appropriate can narrow down the attribution of responsibility (e.g. to the action of a particular official or office and not the government as a whole, to an individual Serb, and not to Serbs as a group, and so on). This capacity can of course be manipulated, as when officials try to maintain deniability.

Official condemnation either through criminal punishment, or at least through firing of the responsible officials, distances the government from the sources of moral outrage. This is part of the routine in well functioning systems of response to moral outrage. It is also part of the efforts to dissipate accumulated moral outrage either after the collapse of a particularly outrageous regime, or after a civil war (as in denazification, lustration, etc.)

Moral outrage can have powerful distorting effect on people's perception of reality, and it is itself subject to powerful distortions. It can be therefore the basis of very distorted analyses of how the offending injury or humiliation occurred, and how responsibility for it ought to be allocated. This is why the determination of facts is such a central feature of the courts of law. And more generally moral outrage cannot be properly handled without neutral and effective (i.e. thorough and reliable) investigative efforts, whether it is in courts, investigative commissions or by journalists and historians.

### **1.3 Strengthening neutral ground**

What do we mean by neutral ground? Neutral ground is composed of those elements of the social life of the country which are nonpartisan in ways relevant to the social conditions of that country, and which contain a range of neutral legitimating factors such as legality, erudition and technical or professional competence. In this broad sense, neutral ground is a social space where politics and social status are not supposed to matter—you are judged on the merits.

Neutral ground is the product of a very large number of interactions, traditionally over decades and centuries. Court systems, bureaucracies, and universities in young developing states frequently don't have it—they are too close to one end of a political, ethnic, economic, or other social spectrum. Neutral ground may need to be built up wherever it happens to be found. This could be anywhere from the traditional monarch to the association of market women to the soccer league—to the military.

Neutrality requires at least two elements: a relevant form of non-partisanship and either weak corruption, or perhaps corruption with neutral effect across relevant lines of partisanship. The effectiveness of neutral ground requires in addition that the key decision makers have the relevant skills and that the institutional arrangements give them incentives to exercise those skills, and make it possible to exercise them effectively.

A widely accepted conclusion in the literature is that when the state is not ethnically neutral civil war is likely. This conclusion needs to be both expanded and disaggregated. If we stick to large scale abstractions then we should say that not only an ethnically neutral state, but also an ethnically neutral market are important for preventing civil war.<sup>18</sup> But especially for practical purposes it is useful to look into the component parts of the state, and outside the state, for the necessary neutral ground.

Consider some examples:

- Within the government: courts, constitutional enforcement institutions (courts or otherwise), independent professional civil service, nonpartisan professional military and police, independent central banks, electoral commissions.
- Other institutions (governmental or otherwise): universities, an autonomous legal profession, independent media.
- In the population: moderates, people with a hybrid, intermediate or uncertain identity, in economic terms: “the middle class.”
- From the outside: the international community, including the donor community can serve in a variety of ways as a temporary or even permanent neutral ground.

We can try to establish a shifting hierarchy of importance of neutral institutions as a country moves away from a condition of total breakdown of constitutional order. Initially the first priority goes to the security apparatus and to institutions that resolve conflicts involving the interpretation and modification of the basic agreements that have stopped the fighting. Independent and non-partisan mass media (in practice this means radio stations more than anything else, especially in poor and poorly educated societies) are a third category of institutions that can play a crucial role in stabilization of peace and constitutional order.

*A politically neutral security apparatus.* This includes the police and military) for the enforcement of rules and boundaries. [add discussion]

*An institution to resolve disputes about the interpretation.* Here we refer to the interpretation of the pact and/or constitution which is the basis of the system. In a country with a strong enough (and neutral in a relevant way) court system this may be a court. But it does not have to

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<sup>18</sup> Consider, here, the problem of market-dominant ethnic minorities described by Chua (???)

be a court. France created the Constitutional Council in large part because it did not have a tradition of strong courts (and it did not want to start such a tradition either). We can think of this body as having the function of negative legislation (instead of making law, it unmakes it). Its composition and procedures may be accordingly more explicitly political (rather than legal), as long as it is neutral in the relevant way. And such a Council may combine a variety of functions. It may also for example take ultimate responsibility for the organization of elections.

*Radio.* The kind of radio station that would be relevantly neutral is not simply independent of government. It is also neutral in relevant ways, non-partisan across the battle lines, credible for all sides. Radio Free Europe, especially its operation in some countries, was an excellent example. It was often listened to and taken as credible by both government and opposition.

The international community has now, on the other hand, gained experience in dealing with dysfunctional media in several post-conflict contexts, most recently in Kosovo. Hoping to avoid mistakes made in Bosnia, where they had failed to take strong enough steps to counter nationalistic print and broadcast media, the UN and OSCE started early to develop a media policy and program. The OSCE had primary responsibility, but had to gain UNMIK approval for its actions. The OSCE proposed to set up a Media Regulatory Commission that would have strong powers to rein in nationalist extremism in the media. However, this proposal was roundly criticized, and dropped.

OSCE set up a public television service that provided a forum for all ethnic groups in Kosovo and also broadcast international news services. Instead of the approach taken in Bosnia, where the international community set up a new television station that was unable to compete with local stations, OSCE in Kosovo decided to revive an old state television network and to reform it along the lines of a European public TV operation. This ran into several problems, including unanticipated expense and the claims of old Yugoslav television staff to be employed at the station. UNMIK and OSCE did not have the funds to hire all of the old workers, and wished to free the station from the influence of the old regime.

As constitutional order strengthens, the priority shifts to other institutions essential to economic development such as a professional civil service, a system for the enforcement of contracts and property rights, and an independent central bank.

## **2. Recovery options for Failing States**

Let us apply the insights from the first section of this chapter to identify recovery options for those stylized scenarios falling within the category of “failing states”.

### **2.1 “Escalation of Ethnic Conflicts”**

This scenario typically triggers the logic of fear, and is most effectively blocked by building up legitimate defenses for the groups in conflict, such as veto powers, institutional and legal separation and the other paraphernalia of power sharing. Such a power sharing works best when it is inclusive and multi-dimensional. It needs to be effective (so that all groups believe themselves safe from predation by others) and legitimate. In countries where one group dominates, such as Cyprus or Rwanda it is very difficult to achieve an effective and legitimate instrument of joint action, with the requisite veto powers for all groups to make them feel safe. The larger goal of providing legitimate effective defenses for all groups is better achieved by extensive decentralization of powers and a minimal central government.

### **2.2 “State Predation”**

In this scenario the chief mechanism for breakdown is the accumulation of moral outrage, which overtime causes an increasing number of serious players to put large scale regime change on their agenda, as smaller and less drastic reforms seem not to be possible.

The accumulation of moral outrage can be stopped and reversed by some combination of “ordinary” reforms of the criminal justice system and “extraordinary” neutral and credible investigative commissions. The reforms of the criminal justice system, if they were possible, would make the police and the courts into neutral instruments of the fight against the sources of these outrages, wherever they occur, no one being above the law.

A more likely version of this scenario does not allow for such interventions. Alternatively, as with Marcos, an investigating commission is set up, but it lacks the necessary neutrality and credibility. We then move to stage two of the scenario where the choice is between the Nicaraguan path and the Filipino one. In the first case the alternative is a violent guerilla movement, and turning to it provokes serious breakdown of constitutional order. In the second case the alternative is nonviolent “people power” and a breakdown of constitutional order is avoided.

This is one of numerous cases where building up the potential resources for a nonviolent movement of political action ahead of time, giving it relative advantage over the violent alternative, can make an immense difference at the critical moment.

### **2.3 “Regional or Guerilla Movement”<sup>19</sup>**

As above, here the key strategy is to diminish the cost-effectiveness of the violent alternative and enhance the cost effectiveness of the nonviolent alternative. Simply winning the war is not going to be sufficient for building constitutional order (see the Clear Winner Scenario, below). And the nonviolent alternative involves building up nonviolent social movements and influencing the government side to introduce incremental change and to be responsive to principled nonviolent campaigns.

### **2.4 “Democratic Collapse”**

Democratic collapse occurs typically when democratic institutions fail because they are deadlocked, or when elections are seen as rigged. We can help prevent deadlock in democratic decisions (e.g. by supporting organizations that lobby in favor of accommodation, by promoting institutional reform that makes deadlock less likely etc.) Deadlock is especially likely in more consociational arrangements, and the most effective response is to enhance incentives that favor moderation, or diminish the role of the deadlocked institution. A coup d'état does the latter, but one can also do so within democratic norms, by decentralization, diminishing the role of the state, or delegating the decisions that are likely to be deadlocked.

The conventional method for guaranteeing the neutrality of elections is a nonpartisan, effective and powerful election commission. A more elaborate system which seems to work very well is the arrangement in Bangladesh, where a neutral nonpartisan caretaker government takes over power for the duration of the electoral campaign.

### **2.5 “Succession or Reform Crisis”**

In this situation the logic of confident ambitions governs, and the mechanisms that can control that logic are the most likely to be effective.

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<sup>19</sup> This scenario is essentially the same for Failing States 3 and Failed States 4.

### 3. Recovery options for failed states

Let us now apply the insights from the first section of this chapter to identify recovery options for those stylized scenarios falling within the category of “failed states”. Before commencing, however, it is instructive to briefly examine what the conventional treatments have been for failed states.

#### 3.1 Conventional Treatments for Failed States

[To be added. The basic theme is that conventional treatments: first security, then political rehabilitation, then economic rehabilitation, in that order – lacks an appreciation of the need to work on several fronts at once; and does not adequately take the starting institutional arrangements into account.]

#### 3.2 “External Intervention”

Two problems seem central in this scenario:

*Crowding out of long-term thinking.* The situation after the war, and the temporary nature of the external intervention, conspire to favor short term thinking. The humanitarian emergency needs to be taken care of. The physical infrastructure of society needs to be rebuilt (electricity, water, roads, hospitals). The moral outrage accumulated through the war needs to be dealt with through some combination of criminal procedures, truth and reconciliation commissions, and other such institutions (drawing on local traditions can be effective here). But if these immediate requirements crowd out all preparation for the longer term we are asking for trouble a few years after the international community has moved on. From the very beginning some resources should be shifted for the initial steps of building the institutions and skills that will be crucial in the long term. A simple example: think what will increase the likelihood not of the first postwar free and fair election, but the fifth one, long after the attention of the international community has shifted elsewhere.

*Deficit of legitimacy.* External intervention inevitably suffers from a deficit of legitimacy, and both small details of the situation (e.g. the inevitable look of a colonial regime, government of poor locals by rich cosmopolitan foreigners) and the larger reality (the absence of both independence and democracy) contribute to the deficit. The problem can be ameliorated by making the endpoint of these temporary arrangements a more tangible point in the future. An explicit

calendar deadline is often not a good idea. But it is useful to establish some objective criteria for the end of these arrangements, and to build a sequence of steps toward the restoration of full independence and a constitutional democracy, in this way you can have continuing movement forward toward restoration of constitutional order.

*Treatments.* When external intervention occurs, the traditional treatment prescription is: pay attention to political reconstruction, so that one can hand over power in a timely manner; ensure security, typically using the military; and undertake small, quick-disbursing projects to produce tangible economic benefits that will bolster support for the regime.

These treatments are usually appropriate but insufficient. We also suggest that:

- Adequate attention is also needed to building economic and social institutions, including a central bank; the tax system; land registry; civilian security; courts. Much of this requires technical support and training.
- Local empowerment is vital, but is something donors are not good at doing. It is typically quicker and cheaper to bring in an engineer to fix a power plant than to train local personnel to do the job; yet only the latter is a durable solution.
- The pacing of aid needs thought. In some cases, such as East Timor, it made sense to front-load the aid, but in other situations the intervening power may need to remain engaged long after the intervention is over – in part because some changes are inherently slow (e.g. training a new police force).

### **3.3 “Negotiated Settlement”**

In the typical ethnic war a multidimensional power sharing arrangement most effectively blocks the logic of fear, and allows a more secure peace. If the settlement involves a more ideological war the logic of optimistic ambitions is likely to be operational, and the two most urgent tasks are encouraging reformability and improving the relative cost effectiveness advantage of nonviolent politics over violent politics.

*Treatments.* Once negotiations begin, it is helpful to have aid agencies close to the negotiating table. The World Bank took a lead role in providing support for economic reconstruction in Bosnia (see example for further details), and so was able to move swiftly when agreement was reached.

After an agreement has been signed, the two sides have to learn to live with one another. This is where the creation and expansion of neutral ground is likely to be particularly important, and welcome. And with each side suspicious of the other, it is also important to move to create constitutional order.

One piece in the tapestry of constitutional order is a professional police force, and donors could usefully help with this, provided they are themselves seen as evenhanded. Few, if any, donors currently have much expertise in this field (see comments in the context of El Salvador below), but civilian aid organizations should, in principle, have more to offer here than if it is done through military channels.

### **3.4 “Clear Winner”**

Here the logic of optimistic ambitions applies clearly. The ineffectiveness of violence in opposition to the winner having just been proven, the main task now is to show the potential effectiveness of nonviolent conflict and incremental political change. If that does not work the likely outcome would move us to the State Predation scenario.

*Treatments.* Where a clear winner emerges, donors may want to engage slowly and selectively. Most aid flows are fungible, so financial support for apparently strong projects may, at the margin, simply translate into more resources for a questionable regime. The flows of aid to the Museveni government in Uganda did not gain serious momentum until 1992, six years after the war ended, when the government issued a credible plan for reconstruction.

The dilemma for donors is that even when a regime is unattractive, one may presume that a resumption of civil war would be worse. One way to finesse this problem is to emphasize support for institutions that help keep government in check, such as law courts, lawyers, an open press, and a professional police force. Once the government has established an adequate track record, a broader menu of aid may be helpful. But it doesn't make sense, for instance, to help a predatory government refine its system for collecting taxes (Kenya under Moi comes to mind).

### **3.5 Rebels contained by the government**

*Treatments.* Some rebel groups may have legitimate causes, but most do not, and it is extremely rare to find a rebel group that deserves more support than the government. A key role of diplomacy and aid should therefore be to cut off the rebels' oxygen. For instance:

- The Kimberley process of certifying the origin of diamonds is aimed at reducing the price of diamonds mined by rebels in such places as Sierra Leone and Angola.
- The Economist magazine argues that the war on drugs that the U.S. is financing in South America has been destabilizing, leading to popular unrest in Bolivia (where the President was forced to stand down recently) and providing the real *raison d'être* for groups such as the FARC in Colombia.
- Pressure on the Sudan might help end the rebellion of the Lord's Resistance Army, which continues forcibly to recruit child soldiers and to harass the government in northern Uganda.

In some cases, federal solutions, or even secession, may make sense. It is hard to imagine an end to the suffering in Sudan without a *de facto*, if not *de jure*, separation of the south from the north. The Democratic Republic of Congo is also probably ungovernable, and very substantial regional autonomy is likely to be essential. There is a tradition of it; between October 1990 and December 1995, consumer prices in Zaire rose by 6.3 billion percent; but in Kasai province inflation in the 1990s was said to be negligible, as the population spontaneously refused to use successive waves of new, high-denomination, bank notes (Haughton 1998). To take one other example, it is far from obvious that Somalia should have a single central government; some of the existing statelets are functioning fairly well, and a loose federation (akin to the United Arab Emirates?) might be more appropriate.

Where governments contain, but do not end, rebel violence, it is probably especially useful to hold governments to sound human rights standards, as an aid to maintaining popular legitimacy. Active rebel groups can sometimes erode the power of a government by provoking it to answer violence with violence, as may be happening currently in Colombia.

### **3.6 Ongoing state failure**

In this scenario focusing exclusively on the military situation is a mistake, and may suggest that nothing can be done, since the parties appear unwilling to stop the fighting. But one can work on at least two fronts.

First, one can work to attract international attention to the situation, thus generating support for some intervention even if the local parties are unwilling. A CNN reporter was once asked why they did not cover Rwanda more during the period of genocide there (since that

would have generated stronger pressures in the international community to do something). Her answer: the OJ Simpson trial was what people (in the US anyway) wanted to watch. The answer suggests that international attention is something that can be influenced fairly easily.

Second, one can also protect the resources which will be crucial in the long term, but which can be destroyed by the war. A campaign to protect the resources of a key university may be an example.

*Treatments.* It is tempting to walk away from such cases, to wait until the situation miraculously stabilizes and more “normal” aid can work its magic, to “condition aid upon constitutionality” (Collier et al. 2003, p.177). This would be a mistake; in the words of the World Bank (2003b, p.iii), “neglect of such countries perpetuates poverty and may contribute to the collapse of the state, with adverse regional and even global consequences.” What then might one do? Here are a few suggestions, beyond the usual one of continuing to provide humanitarian relief:

Cut support for unsavory rebel groups, both financial and diplomatic. The Kimberly process of identifying the sources of diamonds is designed to do this. Anti-corruption laws in developed countries help deter firms from supporting rebel groups.

Stand ready to provide quick-disbursing aid to small projects. The UNHCR has tried this (with limited success); the Low Income Countries Under Stress (LICUS) initiative of the World Bank emphasizes the need to find projects that have quick results and are not controversial. In East Timor, such projects included roofing schools and repairing roads.

The World Bank suggests that one should emphasize knowledge and capacity building over the mere provision of finance. The idea is to prepare technicians, leaders, and policy makers for the moment when there is enough security for their efforts to be worthwhile.

Provide a cushion against price shocks. It was argued above that price shocks are associated with a higher risk of militarization and war. Whether this is feasible is, however, very much open to question.

## **Chapter V. Strategy Toolkit for Fragile States Interventions**

### **1. Introduction**

[Still to be written]

### **2. Identifying the stylized scenario**

Here a PESS-EL matrix is prepared and the stylized scenarios most appropriate for the country at hand are selected and modified.

[Still to be written]

### **3. Customizing the analytic narrative**

[Still to be written]

### **4. Selecting the appropriate interventions**

[Still to be written]

#### **4.1 Short term: Stabilization and transition strategies**

[Still to be written]

#### **4.2 Long term: Sustainable recovery**

[Still to be written]

### **5. Evaluation of the intervention**

[Still to be written]

### **6. Indicators for ongoing monitoring**

[Still to be written]

## 7. A Strategy Framework for Fragile States

In this section, we reexamine implementation steps above as well as the treatment options developed in earlier chapters to identify what the common elements are for a fragile states strategy.

[...]

A holistic strategy is one whose chief aim is to maintain various important forms of balance, to make sure that no important consideration is crowded out. What are then the most important considerations that need to be balanced? In a rough way our general method should include the following balances:

- Balance between what needs to be done in a situation (if only it could be), and the opportunities in it for effective intervention (perhaps not the most needed, but possible). A good program must be flexible enough to take advantage of opportunities as they arise.
- Balance between building institutions and developing minds. The chief instruments for developing minds are mass media and educational organizations (from elementary schools to universities)
- Balance between short term and long term thinking.

[Still to be written]

**Annex I: Analytic narratives**  
**Democratic Republic of the Congo**  
**El Salvador**  
**Nepal**

# 1. An Analytic narrative of the Democratic Republic of the Congo<sup>20</sup>

## *Introduction*

Since 1990, the Democratic Republic of the Congo (“DR Congo,” formerly Zaire) has failed as a state, not once but twice, and in two different ways. In this brief paper we seek to understand the causes of these failures. This then allows us to suggest ways in which donors such as USAID might set priorities in their dealings with the country, and sequence their actions appropriately.

Our approach is to develop a basic “analytic narrative,” which has an explicit starting point, identifies the initial conditions regarding the beliefs, preferences, institutions, and resources of the main players, and is clear about the variables that matter (Kuran 2003, p.3). Timur Kuran writes, “the goal is to identify causal social mechanisms that link the initial conditions with later developments” (such as economic growth, political stability, and violence). The “practical payoff” to this effort is that “once the mechanisms are identified, one can design and put in place institutions to reinforce or undermine them;” in other words, there will be implications for the actions of donors, among others.

In what follows we first make the case that the state failed in Congo/Zaire. We then provide a chronology of the main political events since 1960, paying particular attention to the period just before and during the descent into state failure. The next step is to organize the information into the PESS-EL framework as described in Chapter I; this sets out the main political, economic, social and security features of importance, and assesses their contribution to the effectiveness and legitimacy of the state.

The analysis then proceeds in two steps. The first uses identifies and applies the relevant “stylized scenarios” that may be used to classify the causes of failure and the trajectory for recovery (again, as in Chapter I); this already allows for some broad comments on what donor “treatments” may be appropriate in the country. The second step develops the analytic narrative more fully, along the lines set out by Kuran [REFERENCE?].

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<sup>20</sup> This section was written by Jonathan Haughton.

Our treatment is necessarily brief. For a fuller discussion of the situation through 1998, see Houghton (1998) and the references therein; the IMF (2003) provides a summary of recent economic events, and the US Department of State (2003) has additional useful information.

### *Congo/Zaire Failed as a State*

The First Failure. It is widely believed that a state has failed when it loses the ability to provide security and basic services to at least a substantial part of its population (see Chapter II). By this measure, Zaire failed, particularly during the period 1990-1994. Over this period, real GDP fell by 9.5% per year; by 1994, GDP/capita was 63% below its level of 1965.

The fall in national output was accompanied by the collapse of investment (from 13% of GDP in 1990 to 3% in 1994), the near-closure of the mining sector (from 12% of GDP in 1987 to 4% by 1994), and a remarkable shrinkage in government revenue (from 10% of GDP in 1990 to 3% by 1994); see Table 23 for further details. In 1990, the government devoted just 1.4% of its spending to education, and most of the country's approximately 200,000 teachers had received essentially no pay from the state for some years.

**Table 23: Selected Economic Indicators**

	1987	1990	1991	1992	1993	1994	1995	2000	2001	2002
<b>Growth and output</b>										
GDP, bn 1987 zaires	861	798	731	654	559	519	516			
Growth rate, real GDP, %								-7	-2	3
Population, m					41.3	42.6	43.9		54	56
Copper, '000MT		356	236	147	48	34	34			
<b>% of GDP from</b>										
Agriculture	29	34	38	44	52	58	58			56
Mining	12	10	8	6	6	5	4			
Manufacturing	9	8	7	6	6	5	6			4
<b>% GDP going to</b>										
Gov. expend	15	16	16	25	16	8	10	11	8	11
Gov. rev		10	5	3	4	3		5	6	8
Exports, \$m		2131	1631	1288	1144	1272	1451	963	961	1101
Imports, \$m		1836	1524	885	668	629	870	820	1067	1286
Aid disbursements, \$m		209	180	31	0	2				

The once-important *Voie Nationale* linking the interior mining areas of Shaba with the Atlantic port of Matadi became almost unusable, and the national airline went out of business as its planes were auctioned off. Between October 1990 and December 1995, consumer prices rose

by 6.3 billion percent; the public switched to dollars and barter, with the result that the broad money supply, which stood at 9% of GDP in 1989, fell to 1.4% of GDP by 1993.

The economic crisis was accompanied by violent protests. Opposition demonstrations in Kinshasa in later 1989 and early 1990 were violently suppressed; a May 1990 riot on the university campus in Lubumbashi left as many as a hundred dead, and Belgium (the largest aid donor) froze its aid. In September 1991, soldiers went on the rampage in Kinshasa, joined by civilian mobs, causing an estimate \$700 million in damage. Unpaid soldiers rioted in Kisanagani, Goma and Kolwesi in December 1992 and in Kinshasa in January 1993 (where as many as a thousand people died). Ethnic violence broke out in North Kivu province in March 1993, leaving 6,000 dead and displacing 150,000. Also in 1993, 100,000 Luba, who had worked in the mines in Shaba, were packed onto trains and sent back home to Kasai province.

By 1995 the state provided limited security, and virtually not services, to the bulk of the population. It clearly had failed.

*The Second Failure.* Worse was to come. Between 1996 and 2002, the DR Congo was torn by war. In 1996, Rwandan troops entered the country to pursue Rwandan Hutu militia (the Interahamwe) that had been involved in the earlier genocide in Rwanda, they supported anti-Mobutu rebels, who met little resistance when they marched on Kinshasa. In May 1997, President Mobutu fled, and Laurent Kabila became president. Mutinies in Kinshasa, Matadi and Boma were put down.

In July 1998, Kabila ordered all foreign troops to leave the country; in August the Rwandan troops “mutinied” and headed towards Kinshasa, taking Kisangani in August. The Kabila regime regained control of the southwest with the support of troops from Zimbabwe, Angola and Namibia. Meanwhile, Uganda moved in to the northern third of the country, where it seized effective control.

Efforts to broker a ceasefire in 1999 were unsuccessful, and fighting continued. An increasingly authoritarian Laurent Kabila was assassinated by a bodyguard in January 2001, succeeded by his son Joseph, who announced he would pursue peace negotiations. These eventually bore fruit, as Angola, Namibia and Zimbabwe withdrew their troops by the end of 2001, followed by Rwanda in 2002 and the last Ugandan troops in 2003. A power-sharing government

was formed. In April 2003, Joseph Kabila began a two-year temporary term as President; a transitional constitution adopted in the same month specifies that elections must be held in 2005.

An estimated 3 million people died as a consequence of the war and a further 2-3 million were displaced within the country. Once again, the state failed completely to ensure the security of its population; during the war period, the state also provided virtually no services to the population.

The war is over for now, and in 2002, GDP actually rose by 3%, the first increase in over a decade, and the World Bank projects rapid growth over the next two years. Government revenue has recovered somewhat (to 8% of GDP in 2002); investment, while still modest, rose to 9% of GDP in 2002, and inflation was just 16% in the same year. The country would be at peace were it not for serious recent fighting between the Hemas and Landus in and around the town of Bunia in the northeastern province of Ituri. However, a UN international force of 1,400, with a strong French presence, appears to have brought calm to the area.

Although it may be premature to celebrate, it does appear that the DR Congo is now on a path to recovery.

### ***A Chronology of Events***

The main relevant events are set out chronologically in Table 24. The Congo gained independence in 1960, but immediately faced serious problems of stability, including a mutiny in July, and a declaration of independence by Katanga (now Shaba) province. General Mobutu seized power in 1965, with US backing. He created a single political party (1966), was elected president in 1970, introduced Zairianization (1971), nationalized most larger businesses (1971-1973), saw off two invasions by Shaban exiles (1977, 1978), supported UNITA in Angola (1986 onwards), and faced serious opposition from 1989 onwards.

A constitutional conference was convened in August 1991 and opposition parties united under the Union Sacrée to oppose Mobutu. The National Conference reconvened in April 1992, declared itself sovereign, and elected Etienne Tshisekedi as Prime Minister. For a while there were two competing governments, until they were merged in 1994. The Alliance of Democracy for the Liberation of Congo-Zaire overran Kinshasa in May 1997 and Laurent Kabila became

president. After his assassination in 2001, his son Joseph Kabila has presided over a return to peace, and has allowed greater individual and press freedoms.

### ***Using the PESS-EL Framework***

In order to begin to make sense of the causes of state failure in Congo/Zaire, it is helpful to use the PESS-EL framework to analyze the effectiveness and legitimacy of the regime. We consider each component in turn.

*Politics.* The last multiparty elections in the DR Congo took place in 1960, and so most politicians in the country lack legitimacy. Mobutu was elected president for seven-year terms in 1970, 1977 and 1984; he did not bother with an election in 1991, and from then onwards his political legitimacy was increasingly in question.

Laurent Kabila came to power at the head of a rebel movement, but did not consolidate his position with an election, and became increasingly authoritarian over time. Joseph Kabila, who took over after the death of his father in 2001, is also an unelected leader, but the transitional constitution is clear that elections must take place in 2005. His low-key and conciliatory approach to governing has earned him a measure of informal legitimacy.

Political efficiency occurs when the system is good at resolving conflicts. In the early years of the Mobutu presidency, the state was strong enough to suppress (if not to resolve) most conflicts, but the gradually weakening of the central government led to a power vacuum, which was filled by violent protests and the rise of regional militia. This made it harder to resolve differences.

Joseph Kabila has been more adept at handling conflicts. He has co-opted the heads of the main rebel movements by giving them senior government positions; and he has appealed to the international community to put pressure on neighboring states to pull out of the DR Congo, with considerable success.

**Table 24: A Chronology of Events**

1960	30 June 5 July Sept.	Independence. President: Joseph Kasavubu; PM: Patrice Lumumba. Mutiny by 24,000-strong <i>force publique</i> (police and army) Col. Mobutu, head of army, suspends political institutions
1960-		Moise Tshombé declares independence of Katanga province. Flees to Europe, June 1963. Returns, appointed PM, in 1964.
1965	24 Nov	Mobutu seized power with US backing
1970		Mobutu, sole candidate, elected President. Introduces program of <i>authenticité</i> .
1973	Nov	Most foreign-owned properties seized by state; many retroceded to owners in Nov 1975
1977	March	Mobutu re-elected. Also in 1984. Shaban exiles in Angola invade; repulsed in the "war of 80 days". Attack again in May 1978, forced out by international force.
1989-		Opposition demonstrations, continue to early 1990; violently suppressed
1990	May	Riot on Lubumbashi campus, many dead; Belgium freezes aid; 700 Belgians expelled.
1991	Aug 7 Sept 23-26	National Conference, 2,850 delegates from >200 parties form <i>Union Sacrée</i> . Unpaid soldiers loot Kinshasa & elsewhere; 1,400 enterprises hit; \$700m in damage
1992	April 5 Oct	National Conference resumes, declares itself sovereign, elects Tshisekedi as PM. Ethnic violence in Shaba
1992	Dec	Unpaid soldiers riot; also in Jan 1993. Refuse 5 million-zaire notes.
1993	Mar -  Oct	Hunde & Nyanga of N. Kivu fight local Tutsi, Hutu; by Aug, 6,000 dead, 150,000 displaced Country now has 2 governments, 2 constitutions, 2 parliaments. Two parliaments join; agree on transitional period in April 1994, to be followed by elections
1994	July	Refugee influx from Rwanda
1995	Aug	Forcible repatriation of Rwandan refugees begins.
1996	May Sept/Oct Nov 15-19	Gov troops & Hutu militia target Tutsis of N. Kivu Tutsis, under Laurent Kabila, rebel Half-million Hutus return to Rwanda after rebels force Interahamwe militia out of Muganga camp
1997	May	Mobutu flees, as Kabila/ADF sweep into Kinshasa
1998	July Aug  Oct	Pres. Kabila orders foreign troops to leave Fighting erupts as Rwandan troops "mutiny" and head towards Kinshasa; capture Kisangani Kabila regime regains control of SW with help from Angola, Namibia, Zimbabwe Peace talks fail
1999	Feb July	Uganda backs northern rebel group; controls northern third of country 6 countries sign ceasefire. Not enforced. Fighting continues.
2000	Feb June	UN approves resolution to send 5,000 peacekeeping troops. Rwandan & Ugandan troops fight at Kisangani; 600 dead.
2001	Jan 16  Mar 29	Laurent Kabila assassinated; son Joseph succeeds him, announces he will pursue peace negotiations UN force (MONUC) deployed. Angolan, Namibian, Zimbabwean troops leave by year end
2002	July	Negotiations eventually lead to Pretoria agreement; Rwanda to withdraw soldiers; happens by October.
2003	April May	Transitional constitution enacted; Joseph Kabila begins 2-year term Ugandan troops leave Hema-Lendu fighting near Bunia; French-led UN force brings peace to area.

Economics. With the exception of a brief flicker of economic growth in the mid-1980s, the economy of Zaire declined consistently after 1975. The process accelerated in 1990 with the collapse of the giant state-owned mining company *Gécamines* and the drying up of foreign aid.

Private investment in 1993 was a mere 1% of GDP. By any standard, macroeconomic management was awful, with hyperinflation, low growth, and a state that increasingly lacked the power to tax enough to finance a worthwhile level of services.

The Mobutu regime was a kleptocracy (Korner in Tshishimbi, p.98). Testifying before a US Senate subcommittee in 1993, journalist Steve Askin claimed that 20% of the government operating budget, 30% of export revenue and half the government capital budget was “misdirected” (Askin 1993). This weakened the legitimacy of the government, and made taxpayers more reluctant to pay.

*Social*. The state has been ineffective in its social programs. The gross primary school enrollment rate fell steadily during the period of Mobutu’s rule, from 92% in 1978 to 76% in 1990 and 54% by 1993. Essentially all schooling is financed by parents and organizations such as the Catholic Church. Health spending is low and so is life expectancy (just over 50 years). About 5% of adults have HIV/AIDs.

The government has essentially stayed away from social programs; in this area, organizations such as the churches have greater credibility and legitimacy than the government.

*Security*. The DR Congo is becoming more secure, and it is no longer considered unsafe to walk around Kinshasa. However, fighting – such as the recent conflict near Bunia – does flare up from time to time; the government is sometimes unwilling or unable to do much, leaving the field to the United Nations and the international community.

### ***Explaining Failure***

Chapter II identifies a number of ways – “stylized scenarios” – in which states may head towards failure.

During the first episode of failure the DR Congo (1990-94) fits under the heading of *State Predation*. In Zaire, a very small elite appropriated much of the surplus revenue from the potentially rich mining sector, draining resources from more urgent needs (schools, roads, health care, for instance). The civil service, poorly paid and motivated, became less competent, as inflation remained high and investment low. The result was a slide towards economic distress, and a growing inability of the government to assert its will on rebel areas. Gradually the state lost legitimacy, in large measure because of its ineffectiveness.

During the second episode of failure (1996-2002) the further fall of the country was due to *communal conflicts* that began in the east of the country; and to *regional and guerrilla rebellions*.

As is common in cases of state failure, this second episode was associated with widespread violence. Chapter IV suggests that such violence has three logical roots: fear, “confident ambition,” and moral outrage. Following the logic of fear, groups may instigate violence in an effort to make the world safer for them. This applies well in the context of Congo/Zaire; Rwandan troops entered the Congo in order to suppress the Interahamwe, a group of Rwandan Hutus who were involved in the earlier genocide in Rwanda. The conflict might have remained local but for the presence of anti-Mobutu forces, which mobilized to bring the fight to a national level when they sensed that the central administration was weak. The conflict in Congo/Zaire owed less to confident ambition (idealism) and moral outrage than to the logic of fear.

To remove the fundamental causes of the conflict, the roots of the fear have to be addressed. Joseph Kabila has achieved this to some degree by including people from a spectrum of political parties in his cabinet. As a condition for Rwanda withdrawing its troops, the DR Congo promised to crack down on Hutus operating near the Rwandan border. The fact that elections are not far away may also reduce fear (although perhaps not around election time), as it ensures all groups a stake in governance. Finally, a more competent administration will probably reassure those groups in society that feel they have been left out in the past.

Recovery. Economic growth has resumed and peace has returned to most of the country. Chapter II has proposed a number of stylized scenarios to guide the treatments that are most appropriate to countries emerging from failure. The case of DR Congo fits into the category of a *negotiated settlement*.

The fact of a negotiated settlement provides *prima facie* evidence of a degree of political, and perhaps economic and social, effectiveness. While mostly secure for now, the possibility that fighting among factions could break out again is very real; the antidote would be a professional police force and army that draws its personnel from all the major groups of society.

A negotiated settlement, such as the one in DR Congo, helps confer legitimacy on the leaders. However, elections risk opening up fissures, particularly if candidates play to regional or ethnic fears. Political maturity is not acquired overnight, but international pressure on dema-

gogues to tone down their rhetoric may help prevent the emergence of the sort of conflict that occurred in the former Yugoslavia.

### *Towards an Analytical Narrative*

Table 25 identifies the main players in the Congolese drama since 1990, with their associated beliefs, strategies, rules of engagement, and potential payoffs. For instance, by the 1990s, President Mobutu's believed he could cling to power and recover his health. His strategy was to protect himself with a small guard, and to live on a heavily armed boat on the Zaire River, at some distance from the dangers of cities. His main rule of engagement was to use the army to crack down heavily on dissent, while personally staying above (and away from) the fray, cultivating the mystique of the powerful, if elusive, president. The potential payoff would be additional time in power; possibly substantial revenue; and greater prestige at home and abroad.

Briefly, among the other actors:

- Rwanda wanted to defang the Interahamwe; its strategy was to pursue them into Zaire and crush them militarily.
- Uganda initially supported Rwanda in its efforts, but later developed more territorial ambitions.
- Angola agreed to support Laurent Kabila to help ensure he would not support the Angolan rebel group UNITA (which Mobutu had aided); Robert Mugabe sent Zimbabwean troops to divert attention from a disastrous domestic economic policy.
- Laurent Kabila and the anti-Mobutu rebels he led sought to drive Mobutu out; their strategy was to wait until Mobutu was sufficiently weakened.
- The leaders in the Mobutu administration were generally corrupt; they pilfered resources from the state rather than providing worthwhile services.
- The non-violent political opposition aimed to end Mobutu's rule, through constitutional means.
- A few foreign investors, such as Tenke of Canada, hoped to gain access to the country's natural resources by financing the rebel groups, betting that they would obtain concessions if the rebels that they backed came to power.

- The army was most concerned with getting paid; its strategy was to demonstrate, even riot, when the payments were not forthcoming.
- The Roman Catholic Church, to which three out of four Congolese belong, aims to maintain its strong position. Its strategy is to provide social services, most notably education, and to bind people to the church through the schools.

**Table 25: Analytic narrative matrix of the DR Congo**

Players	Beliefs/priors	Strategies	Rules of engagement	Payoffs
Pres. Mobutu	Can hold onto power, protect assets	Use army to suppress dissent; protect self with small guard on riverboat.	Stay above the fray	Maintains power, assets, prestige
Army	Can get paid and control resources	Demonstrate for pay	Street demonstrations	Get paid, business opportunities
Catholic Church	Can provide social services	Education, health care binds people to church	Locally	
Opposition politicians	Gain power	Parliamentary	Constitutional	Power
Interahamwe (Rwandan Hutu militia in Zaire)	Safer in Zaire	Regroup for return to Rwanda	Military	Safety; power
Banyamulenge (Tutsis of N.Kivu)	Peace is possible	Fight; find allies at home or abroad	Military	Security
Laurent Kabila	Can win power with enough patience	Lie low, ready for a suitable moment	Military	Power
Rwanda	Crush Interahamwe	Pursue Interahamwe in Zaire	Military	No further threat to Rwanda
Uganda	Support Tutsis	Operate actively in Zaire	Military	Access to mineral and other resources
Angola	Reduce threat from UNITA	Support Kabila if he will not support UNITA	Military	Better chance of winning civil war at home
Zimbabwe	Can project power in Africa, get access to resources	Support Kabila	Military	Distract attention from economic problems at home
Foreign investors	Profit maximization	Pay in advance for support of potential winners	Seek favors from winner	

The large number of players makes the story interesting, if complicated. The venal and incompetent administration presided over a gradually decline in economic output; for instance, Gécamines was starved of investment as its cash flow was siphoned off for government and private use.

*The First State Collapse.* Frustrated by presidential opposition to multi-party politics, opposition parties staged demonstrations in late 1989 and early 1990. A demonstration at the University of Lubumbashi was violently suppressed. This may represent a “tipping point;” Bel-

gium suspended its aid as a result, IDA lending ended in 1993, and IMF and World Bank activities ended in 1994.

Also in 1990 the Kamoto copper mine collapsed, and in 1991 most of the expatriate workers who assured the functioning of Gécamines were evacuated. The result was a rapid fall in government revenue. Unpaid soldiers rioted in 1992, and again in 1993 when they refused to accept payment in the new 5-million Zaire notes. Ethnic violence in the eastern province of North Kivu broke out in March 1993 – including clashes between Hutus and Tutsis, mirroring the situation in Rwanda – and the army did not have the will or resources to put an end to the fighting. The state had failed to maintain stability or assure the provision of vital services to the population.

*The Second State Collapse.* Further violence was not inevitable, but an already weakened Zaire was shaken by the spillover from the Rwandan genocide, where Hutus had massacred hundreds of thousands of their compatriots (mainly Tutsi). When the Tutsis returned to power, huge numbers of Hutus fled into Zaire, many of them former Rwandan soldiers (the Interahamwe). They made common cause with the Zairian army, and in 1996 they decided to expel the Banyamulenge (Tutsis living in North Kivu) from the country. This represents another tipping point.

The Banyamulenge joined with Laurent Kabila (who was waiting for an opportunity of this kind) and got support from the armies of Rwanda (then Tutsi dominated) and Uganda (which has many Tutsis); the drive to overrun the country was helped by financing from a few multinational firms such as Tenke. The army put up little resistance; the church kept a low profile; and opposition politicians saw the change coming and made the best they could of their position.

At first, optimists regarded the change as a welcome reconstruction of the state under new leadership. The collapse came later, after Laurent Kabila sought to assert his independence by ordering foreign (i.e. Rwandan and Ugandan) troops to leave. Rwanda did not agree, in part because it judged that the Interahamwe had not been eliminated, and took steps to remove Kabila. He turned to Angola, Namibia and Zimbabwe, countries that for different reasons were willing to support him. Their intervention saved him, but left the country divided into three parts, with considerable conflict. The state had failed again.

*Recovery.* The road to recovery began with the assassination of the autocratic Laurent Kabila and his replacement by Joseph Kabila, who has proven to be a more deft and conciliatory leader. Donors have shown support; foreign investment is trickling into the country; diplomats have helped pressure Rwanda and Uganda to return home; the Interahamwe has been largely defanged; some opposition politicians have been co-opted into government, others are satisfied with the prospect of elections.

### ***Implications for Donor Treatments***

Now that the DR Congo is on the road to recovery, what role can donors such as USAID play? Let us return to the PESS-EL framework to organize our ideas.

On the political front, Zaire will need help preparing for elections. These are two years away, but in addition to financing the technical aspects of the election (ballots and ballot boxes, the creation of lists, etc.) there is a need to help ensure that demagoguery does not poison the electoral campaigns, and that good information on the candidates and their positions is circulated. A careful watch is needed over details such as the pre-qualification and registration rules for candidates, to help ensure that the outcome is legitimate and seen as fair.

There has been progress on the economic front—low inflation, rising investment, increasing trade. However, attention is still needed to the building of institutions – for example, how to run a purchasing office, establishing the rule of law, rehabilitating infrastructure, encouraging business formation and registration.

The educational and health systems are in poor shape, but are difficult to rebuild quickly. A ten-year educational support program should be attractive to donors.

On the security front, the most delicate and urgent task is probably demobilization. Some of the current army and police could be incorporated into a professional police force (and army). This is an area where donor aid could help.

Behind these relatively bland suggestions there is a judgment that the country can indeed hang together, that the central government both can and should be strengthened, that elections will not open old wounds, and that donors do know enough about security issues to be helpful. These are not trivial assertions, and they only emerge from the type of analysis that we have begun, however tentatively, to sketch above.

## 2. An Analytic narrative of El Salvador<sup>21</sup>

El Salvador's highly inequitable socio-economic structure provoked the tensions that eventually led to state failure. In the late 19<sup>th</sup> and early 20<sup>th</sup> century, indigenous communal lands in fertile volcanic areas were converted to *latifundia*, large estates turned over to coffee production by a small oligarchy (the "14 families"). The indigenous inhabitants were expelled and became part of the labor force for the estates. The growth of the international coffee market encouraged the oligarchy to develop the land and keep rural labor cheap—and to ensure that government policies, courts, and military forces would guarantee this. The Marti-led peasant revolt of the 1930s led to the *matanza*, an episode of violent repression by the military resulting in tens of thousands of deaths. From that period forward, the army took the lead role in Salvadoran politics.

The oligarchy's alliance with the military alliance served, up to the late 1970s, as a means to exclude other elements from political control, and to block reform. Through much of this period, the military rulers held elections, sponsoring their own political parties and candidates and manipulating the results where necessary to ensure their control. The military-oligarchy axis has been described as follows:

[T]he oligarchy allowed the military to take over state power with all the opportunities it offered for economic gain through corruption and, in exchange, the oligarchy was given a free hand in running the economy. The Armed Forces were to provide the repression necessary for the agrarian elite's continued dominance over the economy and the increasingly impoverished rural labour force.<sup>22</sup>

As of the 1970s, an estimated two percent of El Salvador's rural population owned 25% of the land and earned one-third of GDP, while poverty, malnutrition, and landlessness reached among the highest levels in Latin America. Coffee exports provided the main source of economic gain to the country—but these gains were monopolized by a small elite, who used access to coercive power to keep labor costs down and thereby maintain competitive export prices. Neither coffee production nor urban industries created the necessary demand for labor. As coffee earnings and the macro-economy grew, the inequalities continued to deepen, despite the

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<sup>21</sup> The section was primarily researched and written by Patrick Meagher, with collaboration on the analytics from Clifford Zinnes.

<sup>22</sup> Acevedo, Carlos, "Salvador's New Clothes: The Electoral Process (1982-89) in Sundaram and Gelber (1991), p. 19.

emergence of an urban middle class. In the late 1970s, the global decline in commodity prices, combined with the oil price shock, made El Salvador's economy increasingly vulnerable to crisis.

### *From fragility to failure*

Events in 1979-1980 finally broke the equilibrium that had been established by the oligarchy and the military. Two elections stolen by the military from the PDC (Christian Democratic) party and its leader, Jose Napoleon Duarte, had raised tensions during the 1970s. Then, in 1979, a reformist military faction called the Young Officers' Movement seized control from the reigning generals and their political front-men. In 1980, the group set up a civilian-military *junta* with Duarte and the PDC, and announced a program of agrarian reforms. Wanting to safeguard against Communist influence and protect their right flank, the junta coupled the reforms with harsh repression of leftist opposition. The left included social and trade union activists, clerics increasingly espousing "liberation theology," and underground militants.

Who were the "players" in the Salvadoran struggle? On the one hand, the oligarchs pressed for harsher and harsher measures by government and the military, and took matters into their own hands. Rightists led by Roberto D'Aubuisson, an army colonel who resigned after the 1979 coup, set up armed paramilitaries to enforce their control over the land and the economy generally. They also established the ARENA party in an effort to win political authority from the PDC and the military. The far right seemed to believe their way of life, and their control of economic and social life, were mortally threatened – and, moreover, that they could prevail with a two-pronged strategy of violence and political competition. Adverse international economic conditions heightened the oligarchs' sense of crisis. Also, compromise was out of keeping with their culture of honor and feudal privilege. Thus, a rift opened up in the oligarchy-military front, with the oligarchs splitting off to the right, and the military backing moderate reform and the center-right of Duarte and the PDC.

On the other side, civil society effectively had no voice in public affairs, and so gravitated to the left. The revolutionary movement – an alliance of unionists, social activist groups, and militants headed by the FMLN guerillas – gained wide popular support. The civilian-military *junta* responded with armed repression, blocking essentially all channels of peaceful dissent.

The military's interest in a combination of reform and continued control merits some examination. Reformism in the Salvadoran military was a recent phenomenon, and one with strict limits. From the 1930s through the 1970s, the army grew from a modest militia into a 56,000-man force that played the central role in maintaining, or changing, political regimes, in providing security to the oligarchy, and in combating real or perceived Communist influence – a priority for the U.S. and the Salvadoran right. The army was long the main beneficiary of U.S. aid. These resources, and American influence, shaped the officer cohorts commissioned from the 1950s and '60s forward. These officers tended to be more technocratic, and more reformist, than the older cohorts that depended to a greater extent on their cozy relationships with the oligarchy. It was these younger officers who led the 1979 coup, and who supported Duarte and the PDC in the 1980s.

At the same time, a number of the army's core commitments and interests proved resistant to change. First, the army overall was a path to social advancement for middle class men excluded from oligarchic circles. Thus, the colonels achieved a status they could never have gained otherwise. Second, the army had its economic interests to protect. In rural areas, they were essentially hired guns for the big landowners, and were compensated accordingly. Senior officers stood at the pinnacle of numerous corrupt enrichment schemes, including procurement fraud and self-dealing arrangements such as the sale of provisions to enlisted men. The army was itself in business, running strategic utilities such as the telephone, water, and power companies. Also, aid from the U.S. was the largest source of budgetary finance. This meant that the discomfort of the U.S. administration and Congress with hard-right policies and human rights abuses had to be addressed. Last, the senior military hierarchy bitterly opposed reform efforts by younger officers working with civilian government – for example, attempts to separate police functions from the army and put them under civilian authority.

While the persistence of extreme inequality, coupled with harsh official repression, sparked the civil war, Cold War rivalries deepened it. The government side got orders and funding from the U.S., and the FMLN was linked to Communist networks extending to Nicaragua and beyond, though less overtly (and less generously). The U.S. administration strove to contain Communism and to sustain center-right governments in the region. As the situation in El Salvador deteriorated, and Congress threatened to cut off aid to the government there, the U.S. insisted on elections in 1982 and 1984, intervening each time to block outright victory by rightist

extremists in the ARENA party. The FMLN and its allies boycotted the elections. The UN and others attempted throughout the 1980s to broker a settlement.

The players just described, along with their beliefs and desires, are summarized in Table 26 in the Annex. What “games” were these various players engaged in? They were playing a core game that can be further broken into a number of subsidiary games, each with its own rules. The overarching game involves the forces of the right and center-right (oligarchs, military, government, U.S.) against the left (FMLN and allies), with the UN and World Bank Group positioned somewhere in-between. The core of this is the struggle among the Salvadoran players, where the game is one of attrition, and the parties use a mixture of violence, political campaigning, and offers of negotiation. One sub-game takes place among the players on the right, with the main rule being to avoid Communist takeover—and the differences cropping up over the means to that end, the kinds of compromises to be accepted, and the level of self-serving behavior deemed consistent with that goal. A second sub-game occurs on the left, with the main rule being to avoid sustaining the status quo of a repressive and impoverishing national order. The differences here arise again over the approaches to that goal, i.e., whether the central focus should be on violent struggle to the end, mass organizing, negotiation and compromise, or participation in the political system.

A third sub-game involves all of the external actors, including the U.S., the multilaterals, the Latin countries, and elements of the international left. This game reflects on a larger scale the domestic war of attrition. Here, the rule-framework ostensibly derives from international law, but in practice elements in the U.S. and the international left used illegal covert methods. Perhaps a more effective rule was provided by the Monroe Doctrine, which meant there could be no overt involvement in the conflict by countries outside the Americas. Differences arose over what constituted a credible forum, platform, and time for negotiation.

State fragility during this period in El Salvador derived from a combination of low (and falling) legitimacy with a drop in effectiveness. The tipping point into civil war seems to have been a drop in state legitimacy from the perspective of the dominant elites. Thus, while the state overall had extremely low legitimacy among the general population from at least the late 19<sup>th</sup> century, it had moderate to high legitimacy among the ruling elites. The oligarchs controlled the commanding heights of the economy, while the military dominated politics and administration,

and both worked together to repress reformists and potential revolutionaries. The 1979 coup, followed by the beginning of agrarian reform in 1980, caused a break in this common front. The far right faction of oligarchs put pressure on the junta to heighten repression during the early reform period, and they moved more robustly to take matters into their own hands via paramilitary movements.

The beginnings of a rift between the oligarchs and the military moved El Salvador into a situation of reduced state effectiveness, coupled with a longer-term trend of eroding legitimacy. The far right showed signs of dissatisfaction with the junta and a desire to raise the stakes. The mounting repression closed any remaining avenues of political expression and increased popular unrest, thus pushing the left over the threshold into armed insurrection. The repression increased the FMLN's legitimacy; and Cold War dynamics, notably the rise of the Sandinistas in Nicaragua, enabled the FMLN to increase its effectiveness through covert supplies and support. Through 1980, with events such as the assassination of Archbishop Romero, the already weakened oligarch-military axis further undermined its legitimacy and drove popular support to the left. The overall combination of incipient reform, right-wing terror, and a growing support base provided the FMLN an opening to launch an offensive. A summary analysis of El Salvador's slide toward failure is presented in Table 27.

### *Dynamics of failure*

The conflict in El Salvador centered on the festering problem of heavily concentrated land ownership, and the measures taken ostensibly to address the problem. The 1960s and 70s had seen continuous ferment in the form of union organizing, calls for land reform, and militancy by left and right. By the late 1970s, it had become clear to the Salvadoran military and to the U.S. that land reform of some kind was urgently needed. Military leader General Molina suggested a moderate reform program in 1976, on the theory that it was the price that had to be paid in order to keep most of the economy in the hands of the oligarchy, and head off revolution. The oligarchy deemed the reform package unacceptable. The 1979 coup led to the formation of a *junta*, with Duarte as the lead civilian, committed to moderate agrarian reform in order to tamp down rebellion.

In this situation, the junta and its U.S. backers placed highest priority on land reform as a multivalent signal—to the populace and the left, that something was being done about the plight

of the downtrodden; to the right, that the reforms were the minimum necessary to avert radical change; and to international public opinion that the Salvadoran leadership was respectable and worthy of support (or at least tolerance). The 1980 reform was designed with essentially no popular input, and recalcitrant oligarchs did much to undermine it in practice. This approach seemed to serve the junta, as they could be seen as reformers without opening up a larger and more dangerous set of issues. It also served the U.S., as it fit with its counterinsurgency strategy—indeed, one of the three reform phases was designed by the same U.S. expert who had proposed an unsuccessful land reform in Vietnam during the U.S. war there.

The land reform failed to bring the Salvadoran left and right into dialogue. The oligarchy undermined the reform from the start. The three reform phases envisioned the distribution of the very largest estates and then the majority of big estates comprising 25% of agricultural land, and finally a “land to the tiller” phase designed to benefit nearly 200,000 families. The large landowners reacted by decapitalizing the big estates—selling off machinery and slaughtering animals—and subdividing estates to bring them under the redistribution threshold, which itself was increased by a constitutional amendment in 1983. The third phase failed, distributing mainly marginal land to only about one-quarter of the intended beneficiaries.

Overall, the reform program produced the opposite of the desired effects. It took some benefits away from the oligarchy, thus earning their antagonism—further deepened by parallel reforms such as the nationalization of banks and coffee export industries. The reforms also failed to satisfy the left and the rural populace, who viewed it as empty posturing—thus fomenting discontent. Evidence of violent polarization was close at hand: a Salvadoran NGO documented over 180 murders in rural areas during the first six months of the program. Human rights groups would count political murders in the tens of thousands during each of the succeeding few years.

The junta failed to stop increasing polarization and outbreaks of violence, and civil war got fully underway when FMLN forces began attacking in 1981. Initially, the FMLN had on its side a leftist political party, the FDR, while the oligarchs, military and death squads dominated government. The Catholic Church and the Socialist International were both involved in early mediation efforts, but these failed and repression mounted, with deaths among clergy and trade unions especially high. By the mid-1980s, both of these potential mediators were viewed as too partisan. Attempts were also made internally to reach a settlement by means of broadened repre-

sentation in government. The FMLN-FDR boycotted elections through the 1980s, judging that arrangements were stacked against them and that participation meant too much of a compromise.

The elections of 1984 brought Duarte and the PDC to power—allegedly with up to \$10 million in support from the CIA. Apart from backing Duarte, the US had tried to ensure the FMLN-FDR's participation in the elections, but failed. The US strategy of “low-intensity conflict” aimed to keep Communism at bay while avoiding extremes of repression and winning “hearts and minds.” Running against Duarte was the right-wing ARENA party, representing the oligarchs and headed by a known death-squad sponsor. During his tenure, 1984-9, Duarte pursued various peace initiatives proposed by the FMLN leadership, many of them facilitated by the Catholic Church. However, he rejected international mediation. Reaching a political accord embracing both the far right (whose support Duarte needed to stay in power) and the FMLN-FDR proved impossible.

In the campaign for the 1989 elections, a peace deal became one of the main campaign themes. The FDR decided to enter the political fray and campaign – thus the united left front was eroding. In the event, Alfredo Cristiani of ARENA was chosen in an election with an abstention rate of some 65%. Cristiani represented the moderate end of the ARENA spectrum, composed of conservative technocrats who, compared to the hard-liners, were less bound to the old quasi-feudal order and more open to a modernizing economy based on non-traditional exports.

Various attempts to revive dialogue, interspersed with ferocious campaigns of repression and military offensives, followed during 1989-1990. The FMLN campaign of 1989 disrupted the capital, thus showing that it continued to be a force to contend with, but it did not attract as much popular support as anticipated. International revulsion at the assassination of 6 Jesuit priests, coupled with the winding down of the Cold War, brought the US to cut off military aid to El Salvador, to seek UN intervention, and to pressure Cristiani and ARENA to negotiate with the FMLN. Formal talks got underway in 1990, leading to the Chapultepec Peace Accords of January 1992.

The 1980s also saw important changes in El Salvador's economy. In addition to the land reform program, early economic reforms included nationalization of coffee and sugar export concerns, and greater focus on import-substitution industrialization. These changes were revisited throughout the decade. After the 1982 elections, El Salvador signed an IMF agreement

and undertook a structural adjustment program imposing expenditure discipline in return for renewed access to external funds. In the course of this program, El Salvador managed to protect military spending while cutting social programs. This was the first of several such programs that were begun and then abandoned as the Salvadoran government came under threat from the rebels.

The Duarte government embarked on expansionist policies in 1984, coupling this with price controls that drove economic activity into the shadow market. During the mid-1980s, the U.S. provided increasing amounts of aid, including credit channeled to land reform beneficiaries through Salvadoran development banks. The U.S. also advocated a move towards non-traditional exports, a policy the government resisted. Meanwhile, the private sector resisted tax reform, and revenues plummeted. By the end of the 1980s, the government and the financial system were essentially insolvent, social spending had long been neglected, and the industrial policy had benefited only a limited number of well-connected firms, thus increasing the concentration of wealth. Our analysis of state failure in El Salvador appears in Table 28.

### *Treatment strategies*

What strategies might we have suggested at the point where El Salvador slid into instability in the late 1970s, or during the succeeding years? The analysis here is complicated by the U.S. role as a player in the conflict. There are contemporary parallels, such as in countries experiencing insurgencies, where terrorists or mafias operate, or that have trade disputes with the U.S. or WTO. The U.S. held to its strategic objective of helping the country avert Communism, but it did so at enormous cost.

Even assuming the U.S. aid could have been focused more on peace and development than geopolitical advantage, any assistance program would have confronted deficits of both legitimacy and effectiveness in the Salvadoran state. What would have worked as treatment strategy in this context? An intervention at the time of the first Duarte-PDC election victory in the 1970s might have addressed both legitimacy and effectiveness in turn. This would have required vigorous policy dialogue and a credible threat to withdraw aid if the election results were not respected. Such an approach could have forced the military to accept the results of the elections.

The U.S., working with other donors, would have needed to insist on greater inclusiveness in the political system, including representation of hard left and right elements in return for a ban on armed activity. Assistance programs would have focused on such areas as expenditure planning and control, reform in the social sectors, judicial reform, and separation of police functions from the military. This treatment strategy, in essence, would have aimed to establish legitimacy first, and then sought to shore up effectiveness – the very opposite of what the U.S. tried, unsuccessfully, to do at the time. It would have been expensive and difficult, but certainly less so than the alternative. Some analysts suggest that it might even have been impossible—i.e., that El Salvador’s oligarch-military axis was self-sustaining and would have resisted U.S. intrusion. Indeed, to be effective, the strategy would have had to confront the patrimonial rule of the oligarchs, which pervaded all of government, society, and the economy.

Moving forward to the time of El Salvador’s slide into failure, treatment would have required a modified strategy. On the one hand, a real opening occurred in the period of 1979 to 1981, i.e., between the coup and the FMLN uprising. The U.S. was engaged at that point via military and economic aid. It could have pressed harder on the military, using threats of aid cutoffs, to reign in the oligarchs and the death squads. Given the differences between the extreme right and the military, such an approach might have had a greater chance of succeeding than previously. This would have opened up the opportunity to pursue the kinds of assistance programs mentioned above.

However, in practice, threats to cut aid did not prove credible until later. An actual cutoff was not really within the U.S. strategy set, which made the elimination of any Communist threat top priority. El Salvador was strategically important during the 1970s and ‘80s. In the end, even the geopolitical goal—to say nothing of the objectives of peace and prosperity for the majority of Salvadorans—was not well-served by the U.S. approach. The Salvadorans, being well aware of U.S. priorities, played up the leftist threat, took the aid, and used it in the most self-serving ways. The actual U.S. aid cut-off occurred only much later, after the outrages of 1989, and had maximal effect because the two sides in the civil war were exhausted. Meanwhile, a devastating civil war had played itself out.

### *El Salvador's recovery*

The Peace Accords of 1992 brought an end to a civil war that had caused some 80,000 deaths, a half-million displaced persons, and roughly a million emigrants to the U.S.—out of a total population of about 5 million. A severe earthquake in 1986 added to this toll.

The Accords provided for (1) elections in which full participation was guaranteed, (2) an international Truth Commission to investigate and redress human rights abuses, (3) demilitarization including reduction in the armed forces and disarming by the FMLN, (4) replacement of the security forces with a Civilian National Police, (5) reform of the Supreme Court and establishment of a Human Rights Ombudsman, and (6) economic restructuring, notably land reform and improved credit programs for small farmers and enterprises. The UN provided an Observer Mission, which continued until 1996.

Implementation of the accords was formally completed in 1996, but in each area it experienced problems. These ranged from skewed campaign finance (contrary to the accords) in the 1994 elections to the failure to carry out recommendations of the Truth Commission, resistance to military reform, and disappointing outcomes thus far in the land reform process. Despite delays, the FMLN did eventually disarm, the death squads were disbanded in favor of civilian police forces, and the court reforms have seen some success—although courts continued to be criticized as corrupt and inefficient, the Supreme Court was replaced and a new governance structure for the judiciary brought in.

The military restructuring has met with delays. The accords called for the armed forces to be professionalized, for corrupt elements to be purged, for military intelligence and paramilitary organizations to be discontinued, and for measures to demobilize and relocate members of dissolved units. Members of the FMLN were also to be integrated into the army. Without external pressure, these commitments probably would not be at all credible, and even with such pressure, military networks resisted or undermined the implementation of some reforms.

Economic transition from conflict has also seen difficulties. Structural adjustment during the early post-accord period has been criticized as unduly rigid and harsh given the circumstances. Some observers suggested that the UN and the Bretton Woods institutions were working off of mutually incompatible plans, with the Washington consensus-based economic program making it impossible to meet the material requirements for implementing the peace. Also, other

donors, facing their own constraints, failed to provide anticipated support for elements of the transition, notably the Land Transfer and Civilian Police programs. Other analysts suggest that the key constraints to economic change were more likely political than financial. The World Bank had reached agreement with the government on a social sector rehabilitation program months in advance of the peace accords, while USAID played a major role in police and judicial reform as well as municipal development.

The Salvadoran economy grew rapidly from a low post-war base, and then slowed by the late 1990s. The country is at peace, but the severe inequalities that drove the conflict to begin with are far from being addressed. Violent crime, a by-product of the conflict and insecure livelihoods of demobilized combatants, continues to pose serious concerns. Rates of domestic investment and school enrollment continue to be among the lowest in Latin America.

Several factors have helped sustain recovery, albeit at a slowed pace since the mid-1990s. These include the real reforms put in place in the aftermath of the accords, the opening of political space for dissent and competition, the ending of the Cold War and the regional dynamics it supported, and money flows. El Salvador is one of the leading aid recipients on a per capita basis, and this assistance is nearly matched by remittances from Salvadorans working in the U.S. The aid and especially the remittances have benefited lower-income groups, thus easing the transition to a reformed economy and defusing some of the potential discontent.

Politically, the post-conflict period has seen increasing moderation and diversity of representation. The first post-accord elections were held in 1994 and again won by ARENA – an outcome that seemed to reflect the erosion of FMLN's power base. However, the municipal and national assembly elections of 1997 resulted in ARENA and the FMLN each holding one-third of the national legislative seats, ARENA winning in the majority of municipalities, but the opposition winning in most of the large cities.

In short, El Salvador has in large measure recovered, but remains fragile. The country has sustained peace, but by all accounts has not seriously addressed the socio-economic issues that drove its civil war. An alternative recovery strategy by USAID might have used greater leverage to push for effective land and military reform, as well as a stronger Truth Commission. A synopsis of our discussion of recovery in El Salvador appears in Table 29 in the Annex.

**Table 26: Analytic narrative matrix for El Salvador**

<b>Players</b>	<b>Beliefs</b>	<b>Strategies</b>	<b>Stakes</b>	<b>Payoffs</b>
Oligarchy	Can retain economic control via alliance with military – ceding them power over government – and by credible threats	Press government & military to repress dissent and serve their interests – otherwise, threaten & freelance (e.g. death squads)	Unchallenged position at top of social hierarchy; Predominant control of economy, esp. coffee production and related industries	Status quo ante = +1 Incremental reform (weaker control) = 0 Prolonged conflict = 0 Left victory = -1
Military	Can maintain stability, international standing, and narrow benefits (e.g. patronage, corruption) via bogus elections, balance of reform and repression	Keep the lid on thru harsh repression, support incremental reform to undercut FMLN	Position in path of upward mobility; Need to counter threat of Communism; Need to keep U.S. aid flowing; Control of lucrative enterprise and corruption opportunities; Pivotal position in maintenance of government	Status quo ante = +1 Incremental reform (concessions by oligarchy) = +1 Left victory = -1 Prolonged conflict = -1
<i>Juntas</i> and civilian governments	Incremental reform, reaching out to the extremes, will exercise moderating influence and create stability	Cooperate with right-wing, try to bring FMLN into negotiations & political participation with small compromises & cooption	Vision of future El Salvador progressing under center-right government; Need to protect & enhance Salvador's international status & reputation; Privileges of office including patronage & corruption	Incremental reform (concessions by oligarchy) = +1 Status quo ante = 0 Prolonged conflict = -1 Left victory = -1
FMLN (& allies)	Revolution from below is necessary and possible	Establish strength through military campaign & electoral boycotts, then secure optimal pre-conditions for negotiation & political participation	Vision of future El Salvador progressing under revolutionary left government; Outrage & resentment at history of repression & poverty; Need to buttress credibility, resources, & public support as viable alternative.	Status quo ante = -1 Prolonged conflict = 0 Incremental reform = 0 Left victory = +1
UN (& WBG)	Outside influence can maintain integrity of the state and keep/restore the peace	Bring parties to negotiating table, monitor peace-building, press for economic restructuring	Role as guarantor of international peace, stability, human rights, development; Need to confront derogations of these including Cold War-related ones	Incremental reform (peace & territorial integrity) = +1; Left victory (w/territorial integrity) = 0; Status quo ante = -1; Prolonged conflict = -1
U.S.	Outside pressure on key actors can keep Communist influence at bay and ensure regional stability	“Low-intensity conflict” – combat the left, cooperate with the right, try to win “hearts and minds”	Need to address threats to order in Central America: Communism, instability, outside intervention, adverse public & international opinion	Incremental reform (peace w/o Commies) = +1 Status quo ante = 0 Prolonged conflict = 0 Left victory = -1

**Table 27: State Fragility in El Salvador 1979-1981**

<b>Components</b>	<b>Effectiveness</b>	<b>Legitimacy</b>
<b>Political:</b> Coup by reformist officers, then civil-military junta; Army-dominated party & electoral system moves toward center-right vs. hard-right competition	<b>Medium -&gt; Low</b> Oligarchy-military rift & death squads undermine regime cohesion & security; FMLN has opportunity to launch armed revolt	<b>Medium -&gt; Low (oligarchy), Low (population)</b> Reforms antagonize oligarchs, pushing them to organize; Far right and left increasingly disaffected & militant; Open dissent violently repressed, Romero assassinated; FMLN has motive to launch armed revolt
<b>Economic:</b> Oligarchic coffee production dominant (and dependent on low labor costs); Reforms begin modest land redistribution, nationalization of banks; Non-oligarch enterprises starved for capital & access; Private investment falls by 90%	<b>Medium -&gt; Low</b> Economy depends on traditional agricultural production, capital-intensive industry, commodity prices, U.S. aid; Public services don't reach poor masses	<b>Medium -&gt; Low (oligarchy), Low (population)</b> Oligarchs continue to dictate economic policies & defend traditional model against early reforms; Landlessness & concentration of land ownership increased until reforms; Unemployment & poverty intensify; Reforms too little too late, undermined by elite opposition
<b>Social:</b> Church exerts influence from center-left, other groups subject to repression & manipulation (e.g. official unions)	<b>Medium -&gt; Low</b> Education, nutrition, health indicators very low; Reforms fail to address poverty & inequity; Conflict escalates	<b>Medium -&gt; Low (oligarchy), Low (population)</b> Oligarchs feel insecure, unwilling to compromise with junta on reform, engage in violence & disruption; Deepening inequality & polarization; Little or no outlet for popular dissent
<b>Security:</b> Reformists ascendant in army, but some defect to right; No civilian police force – security in the hands of army & militants	<b>Medium -&gt; Medium/Low</b> Oligarchs operate death squads, political murders rise; FMLN launches armed rebellion	<b>Medium -&gt; Low (oligarchy), Low (population)</b> Judiciary & procuracy politicized & corrupt; Security forces (army, paramilitaries, FMLN) kill with impunity

**Table 28: State Failure in El Salvador 1981-1992**

<b>Components</b>	<b>Effectiveness</b>	<b>Legitimacy</b>
<b>Political:</b> Junta, then elected civilian governments; Civil war rages; Negotiations & political inclusion of left attempted	<b>Low</b> Duarte/PDC win 1984 election with U.S. support; ARENA continues to contest & wins in 1989; FMLN stays out of political system, but FDR defects late	<b>Low</b> No dialogue between left & right; External peace initiatives refused until 1990
<b>Economic:</b> Land reforms bring modest redistribution; High inflation (reaching 32%); Economic contraction; Periodic structural adjustment programs throughout 1980s	<b>Low</b> Unemployment, poverty, economic contraction deepen; High military spending, low social spending	<b>Low</b> Negative popular view of reforms, hardship deepens & continues after peace initiatives & WBG-backed adjustment
<b>Social:</b> Official repression & death squad activity peak, then decline as external influence & peace initiatives grow	<b>Low</b> Little basis for social cooperation; Welfare indicators decline	<b>Low</b> Society riven by violence, mistrust, polarization
<b>Security:</b> War, repression, poverty lead to mass emigration	<b>Medium/Low -&gt; Low</b> Civil war, mass violence, paramilitaries, rifts on right & left	<b>Low</b> Killing of Jesuits undermines international legitimacy, leads U.S. to cut off aid

**Table 29: Recovery from Failure in El Salvador 1992-present**

<b>Components</b>	<b>Effectiveness</b>	<b>Legitimacy</b>
<b>Political:</b> Peace settlement, tendencies toward political inclusion & moderation	<b>Low -&gt; Medium</b> Left-right conflict brought mostly within political system; No outbreaks of violence; Increasing political competition	<b>Low -&gt; Medium</b> Military control of politics & government formally ended; Left, center, & right have political voice; Space opened for dissent & organizing
<b>Economic:</b> Post-conflict bounce, with growth reaching 6.3% per year in mid-1990s, then 2.5%; Migrant remittances help the poor, but inequities remain	<b>Low -&gt; Medium/Low</b> Neo-liberal economic framework in place; Governance & capacity for effective economic management only modest; Private investment & tax revenues increase absolutely & as percentage of GDP, but low by Latin standards	<b>Low → Medium/Low</b> Substantial benefits to working class & poor of economic stability & inflow of aid & remittances; Rigid class hierarchy, though less oppressive, remains
<b>Social:</b> War exhaustion & economic improvement help sustain peace; Military spending down, social spending up	<b>Low</b> Opening for political & social organizing enables civic welfare initiatives & pressuring of govt to deliver public services	<b>Low</b> Legacy of past is continued mistrust, class stratification, and violent crime; Truth Commission process made little progress, lots of war-era atrocities unpunished & unacknowledged
<b>Security:</b> Death squads disbanded, military & justice reforms undertaken but limited by recalcitrants	<b>Low -&gt; Medium</b> High rates of violent crime, but no outbreaks of organized armed violence; Civil police in place; Significant aid to judicial reform	<b>Low -&gt; Medium</b> Some right-wing figures remain in government & military even though removed from former positions; Military reforms only partially implemented

### 3. An Analytic narrative of Nepal<sup>23</sup>

The Kingdom of Nepal is a state in trouble. Whether it is “failing” or “failed” is a matter of semantics; what is undeniable is that its economy is paralyzed, students and workers are engaged in political strikes, an armed insurgency controls about one-quarter of the country, and the country is being governed under an emergency decree after the democratic government was dismissed.

The story of how the country arrived in these dire straits is one of political contestation, idealism, and self-interest, with some tragedy as well. Most important, however, is how the role of outside aid donors – both their lack of action at some times, and their misguided actions at other times—has contributed to steadily worsen conditions in Nepal.

#### *The major actors and issues*

There are six major actors, or groups of actors, in the decline of Nepal:

*The King.* The late King Birendra, who ruled from 1972 to 2001, was an extremely popular and well-respected monarch. Although he was pressed by popular demonstrations to cede power to an elected parliament in 1990, he remained popular and a symbol of Nepalese unity and nationalism.

However, in 2001, Crown Prince Dipendra killed the King and himself in a bizarre massacre/suicide that left a cloud of suspicion and anger over the royal line. King Gyanendra, enthroned after the massacre, has never had the loyalty or popular support of enjoyed by his predecessor, and rules today with his personally-selected ministers under an emergency decree.

*Party politicians.* From 1991 to 2002, Nepal had a constitutional monarchy with an elected government led by a Prime Minister. The election of 1991 was won by the Nepali Congress Party, led by G.P. Koirala, a centrist, nationalist party. The main opposition was the Nepal Communist Party, which was a left-center party, placing a greater emphasis on social welfare measures to help the poor. There were also minor parties, like the third-largest party, the United People’s Front, another communist faction led by Baburam Bhattarai.

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<sup>23</sup> This section was written by Jack Goldstone with research assistance from Uttam Sharma.

However, this system was wracked by instability. In 1994, a no-confidence vote ended Koirala's government, which was succeeded by a Communist-led government. In 1995, the Communist government was overturned by another no-confidence vote, and a new government led by S.B. Deuba took power. Over the next six years, all major parties split into various factions fighting over government offices and benefits. From 1997, when Deuba's government was defeated, to 2001, Nepal had six different Prime Ministers.

The entire Parliamentary system was viewed in Nepal as increasingly corrupt and ineffective, doing nothing for the people of Nepal and serving only the parties and their leaders' interests. In 2002, the King sacked the elected Prime Minister and appointed his own ministers, ruling under emergency decree. Since then, most party politicians have joined in protests against the King's emergency powers and have been demanding either the reinstatement of the parliament or the creation of a new elected government with executive power.

*Maoist rebels.* Communist parties in Nepal, as elsewhere, were often divided over policies and methods of seeking power, and different groups identified themselves as Communist (Marxist-Leninist) or Communist (Maoist). Shortly after the collapse of the Communist (Marxist-Leninist) government in 1995, the Maoist Communists and other radical political leaders (including Bhattarai, formerly leader of the UPF) took to the forested western part of Nepal and sought to create – Mao-style – a rural base for rebellion against the government in Kathmandu. They claimed that they were seeking (1) true people's democracy to replace the corrupt party government; (2) an end to the monarchy and creation of a republic; and (3) greater equality and justice for the poor peasants and workers of Nepal. Having raised approximately 10,000 troops and controlling about a quarter of the country, the rebels have been steadily increasing the scope and violence of their attacks.

At first the Maoists focused on building support and providing services in villages in rural Nepal, and their violence was limited. But recently—after confrontations with the Nepalese army, which has pursued them into the countryside—they have taken to more widespread and violent attacks, including large-scale attacks on government facilities and assassinations of government and local officials. In addition, they have been forcibly extracting support from rural villages and taking measures against Nepalese villagers who either will not support the rebels or are suspected or working with the government. While there have been several cease-

fires, negotiations have always broken down over the rebels demand to take part in elections for a constituent assembly to draft a new constitution. These cease-fires, however, have offered the Maoists a chance to regroup and strengthen their power base.

*Students and urban professionals.* These groups have steadily moved to supporting calls for the King to step down, hold elections, and restore democracy. For much of 2003, university students were on strike, shutting down over 5,000 schools and colleges in central and eastern Nepal. Urban workers and professionals have also gone on repeated political strikes, paralyzing the country. On several occasions, former ministers and prime ministers have participated in clashes with riot police.

*Rural peasants.* Initially, these sympathized with the rebels in western Nepal. Mostly poor and at the mercy of local landlords, and receiving no contact with the central government except for tax collection, many expected much more from the democratic governments formed in 1991-1996. After receiving nothing, many supported the communist insurgency that began in 1996.

However, in the last two years, peasants have found themselves caught in the middle of increasingly violent fighting between rebels and government forces. Rebels have increased their demands on rural groups, while being unable to protect villagers from government reprisals. Both the government troops and rebels now are accused of conducting numerous massacres against rural peasants.

*External Aid Donors.* By the late 1980s, 13% of Nepal's GDP came from foreign assistance. Japan was the largest bilateral donor, followed by West Germany, but many countries and organizations, including the United States, OPEC, India, and the Soviet Union provided development aid. The World Bank and the Asian Development Bank directed the bulk of multilateral assistance.

However, this assistance has had little impact on Nepal's economy. According the *Asia Times* (on-line, May 9, 2000)

“Many development experts agree that Nepal's three decades of autocratic rule were a drag on economic development. This is why the more than \$4 billion pumped into the country in the past four decades for reducing poverty has failed to do so. Current statistics show that half of Nepal's citizens are poor, earning less than a dollar a day. Last year, the national planning body admitted that despite

decades of foreign development aid, the proportion of poor people had grown. 'This has to do more with the lack of commitment on the part of the government than donor agencies,' notes the English language daily, *The Kathmandu Post*. Foreign aid is said to have added to Nepal's foreign debt. It has been estimated that more than half the annual government revenue goes to foreign debt servicing. On average, each citizen is calculated to owe more than \$100 to foreign creditors."

There is an increasing consensus that decades of aid that funded a variety of unrelated and uncoordinated projects, under the guidance of an autocratic, weak, and conflicted government in Katmandu, was largely ineffective and perhaps even harmful to Nepal's economy. While there is considerable debate about whether imposing conditionality on aid would have been helpful, or even possible, given the state of Nepal's government, it seems clear that foreign aid did *not* help the Nepalese government improve the lives of most Nepalese. Disappointment with ineffectiveness of development and still-growing poverty under the elected governments of the 1990s helped to undermine their credibility.

Since 2002, the United States has stepped in with considerable military aid to Nepal, aimed at helping it fight the Maoist rebellion. The King and his advisers, relying on this aid, appear to be reinforced in their belief that the Maoists can be defeated militarily, without making political concessions or major reforms.

The major issues at stake in the Nepalese disorders are two: democracy and development.

Economically, the government has clearly failed its people. Poverty is more widespread now than 20 years ago, and debt service (mainly paid on foreign aid loans) takes up nearly half of government spending. In recent years, the economy's decline has accelerated, as the violence associated with the rebellion has frightened away tourists, who provided much of the country's foreign exchange. Political strikes have further weakened the country. Donors and Nepalese increasingly agree that Nepal will not develop without somehow empowering the majority of the Nepalese population to participate in their economy and society.

That participation will most likely take the form of democratic self-government, at the local as well as national level. Despite efforts to create democratic rule since the establishment of a constitutional monarchy in 1991, the national government, which was torn by factional instability and suspected of massive corruption, was widely regarded as completely unresponsive to the needs and interests of most Nepalese. Although local democracy was effective and

popular in many areas, in others areas local landlords continued to dominate the economy, and few government services reached the population. In recent years, local officials aligned with the King have been targeted by the rebels. In short, a major political restructuring to create more effective local and national democratic institutions will likely be required to put democracy on a firm footing.

However, further democratization is stalemated by the conduct of the current King Gyanendra. Under an emergency decree declared in 2001, in the face of the rising Maoist rebellion, King Gyanendra sacked the elected government in 2002. While rebels, students, party leaders, and urban protesters are demanding a return and strengthening of democratic institutions, King Gyanendra has refused to take steps in that direction while the rebellion continues. However, the rebels refuse to cease fighting until they see concrete progress toward democracy and their ultimate goal of creating a people's republic. The result has been a failure of all negotiations and cease-fires, and the increasing polarization of Nepal between supporters of the King and supporters of democracy. If the King remains obstinate, many pro-democracy groups seem willing to consider a republic, with no monarchy. The King's support increasingly rests on control of the 90,000 man army, and violence has been escalating. More than 1,000 have died in the last six months, and the violence – and how to end it—is itself becoming a major issue in Nepalese politics.

### ***Narrative of key events and PESS/EL conditions***

*Phase I: Nepal becomes a weak and unstable state, 1991-2001.* From 1991 to 2001, hopes were aroused that the new popularly elected government would improve conditions in Nepal. However, despite massive foreign aid infusions, the elected governments were wholly ineffective. Governments and prime ministers changed rapidly in the face of factional conflicts. The government was clearly *ineffective* in providing a sense of stable and orderly politics, and in doing anything to improve the economy. The politicians were also suspected of widespread corruption, which reduced political *legitimacy*. Still, while legitimacy declined, it did not plunge; the continuation of King Birendra in office, as a popular constitutional monarch, sustained considerable support for the government.

In Nepal, the government's ability to provide effective public services was always low, especially outside the Kathmandu valley. This changed little in this period. While international

aid agencies helped the poorest Nepalese, rural areas remained underserved by public services compared to urban centers. Moreover, the lower castes faced considerable economic and social discrimination, so that legitimacy on these counts was only medium.

In 1996, frustrated and radical political leaders moved to the countryside to mount a rebellion. They began to provide services and organization to peasant villages and within a few years came to control about a quarter of the country, mostly in the western region. However, violence was minor for several years, so security was not a major issue. As of 1996, the PESS-EL chart for Nepal would have looked like this:

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**Figure 6: PESS-EL table (Nepal c. 1990-2001)**

**A Weak Democracy with corruption**

	Effectiveness			Legitimacy		
	High	Medium	Low	High	Medium	Low
<b>POLITICAL</b>		X →	X	X →	X	
<b>ECONOMIC</b>			X		X	
<b>SOCIAL</b>			X		X	
<b>SECURITY</b>	X			X		

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Over this period, Nepal appears to have moved from being a reasonably stable, if poor state prior to 1990 (6 of 8 PESS-EL observations medium or high) to becoming a classic unstable or “fragile” state (with 6 of 8 PESS-EL observations medium or low). Nepal also showed a typical pattern in the early stages of fragility, in which most of the “low” levels are concentrated on either effectiveness or legitimacy. In Nepal effectiveness was low on most counts, but legitimacy remained medium or high, so that the government could hold on. However, any further decline in legitimacy would almost certainly push Nepal into severe crisis.

In this period, if outside donors could have helped improve the political effectiveness and legitimacy of the government, and perhaps improved its economic effectiveness, it is likely that Nepal would have recovered stability. The Maoist insurgency might not have even started, or if started, would have faced a more resilient and popular government. Whether or not donors could have done this is debatable. But it is clear they made no effort to do so, taking no action to pre-

vent the Nepalese government from sliding into factionalism, disorder, corruption, and ineffectiveness.

*Phase II: From Unstable to Failing State.* Things turned suddenly worse in 2001. In April a general strike, called by the Maoist rebels but with the support of opposition party politicians, brought the country to a standstill. Then in June, the murders of King Birendra and his family led to a much less popular and legitimate ruler in King Gyanendra. These events sharply reduced political legitimacy. In July, Maoist rebels sharply stepped up their violence. There was a brief truce from August through October, but in November 2001 rebels suddenly withdrew from peace talks. They resumed and intensified their attacks, which escalated throughout 2002, announcing that they saw no progress in the peace negotiations. These included attacks on army and police barracks, and in January 2003 the killing of Nepal's most senior paramilitary officer. In response, the government declared a state of emergency and ordered the army to crush the rebels; King Gyanendra also sought military aid against the insurgency.

At this point the effectiveness of the government in providing security was clearly declining sharply. Hundreds were being killed in some weeks. In April 2002, Maoists called another general strike, which met with great support and brought the country to a halt for five days. The rebels made some overtures for a cease-fire and peace talks, but the government rejected these as insincere or demanding unreasonable preconditions.

In October 2002, the government suggested that the Prime Minister suspend elections for one year, out of security concerns. Thereupon King Gyanendra dismissed the government and suspended elections indefinitely. In January 2003, rebels declared a cease-fire and entered talks with the government. However, in August 2003, rebels pulled out of talks after the King appointed his own, royalist, Prime Minister to head the government, and the Army continued operations against the rebels. In response the rebel further intensified their attacks, and called for popular support. In September 2003, hundreds of opposition activists were arrested in rallies against the King. The rebels called a general strike, which again paralyzed the country for three days.

Over the last few months, violence has escalated on both sides. The Nepalese army has been raiding peasant villages, killing many suspected collaborators. This has undermined the security legitimacy of the government. However, the Maoist rebels have also been killing pea-

sants, increasing their demands, and killing local leaders, including mayors aligned with King’s government. Some of the rebels, disillusioned with the scale of violence and the targeting of rural villages, have defected from the Maoist forces.

The situation is trending toward an increasingly violent stalemate. The King is holding on to power with the army, which is deployed and maintained with foreign support against the rebels. The rebels are increasing the scope and intensity of their attacks, hoping to break the army’s will to fight for an unpopular, increasingly authoritarian regime. The economy is in a tailspin.

As of 2004, the PESS-EL chart for Nepal has come to look like this:

**Figure 7: PESS-EL table (Nepal c. 2001-2004)**

**An authoritarian regime fighting a guerrilla rebellion**

	Effectiveness			Legitimacy		
	High	Medium	Low	High	Medium	Low
<b>POLITICAL</b>			<b>X</b>		<b>X →</b>	<b>X</b>
<b>ECONOMIC</b>			<b>X</b>		<b>X</b>	
<b>SOCIAL</b>			<b>X</b>		<b>X</b>	
<b>SECURITY</b>	<b>X</b>	<b>→</b>	<b>X</b>	<b>X</b>	<b>→</b>	<b>X</b>

Nepal is thus a “failing” state, with 6 of the 8 PESS-EL indicators marked low.

**Prognosis**

At this point, continued U.S. military support for the Gyanendra regime is allowing that regime to avoid concessions and stay in power despite lack of popular support.

Other foreign aid (bilateral and multilateral economic and development aid) can have little effect while the civil war rages in the countryside. The overall situation is extremely similar to that faced by the U.S. during the cold war in Central America and southeast Asia. The U.S. is providing military support to an unpopular authoritarian regime that is fighting against a communist, but popular, insurgency claiming to aim at restoring democratic institutions.

This could have two outcomes, roughly parallel to those in Nicaragua and El Salvador. In Nicaragua, the U.S. supported the dictator to the end, leaving the political party leaders little choice but to support the insurgency. Eventually, the dictator Somoza was fully isolated, the military began to defect, and the insurgency triumphed. In El Salvador, the U.S. helped reintegrate political party leaders into a coalition government, and it was the rebels who were isolated and defeated.

In short, much depends on whether the Gyanendra government restores democratic institutions and attracts the support of party politicians; and if the subsequent democratic government can be more effective and less corrupt than in 2000-2001. Such measures would help reverse the slide in political legitimacy that led Nepal into failure, and could provide the basis for renewed effectiveness as well.

This Nepal analytic narrative points out three important items:

- (1) Simply creating democratic government does *not* guarantee stability; indeed it may make matters worse. In 1991 King Birendra established democratic government to meet popular demands. However, the democratic governments of 1991-2001 were so ineffective, corrupt, and self-serving that they lost popular support. In the context of this weak and ineffective democracy, radicals sought to mobilize support outside the government, and were able to mount a rural rebellion with considerable popular sympathy.
- (2) Foreign development aid, even in large amounts (in Nepal reaching over 10% of annual GDP), does not necessarily stabilize democratic governments. Unless coupled with measures that attend to the effectiveness and legitimacy (lack of corruption, success in reducing poverty) of governance, aid can simply be wasted.
- (3) Foreign military aid, if given unconditionally, can reinforce a government's willingness to seek a military solution to the exclusion of other measures, and sustain or intensify a violent conflict.

## **Annex II**

### **1. A Decomposition of Institutional Effectiveness**

## 1. A Decomposition of Institutional Effectiveness<sup>24</sup>

In order to provide a sounder foundation and greater empirical bite to Chapter I this annex develops a more theoretical framework to one of its key the concepts introduced, effectiveness. As such, this decomposition should facilitate the design of both institutional indicators of effectiveness as well as analytic narratives.

Let  $A(R)$  be the relationship describing how the state could, given  $R$ , its level of human capital, financial, and physical resources, be able to deliver public goods and services in principle. Think of  $A$  as the theoretical best production function available to the state. (Note that here that  $A$  might correspond to Fukuyama's notion of administrative capacity). Let  $S(p,R)$  be what it actually delivers, based on the resources it uses and the way it organizes production (with  $p$  capturing actual productivity. Think of  $S$  as the existing production function used by the state. Then its effectiveness,  $E=S/A$ . One way to increase  $S$  would be to improve productivity by strengthening the neutral-ground aspects of current institutions (e.g., FOI laws, public participation mechanisms, etc.). The most *efficient* place for a state administration to produce would be to set resources at the level in which the marginal benefits equal the marginal costs. This approach allows us to more precisely disaggregate what we mean by effectiveness. We can now observe a resource level component, an administrative efficiency component, and a state productivity component (the "closeness" the state is to its production possibility frontier. Here administrative efficiency is, loosely, degree to which  $MC=MB$  (where, for simplicity, I assume that the marginal benefits to state outputs are independent of the efficiency of their production) and the  $MC$  comes from the production function—either  $A$  or  $S$ ).

Effectiveness of institutions may now be clear to conceive, though there are still choices to its definition. Here are three possibilities:

$E_1$  = For a given level of output,  $G^S$ , its actual required inputs / level of inputs at best level institutionally feasible technology. Here this is  $R_1/R_2$ .

$E_2$  = For a given level of input,  $R_1$ , its output at current technology / output at best level institutionally feasible technology. Here this is  $G^S/G^A$ .

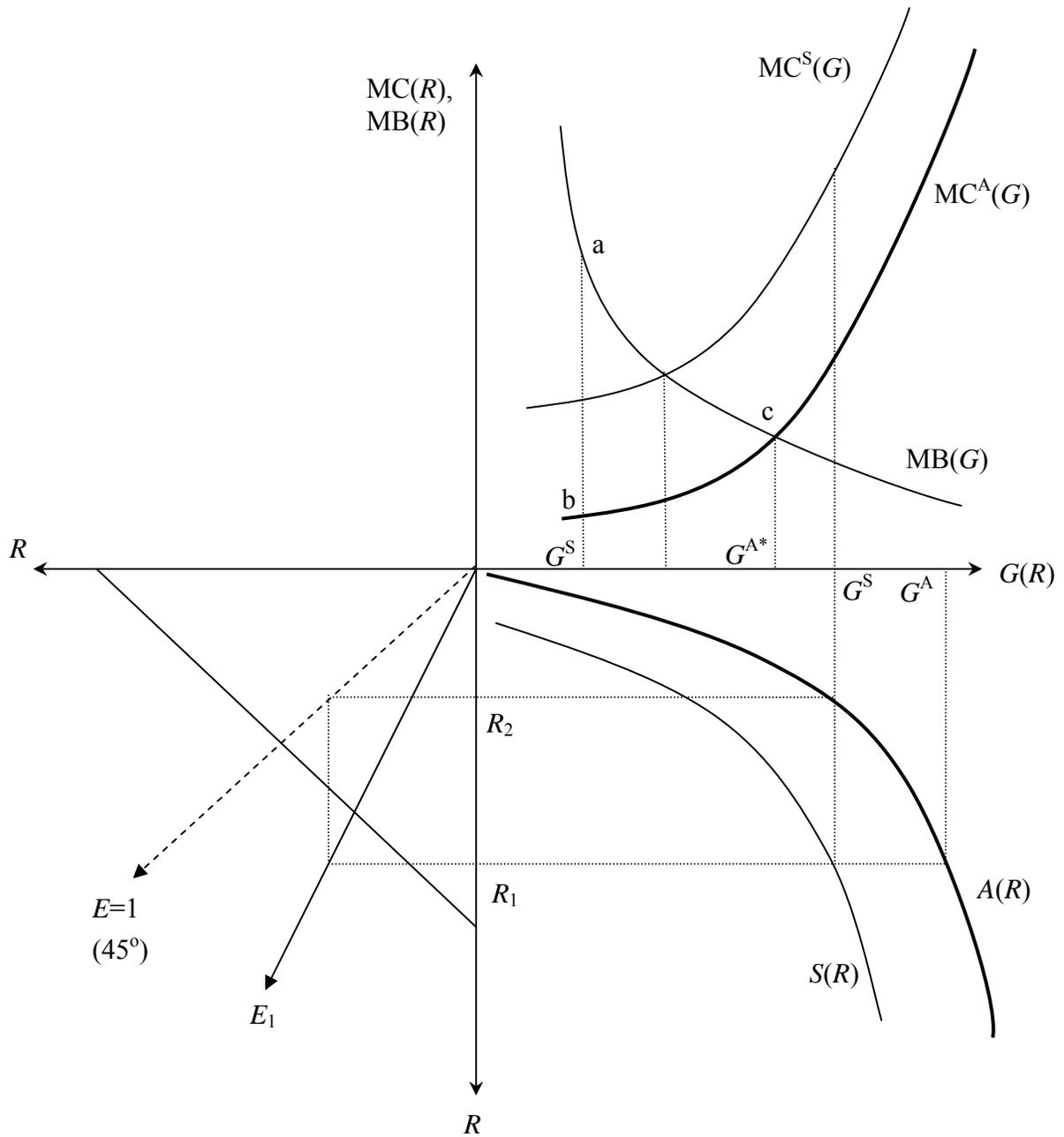
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<sup>24</sup> The primary author of this section was Clifford Zinnes.

$E_3$  = For a given level of input,  $R_1$ , the deadweight loss existing as a result of not producing at output  $G^{A*}$  with the best institutionally feasible technology. Here this is triangle  $\Delta abc$ , which is the difference between the area under MB and above  $MC^A$  between  $G^S$  and  $G^{A*}$ .

Note the implication here for the causation between effectiveness and legitimacy (as decomposed in Chapter I). As effectiveness (which varies between 0 and 1) falls, the probability of legitimacy falling increases. Effectiveness does not increase with legitimacy *unless* neutral ground increases, since the degree of neutral ground may affect institutional effectiveness via  $p$  and may affect legitimacy via state effectiveness (see Table 6).

**Figure 8: The diagrammatic decomposition of institutional effectiveness**



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