

**Working Paper 253**

**Closing the Sovereignty Gap: an Approach to  
State-Building**

**Ashraf Ghani  
Clare Lockhart  
Michael Carnahan**

September 2005

Overseas Development Institute  
111 Westminster Bridge Road  
London  
SE1 7JD  
UK

**Dr Ashraf Ghani** is currently Chancellor of Kabul University. From 2002-4 he was Finance Minister of Afghanistan, and from November 2001 to February 2002 was Adviser to the United Nations on Afghanistan. Between 1991 and 2001 he worked at the World Bank, working on institutions, the state and country strategies. Previously, he held a series of academic positions at Johns Hopkins and Berkeley Universities, teaching on state formation and anthropology. Between 1974 and 1978 he was Lecturer in Afghan Studies and Anthropology at Kabul University. He holds a PhD in Anthropology from Columbia University, and a BA and Masters in Political Science from the American University Beirut.

**Clare Lockhart** is currently a Research Fellow at Overseas Development Institute. From 2001-5 she worked first at the UN on Afghanistan and then was seconded as Adviser to the Ministry of Finance in Afghanistan. Previously, she managed a program on institutional analysis at the World Bank. She has degrees in History, Law and Public Administration and is a member of the Bar of England and Wales.

**Michael Carnahan** is a Fellow of Australian National University in Canberra. He has acted as Budget Adviser in Afghanistan and East Timor, and has been a member of the Australian Civil Service for a number of years in the Cabinet and Treasury departments. He holds a PhD in economics from the University of Wisconsin at Madison.

The three authors are collaborating on a book and manual on state-building, and the preparation of a series of training materials and related products.

For further information please contact [clockhart@odi.org.uk](mailto:clockhart@odi.org.uk) or +44 7966423188.

ISBN 0 85003 769 7

© Overseas Development Institute 2005

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior written permission of the publishers

## **Contents**

<b>1. Introduction</b>	<b>4</b>
<b>2. The core functions of the state</b>	<b>6</b>
<b>3. Constraints in the current system: how the aid system currently undermines state effectiveness</b>	<b>10</b>
<b>4. Reorienting the aid system through state-building strategies</b>	<b>13</b>
<b>5. Conclusion: Grounds for hope</b>	<b>19</b>
<b>Figure 1. The ten functions of the state</b>	<b>6</b>
<b>Figure 2. State-Building or Sovereignty Strategy</b>	<b>14</b>
<b>Figure 3. An index or report card for a particular country</b>	<b>15</b>

## 1. Introduction

The definition of common public interest has undergone immense changes since September 11<sup>th</sup>, 2001. Policymakers increasingly recognize that global security cannot be ensured while entire regions of the globe are mired in violence, poverty, and corruption<sup>1</sup>. The rapid pace of globalization and technological change mean that instability, insecurity and terror are now more easily exported than ever before.

Globalization of the media has not only enabled the dissemination of dangerous ideas; it also means that citizens across the world are aware of and aspire to the higher levels of opportunity afforded to those living in developed countries. The harsh reality, however, is that poverty in the least developed countries is rising rather than falling. It is now clear that the Millennium Development Goals may not be achievable with the current governance situations in the poorest countries<sup>2</sup>. Some states fail to provide basic security of persons and property in their own territory or to prevent their territory from being used against other states. International private capital is finding its way to a smaller and smaller number of countries as the rule of law, a prerequisite for a sound investment, does not exist in many countries.

It is only through the building of stable and capable states that sustainable progress in poverty reduction can be achieved. Just as the company is the most effective form of organization in a competitive economy, the state is the most effective and economical way of organizing the security and well-being of a population. Three key sets of stakeholders; the development community, the international private sector and the security sector, with apparently disparate goals are in fact united by their need for stable and sovereign states. The drive for poverty reduction by the development community, the search for secure and expanding markets both at home and abroad by the international private sector and the reinforcement of domestic security by the security sector respectively.

Legal recognition alone, however, does not suffice to define the sovereignty of a state. Many governments that are legally recognized as sovereign consistently fail to meet the basic prerequisites of a sovereign government. There is a clear gap between the de jure sovereignty that is assumed when, for example, international treaties are signed between “sovereign” states, and the de facto absent or compromised sovereignty that exists in many of these states.

The consensus now emerging from global economic, military and political institutions signals that this gap between de jure sovereignty and de facto sovereignty is the key obstacle to ensuring global security and prosperity<sup>3</sup>. The challenge is to harness the international system behind the goal of enhancing the sovereignty of states – that is, to enhance the capacity of these states to perform the functions that define them as states. Long-term partnerships must be created to prepare and then implement strategies to close this sovereignty gap.

---

<sup>1</sup> “A more secure world: Our shared responsibility: Report of the Secretary-General’s High-level Panel on Threats, Challenges and Change”: 2005.

<sup>2</sup> The Millennium Development Goals Report: United Nations 2005.

<sup>3</sup> At the High Level Meeting of the OECD DAC in Paris on March 3 2005, the Ministers of Development of OECD countries agreed to a set of “Principles for Good International Engagement in Fragile States”; the third principle was to “focus on state-building as the central objective.... The long-term vision for international engagement in these situations must focus on supporting viable sovereign states”.

The first section of this paper delineates a framework which proposes a set of core functions that a sovereign state must perform in the modern world. This functional delineation provides a framework for the calculation of a sovereignty index through which the sovereignty gap can be measured in a tractable fashion. Once this more quantitative framework is in place, the progress of or decline in state capabilities to perform each function severally as well as collectively can be assessed. Moreover, the index would also allow an overall assessment to be made of whether the multiplicity of interventions by a wide array of international actors is closing or widening the sovereignty gap.

The second section of the paper outlines some of the constraints that exist in the current international system. Mindful of these constraints, the paper then proposes a reorientation of the international community's approach to fragile states through the introduction of state-building or sovereignty strategies. These would be long-term compacts entered into by a country's leadership with the international community on one side, and its citizens on the other. This would integrate the current raft of interventions in the economic, political, security, judicial, administrative and social domains into a single strategy designed to close the sovereignty gap within each of the core state functions and in the state as a whole. The functional delineation proposed would allow strategies to be designed that are both universal as well as tailored to context by acknowledging that all states must perform a number of services to meet the needs of their populations but that the route taken to develop institutional capability will vary from country to country.

Once such a sovereignty strategy has been prepared, the interventions of the international community can be calibrated to support and monitor its implementation. The final section of the paper outlines why there are grounds for hope that the international system can indeed move forward in this direction.

The approach proposed by this paper is derived from review of a wide body of academic literature and developmental practice in the form of country strategies and structural adjustment operations, as well as direct service and advisory roles in post-conflict and transition conditions. Our key focus has been on developing conceptual frameworks and practical approaches, distilled from academic and business literature and on-the-ground experience, which can be tailored to context.

## 2. The core functions of the state

In the interdependent world of today, states must perform a constellation of interrelated functions that range from provision of citizenship rights to promotion of an enabling environment for the private sector. This multidimensional role stands in marked contrast to the 19<sup>th</sup> century when states were one-dimensional providers of security. This section outlines our vision of the ten core functions that a state must perform in the modern world. While the characterization of these functions can be legitimately debated, we suggest that coming to an agreement on a set of functions is an important step towards reaching agreement on the best way to design responses to the challenge of state-building across the international community.

### Figure 1. The ten functions of the state:

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

- A ***monopoly on the means of violence*** has long been accepted as the primary criterion of statehood. In practice, this criterion has often been reduced; first to a simple monopoly on violence and then to little more than control of a capital city. However, it is the legitimacy of the state's monopoly on violence as perceived by the citizens of the state that is the key to using this monopoly as a criterion of statehood. If the polity rejects the legitimacy of the state's monopoly on violence, then that monopoly is inherently unstable. Hence the state's monopoly on the means of violence must be balanced by the presence or creation of credible institutions that provide checks and balances on the use of force; that the state itself must be constituted through, and accountable under, the rule of law. In states which do not fulfil their sovereign functions, military spending and related security expenditures typically loom ever larger

without being transparent to the citizens or the international community, or producing any dividends of security or peace. In measuring the degree of state control of the means of violence within state borders, then, both the extent to which the state can protect persons and property and the legitimacy of this protection must be assessed.

- **Administrative control**, as defined by both the breadth and depth of the reach of a state's authority over its territory, is the second dimension of sovereignty. In order to establish and maintain administrative control, a state requires the following: the existence of a coherent set of rules that determine the division of responsibilities horizontally and vertically across functions of the state and between hierarchical levels; the recruitment of civil servants; the spatial and functional division of administrative roles; and flows of resources. The extent to which the citizens of a state accept that the promulgation and enforcement of these rules serves the interest of the majority is crucial to engendering trust between the state and its citizens and giving citizens a sense of belonging. The structure of administration could vary in practice between highly centralized to highly federated depending on the historical and cultural context.
- Sound **management of public finances** in today's interdependent world is probably the most critical indicator of the autonomy of a state. No state can be sovereign while it relies on an external source to fund its ongoing operations. The ratio of domestic revenue to foreign assistance in a state's budget at any given moment, and the changes in this ratio over time, provide a straightforward measurement of the degree of a state's sovereignty and whether it is increasing or decreasing. Trends in revenue such as the actual number of taxpayers, the share of revenue received by the government from extractive industries as compared to more broadly differentiated economic activities, and even the relative share of rent obtained by the government from extractive industries such as oil, reveal the major characteristics of an economy's relation to its polity. What denotes the effectiveness of the state in wealth creation and distribution of resources on the expenditure side is the extent to which the government budget serves as the instrument for setting the country's priorities, the balance between ensuring growth and service delivery, the extent to which the budget is subject to formal oversight by the legislature and judiciary and the extent to which the budget is substantively transparent to the citizens of the state. Further, the test of whether rents from extractive industries are included in public state budgets or transacted off budget can serve as a key measure of the accountability of rulers to citizens.
- The capability of citizens as actors in the economy, polity and society is a product of the state's **investments in human capital**. Without this investment, different groups become disenfranchised, which undermines the capacity of the economy to develop in the longer term, and therefore of the state to fund itself in the future. The degree of consensus on the importance of a primary education, particularly for girls, is so general that it does not bear repetition. The same is true of preventive care. The importance of secondary and tertiary education in post-conflict conditions, however, is not yet adequately grasped. Without higher education geared towards producing responsible citizenship and marketable skills in the economy, neither administrative reform nor competitiveness can be realistic goals.

- The *delineation of citizenship rights and duties* that cut across gender, ethnicity, race, class, spatial location and religion are critical to stability and prosperity. When social policy is perceived as an instrument for the creation of equality of opportunity, the social fabric can form a sense of national unity and a shared belief in common destiny, rather than giving way to other modes of oppositional identity.
- Investment in the *provision of infrastructure services* through the creation of infrastructure and its operation and maintenance is critical to overcoming inequalities of opportunity across the territory of a state and levelling the playing field between urban and rural areas. The provision of transportation, water and power is prerequisite to the state's ability to provide security, administrative control, investment in human capital, and formation of the market. Reliable infrastructure ensures the essential predictability required for participation by a state and its citizens in information networks and in a global economy that depends on just-in-time production and distribution.
- While infrastructure is a prerequisite for the *formation of the market*, provision of the environment that enables the formation and expansion of the legal market has emerged as one of the most important functions of the state. This enabling environment depends on the establishment and protection of property rights including the provision of enforceable contract, corporate, insurance, bankruptcy, land, employment and environmental laws.
- A market economy is premised on the notion that wealth creation is boundless. Management of tangible forms of capital, such as natural resources and financial capital, is the obvious first target of wealth creation. However, *management of the assets* of the state, specifically the state's ability to regulate and license, may in the long run be even more significant. How the state handles the licensing of particular industries will determine whether wealth is created or destroyed through the licensing process, and also gives a clear indication of the nature of the operation of the state both to the domestic polity and the international observer. In today's connected world, regulation plays an increasingly important role for harmonization in the global market (e.g. through quality standards) and therefore in the participation of people in value chains that produce higher returns for wealth creation.
- The state's authority over *international relations* encompasses the management of relations with other states, international bodies and private entities, and the authority and opportunity to enter into treaties and obligations with them. As part of this authority, effective *public borrowing* presents an opportunity for the state to make investments in human, physical, institutional or social capital. If these investments are made wisely, they will provide returns in future years that will generate more than enough resources to cover the debt service and repayments associated with the initial loans. The financial health of the state, and its effectiveness in managing risks and opportunities with public resources, are subject to routine evaluation by international risk agencies such as Moody's. The ability of a state to borrow from the international market is an indicator of the degree of trust placed in its financial stewardship. Concessional lending from international financial institutions and bilateral donors was designed to alleviate poverty and ensure the growth of healthy states. The current crisis of indebtedness among the poorer states

indicates that the ratio of a state's debt service to social expenditures can serve as another measure of how public financial assets are being managed.

- As all institutions are defined by the rules that delineate the field of play, the ***rule of law*** is the most critical indicator as to whether the formal and informal rules of the game are aligned. While a state capable of providing predictable rule of law can be denoted a stable policy environment, it is the constitution of the state itself through rules and its continuing subjection to them that marks the routinization of the rule of law<sup>4</sup>. The succession of rulers on the basis of rules and the persistence of policies from one government to another are good ongoing measures of the rule of law. As long as rulers and politicians at various levels of authority in the state are voted in and out of office by preference of the citizens, the stability of the system of governance will not become an issue of concern to investors and citizens.

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

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

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

---

<sup>4</sup> Thomas Carothers: The Rule of Law Revival: Foreign Affairs, Vol. 77, March/April 1998.

### 3. Constraints in the current system: how the aid system currently undermines state effectiveness

Enhancement of sovereignty has never been the explicit goal of either the aid system or the international system more broadly. Faced with a world devastated by depression and war, the statesmen of post World War Two designed three streams of international aid to address the problem of security, first in Europe and then in the rest of the world. In contrast to the small-minded approach characterized in the Versailles Treaty in the wake of World War One that laid the foundations of the next war, these statesmen brought impressive imagination to the task at hand.

Despite the intention of the Western statesmen to bring the Soviet Union, their wartime ally, into the multi-lateral economic and political system, the world was soon polarized into the pro-Soviet and pro-Western camps. Soviet support for movements of decolonization became a critical instrument of projection of Soviet influence in developing countries, resulting not only in espousal of various forms of socialism but also adoption of a belief in the role of the state as the direct implanter of development. The success of the communist party in taking over China, North Vietnam and then Cuba had led to a theory of dominos, and as a result, aid quickly became an instrument for rewarding rulers on the basis of their foreign policies for being with or against one of the superpowers rather than their pursuit of a particular developmental agenda.

Confronted with a state increasingly failing to perform the functions outlined above, the aid system has attempted to address the symptoms rather than the causes of that failure. These good intentions undermine the creation of a sovereign state capable of performing the core state functions in several systemic ways. Four specific areas are discussed below: the creation of *parallel structures*; the *lack of harmonization*; the *non-state provision* of traditional state services and its impact on state legitimacy; and the *lack of predictability* in aid flows.

#### Parallel structures

The aid system has often underwritten the creation of a dual bureaucracy where nationals of a country work in an underpaid and under-resourced national system while a more privileged segment works for international organizations. In Afghanistan, for instance, approximately 280,000 civil servants work in the government bureaucracy receiving an average pay of \$50 per month while approximately 50,000 Afghan nationals work for NGOs, the UN and bilateral and multi-lateral agencies where support staff can earn up to \$1000 per month. Unsurprisingly, there has been a brain drain from the managerial tier of the government to menial positions in the aid system. The people might have judged it to be fair had the disparity in wages resulted from a competitive market, however, the problem is that both bureaucracies are funded from the resources of the aid system and the rules for remuneration are arrived at by bureaucratic fiat rather than by open processes of competition.

### **Lack of harmonization**

The rules of the aid system have evolved over time. With bilateral donors, rules have been changed to meet the demands of domestic industries and interests, while with multilateral institutions different coalitions of member states have pushed for different agendas. Over time, the uncoordinated accumulation of these changing rules and competing demands has led to a multiplicity of different reporting and procurement practices. Tanzania, for example, has typically had to prepare 1,200 reports a year for the aid system. While the case for harmonization of aid rules has been compelling, even becoming the subject of declarations by the Donor Assistance Committee (DAC) of the OECD in Rome and Paris, practice is sadly lagging behind. Debate over the merits of and mediation between conflicting rules and regulations currently absorb enormous energies and resources. If declarations were translated into actual practice, these energies and resources could be focused on the promotion of sovereignty as the overarching goal of the aid system.

### **Non state-provision of core state functions**

Direct substitution for the state in the delivery of services or the management of resources is a common response by the international community to the situation in failed and failing states. Poor countries are often the sites where international financial organizations and bilateral donors contract UN agencies and NGOs to perform functions that are normally performed by the state. The delivery of services by these groups leads to a higher cost structure and the creation of financially unsustainable and unaccountable practices. Arguably of even more concern is the negative impact of this non-state provision of core state functions on the legitimacy and sovereignty of the state.

### **Lack of predictability**

The most significant constraint, however, arises from the short term perspective and lack of predictability of the aid system. A significant number of countries have been receiving aid for between four and six decades, but the time horizon is still a yearly cycle of allocations and transfers. As the budget years of donor countries and organizations in recipient countries do not coincide, there are persistent problems of alignment of means and goals and fluctuations in the availability of resources.

While this discussion focuses on constraints presented by the aid system, there are challenges across the broader international system which undermine the creation of sovereignty. Historically the international community has operated in stovepipes, with the UN focusing on political issues, organisations like NATO responding to security issues, international financial institutions addressing financial issues, and development agencies concentrating on social and development issues. In addition to the stovepipe division of organizations, which already makes coordination a major challenge, each organization also has its own distinctive culture, incentives and rules of operation. This disunity has resulted in partial and conflicting strategies that have contributed more to the diminishment of sovereignty than to its enhancement.

For example, in Afghanistan, multiple strategies and plans were prepared. While some actors declined to prepare their own strategies and instead aligned their activities to the Government's vision and strategy as defined in the National Development Framework,

other actors prepared and attempted to implement their own distinct strategies and policies for the country's development, with parallel financing flows, management structures and timetables for decision-making. In Sudan, much has been learnt and many more donors have aligned themselves to collective planning, yet there still exist major challenges in aligning financing and other resources to ensure the implementation of the Comprehensive Peace Agreement and the creation of effective state institutions.

## 4. Reorienting the aid system through state-building strategies

An alternative approach to the current practices of the international system regarding the creation of functioning states would be to agree, in each context where a country performs poorly on one or several dimensions of sovereignty, on a long-term, state-building strategy designed to reach the goal of a fully sovereign state. These strategies could then form the basis for long term double compacts between the governments and citizens of these countries on the one hand, and between these governments and the governments of the developed countries and national and international aid organizations on the other. Such compacts could be structured around the performance of ten functions and commitment to a public process of evaluation and monitoring by specially created national and international bodies. Agreement on yearly targets of domestic revenue generation to demonstrate the possibility of exit from the aid system to the citizens and legislatures of developed countries could be an important component of such compacts.

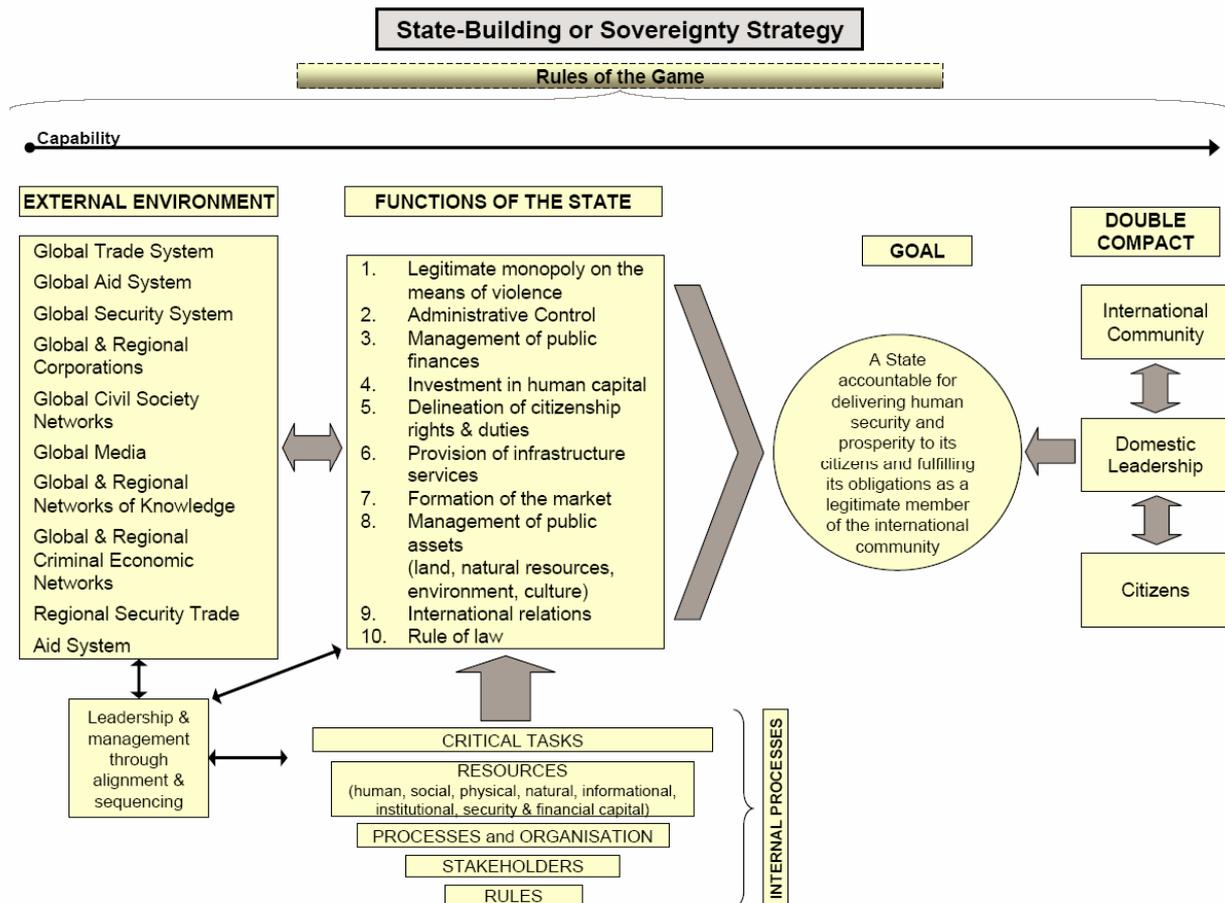
We define a sovereignty or state-building strategy as **(1) the alignment of the internal and external stakeholders (2) to the goal of a functioning sovereign state that creates internal and external legitimacy (3) through the formulation and calibration of rules of the game (4) mobilization of sufficient resources (5) establishment of processes and organizations (6) designation of critical tasks, by (7) credible leadership and management, (8) measured through iterative monitoring.** Figure 2 provides a diagrammatic representation of a state-building strategy<sup>5</sup>.

In order to design and implement state-building strategies, the operation of the current international system must be reoriented towards a model where partnership and co-production of sovereignty becomes the aim of both national leaders and international partners. Bringing about this fundamental change will require agreement on the common goal of creating and bolstering sovereignty, among both bilateral and multilateral organizations responsible for the political, economic, development and security domains. On entering into this agreement, they will need to subordinate their existing processes, mental models and bureaucratic interests to the common objective and to the creation of a culture of collaboration.

---

<sup>5</sup> The concept of a state-building strategy is further elaborated in another working paper, "Strategies for State-building" Ghani and Lockhart 2005.

**Figure 2. State-Building or Sovereignty Strategy**



© Ghani, Lockhart and Carnahan.

### Step one: create a sovereignty index to measure the sovereignty gap

The first step in designing state-building strategies is to agree on an approach to measure the size of the sovereignty gap in a country. The sovereignty gap, as defined by this paper, is the measure of how far short a state falls in performing its basic functions from the capacity presumed by the de jure sovereignty that it is accorded in international relations. By defining three or four measurable indicators for each of the functions outlined in the second section of this paper, a sovereignty index which assesses the size of the sovereignty gap can be created. Changes in the sovereignty index over time allow the progress or decline in a country's sovereignty to be evaluated on an ongoing basis. Moreover, the use of a single index allows the considerable interactions of causes and effects across different domains of state responsibility to be reflected and integrated into a single measure.

Over the last quarter century, there have been a series of endeavours to develop indicators for measuring some of the dimensions outlined above, such as Transparency International's corruption index and UNDP's Human Development Report<sup>6</sup>. While each

<sup>6</sup> See for example Transparency International's work on [www.transparency.org](http://www.transparency.org), Human Development Report 2005 <http://hdr.undp.org>, Millennium Challenge Account [www.mca.gov](http://www.mca.gov), World Bank governance indicators (Kaufman et al).

of these indicators is valuable in itself, they do not provide a holistic framework for judging trends in state effectiveness and the degree to which sovereignty deficits are being addressed. The sovereignty index would synthesise and build on these individual efforts and could provide the international community with an annual report card to be issued before the General Assembly of the United Nations and the meetings of the IMF, the World Bank and the G8. The preparation of this report card by an independent international body would enhance its credibility.

**Figure 3.**

**An index or report card for a particular country might appear as follows:**

Capability	Function
0                      5                      10	(Score)
●	Monopoly on violence
●	Administrative control
●	Mgt of public finances
●	Creation of human capital
●	Citizenship rights
●	Provision of infrastructure
●	Regulation of the market
●	Management of assets
●	International relations
●	Rule of law

### **Step two: agree on modalities for state-building strategies**

The second step necessary to re-orient the aid system towards building capable states is to define a broad set of principles that will govern any approach to agreeing on state-building strategies. In particular, the time horizon for realizing these strategies will need to be addressed, along with the nature of the financing arrangements, uses of funds, incentives in the system, and compacts which will be employed in state-building.

#### **Time horizon**

The time horizon appropriate to the realization of state-building strategies needs to be carefully delineated. The duration of external involvement in the building of a particular state will vary from state to state and will depend on the magnitude of the

task being undertaken. A realistic match between capabilities and resources will also need to be determined on a case-to-case basis. In general, however, it is clear that the time horizon of aid needs to be closer to a decade, rather than the current cycles of a year or less, in order to effectively boost the capacity of states. It is important to note, though, that while the sovereignty strategy envisages a considerably longer partnership than the currently prevailing time horizon, it does not align with the concept of indefinite ‘shared sovereignty,’ as has been proposed in some quarters. Instead, the key benchmark of a successful state-building strategy would be cumulative increases in the state’s sovereignty index – reflecting an ongoing closing of the sovereignty gap.

### **Financing arrangements & uses of funds**

To be effective partners in state-building, donor governments and development banks would need to make far greater use of pooled arrangements when allocating their resources in support of the implementation of the sovereignty strategy. Funds allocated directly to governments would also need to be spent in accordance with the strategy. The national budget would need to be the fundamental framework for decision-making on resource allocation. The use of off-budget resources by both domestic and international actors would need to be initially curtailed and then eliminated. Goods and services would be obtained on the basis of unified, simple and clear rules that enable the rapid implementation of decisions, thus maximizing the effectiveness of decision-making. Instead of requiring states to make voluminous reports to multiple donors, an agreement would be reached that would require unified reporting following the dimensions of the sovereignty index, to the citizens of the countries concerned and to the group designated by the international community to issue reports on the sovereignty index. Instead of myriad separate projects, a limited number of national policies would be implemented through nationally-managed programs. This unified approach would put into practice the consensus of the DAC on the need for harmonization of aid rules.

### **Incentives in the system**

A particular challenge to be addressed in the development of sovereignty strategies is the perverse incentives faced by many individuals and institutions in the international system. The performance of the staff in development banks is evaluated against the criteria of whether they have issued loans, not whether they have increased the capacity of the recipient economies to service those loans. Many development agencies and international NGOs are assessed on the basis of the volume of funds that are channelled through their organisations. Technical assistance providers make more money by providing ongoing in-line substitution of state functions than by making themselves redundant by engaging in skills transfer and capacity building.

These incentives and evaluation criteria need to be changed in order to shift the emphasis of the aid system to measuring the contributions that have been made by international actors to the creation of credible domestic institutions. During South Korea’s formative period of development, for example, international personnel were evaluated in terms of transfer of knowledge and management skills to their national counterparts. By following this model, lip service to capacity-building would be replaced by the creation of aid mechanisms that catalyze the growth of healthy states.

### **The nature of the compact**

The nature of the agreement between the developing country, its development partners, the broader international community and its regional neighbours would be critical to the sovereignty strategy. The leaders of the OECD and the leaders of developing countries would enter into a compact whereby the leaders of a developing country receiving aid would agree to meet a series of benchmarks with regard to taking actions to make progress along each function of the state; and would agree to strong sanctions in the event of corruption, failure to meet the benchmarks, or abuse of public trust and authority. Equally important would be a compact between donors and recipients of aid on annual, intermediate and long-term revenue collection targets. Revenue targets of this nature would not only support the domestic financing of expenditure; they would also provide a measure of the extent to which a government has created the enabling environment for the creation of wealth, investment and employment through effective stewardship of the state's latent and manifest assets. Finally, a compact is also needed with regional neighbours to ensure that regional economic integration and flows of trade and investment are effectively promoted.

The compacts could also delineate where the international system might in some cases serve as a substitute provider for certain state services and functions. However, the compact would demarcate the specific duration and scope of responsibilities for substitution, along with a clear exit plan whereby the state would progressively take over responsibility for the substituted function. For example, in states where domestic law and order institutions are in the process of being established, peacekeepers might be deployed until certain standards have been met within the state's own police and security forces. External financial management and procurement agents might be contracted to manage a country's finances in the short term, provided that the agents receive significant incentives to build domestic capacity and hand over functions to a state-operated Ministry of Finance. Education and health services might be organized through the non-governmental sector, UN agencies or private contracts, but those services should be governed by and performed within the framework of national health and education policy.

### **Step three: tailor state-building strategies to context**

International engagement or domestic consensus on addressing the problems of a fragile state or country in conflict creates an open moment where building trust and breaking from a vicious pattern becomes not just desirable but possible. Such open moments provide the ground where new paths to state-building and development can be laid. Insight into the historical patterns that have resulted in either conflict or fragility, as understood both by the people themselves and from an external perspective, is critical to grasping the root causes of state crisis. This understanding in turn permits the creation of credible scenarios to address any issues that may arise. Taking stock of human, institutional, physical and financial capitals is also necessary to ensure the realistic sequencing of policies, programs and projects that gives the overall strategy credibility among citizens and results in sustained institutional change. This measured approach would allow the creation of a decision-making matrix where decisions could be carefully sequenced, and critical actors aligned behind their implementation.

Trust is created through the discipline of implementation, not the rhetoric of strategy. The fairness of the process and the creation of predictable paths of opportunity, particularly for the young and formerly excluded groups, are the most important quick wins. A fair process can be guaranteed by public commitment to communication and

transparent monitoring, where the public gains access to credible information and assurance that their views matter and that the process is responsive to their input.

## 5. Conclusion: Grounds for hope

Recent history provides a series of examples from both the public and private sectors which make the realization of the approach outlined above not only desirable but also feasible and credible. Three sets of such examples are of particular relevance.

- As the original home of the nation-state, *Europe* endured long periods of conflict generated by the inability to solve the problems of political stability, democratic participation and economic interdependence. The contrast between the tactics employed following World War I and World War II is instructive. The Treaty of Versailles, as Keynes presciently pointed out<sup>7</sup>, provided the grounds for World War II. The winners of World War I approached the post-war situation from the perspective of country interest rather than pan-European cooperative interests, and produced a peace agreement whose system of heavy reparations destroyed the German economy and morale thus sowing the seeds of the next war. The statesmen directing affairs after World War II, meanwhile, created a system of economic security and political alliances which built sovereign states on the basis of mutual cooperation and advantages derived from cooperation. The resources committed to the new system through the Marshall Plan were truly impressive, but the long-term commitment to nurturing democratic institutions was even more important to its success.
- In the early 1950s, the consensus of the moment was that Burma and the Philippines would become the *economic stars of East Asia*, but that Malaysia, Taiwan, Singapore and South Korea had very little prospect of growth and stability. The strategies pursued by the transformers in East Asia to buck this consensus highlight the building of credible national institutions as the instrument by which to achieve the sustained growth and economic enfranchisement of their citizens. While the financial crisis of the late 1990s revealed the need for ongoing reforms, the ability of these countries to avoid crisis or bounce back quickly underscored their resilience.
- While sovereignty strategies pursued by East Asian developmental states were driven by the vision and determination of national leaders, the case of *accession countries in Europe* offers a strategic model where national consensus and European Union processes converge to produce incentives, resources and processes for transformation. These accession countries offer the closest model for the refashioning of the state which is the goal of sovereignty strategies, because EU accession can only proceed through the satisfaction of predetermined sets of detailed rules and regulations. Since the process is driven by the desire of the citizens of accession countries to be part of and benefit from pan-European relations, the elected leaders of those countries have both a mandate and a competitive field for the demonstration of their capability for transformation to their citizens and the Union.
- While lessons from these successful transformations are yet to be codified into a coherent body of tools and techniques, the practice of *transforming failed companies into profitable enterprises* has been subject to extensive codification and reflection. The failure of large-scale institutions in the private sector is a

---

<sup>7</sup> John Maynard Keynes, *The Economic Consequences of the Peace*, 1919.

persistent trend, marked by the fact that only a few of the companies marked as sector leaders in any of the last five decades are still in vanguard positions. In a significant number of cases, however, companies have been able to stage comebacks from the verge of destruction or bankruptcy. Critical factors in these comebacks include company leadership and strategies that boost the execution of company goals by aligning goals with capacity and resources both human and material. The adaptation of certain private sector techniques – including using the balanced scorecard, backward mapping from an objective to the situation in hand, finding catalytic mechanisms, and identifying critical tasks, among others could be instrumental in developing and implementing the strategies needed to close the sovereignty gap in developing countries.

A similar approach to state-building strategy was articulated in Afghanistan in the context of the government's National Development Framework, and then in the international meeting held in Berlin on the 31st of March and 1<sup>st</sup> of April 2004<sup>8</sup>. At that meeting, a plan for integrated state-building across the security, economic and political dimensions was presented and agreed upon. Military planners, development experts and political analysts from both the Afghan and international community had worked as a team to design an implementation strategy for the state-building plan. Pledges of \$8.2bn were made against this framework, with a compact reached between donors and the government setting a set of benchmarks towards the goal. The challenge in Afghanistan is now to find mechanisms for the implementation and monitoring of the NDF strategy and benchmarks.

The gap between de jure sovereignty and de facto sovereignty in failing and fragile states is a problem that, in the wake of 9/11, must be addressed by a global paradigm shift. The new paradigm outlined above would bring critical attention to bear on the issue of state sovereignty, and would integrate and unify existing international interventions in these states around the goal of closing the sovereignty gap.

This paper sets out some of the dimensions of the necessary paradigm shift: delineating the core functions of the state and key indicators of state capacity to perform those functions; aggregating these indicators to create a sovereignty index that measures the sovereignty gap; identifying strategies to build state capacity and close the sovereignty gap; and proposing a reorientation of the activities of a wide range of disparate international actors in the political, economic, development and security domains around coherent sovereignty strategies. Implementation would require the creation of a community of practice with the common vision and realistic understanding to recognize patterns, design strategies and tailor global understanding to specific contexts.

Further movement in this area could be either gradual or radical. The leaders of the international community in general, and those of the G8 in particular, must choose between the costs and benefits of gradual and radical change options. However they may decide to implement it, the immediate attention, rapid decision, and effective mobilization of the leadership and resources of the international community are clearly required to bring about this necessary change.

Contact information: [clockhart@odi.org.uk](mailto:clockhart@odi.org.uk) / +447966423188

---

<sup>8</sup> “Securing Afghanistan’s Future” and the “Berlin Workplan”, background documents for international meeting held on Afghanistan in Berlin 31 March and 1 April 2004.