Helpdesk Research Report: Economic Growth and Statebuilding
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Query: Please identify literature on the linkages between on the one hand economic growth and employment generation, and on the other hand peace and statebuilding in conflict-affected and fragile states.

Enquirer: Growth Team, DFID

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1. Overview

There is very limited literature that explicitly discusses linkages between (1.) economic growth and employment generation and (2.) state- and peace-building. As such, this helpdesk report relies on literature that makes implicit references to such connections. The following are a summary of key points that emerged from the review. The review did not uncover any information on the gendered nature of these linkages.

Growth, economic reform, state legitimacy and state-society relations

1. Neoliberal policies for promoting economic growth have relied on macroeconomic stabilisation, reliance on the market and private sector development. Such policies, however, have the potential to undermine state legitimacy.

2. The encouragement of states to adopt neoliberal policies through conditionalities or structural adjustment policies can be detrimental to state legitimacy by hindering policy choice: ‘Some of the most important decisions that govern any society are effectively withdrawn from the public sphere. This constraining of the effective policy space undermines the abilities of post-war societies to win the loyalties and confidence of citizens’ (Smith, p. 15). Deliberations over the government budget and decisions about the trade-offs between social and investment expenditure is an important political process. Aid actors must ensure that they do not undermine budgetary processes as this will weaken the social contract (Jones et al.).

3. Fragile states often require substantial material resources to forge new social contracts and to win the support of citizens through valued public goods and services, as well as employment opportunities. A key difficulty with the statebuilding process is limited state resources. The common failure of private sector investment and private-sector led growth to materialise has often left nascent states without resources to build their own legitimacy (Barbara).
4. The lack of attention to the direct promotion of employment in economic policies in fragile and conflict-affected societies has resulted in persistent high unemployment rates. High unemployment rates and limited prospects for employment coupled with loss of social protection, for example in the case of Bosnia and Herzegovina, have undermined social stability and contributed to the persistence of shadow economies, including ‘crime’ and informal employment (Pugh 2007). The inability of the state to address societal problems and to promote economic and employment opportunities has limited state legitimacy and contributed to social unrest (Krastev; Bliesemann de Guevara; and Pugh 2008).

5. In turn, distrust of and lack of confidence in the state and pessimism about the future can hinder economic growth. As a result, people do not have an incentive to forgo current consumption and to increase savings and investment, which limits long-term economic growth. It is thus not only incentives that are important in promoting growth, but also building public trust in institutions and positive perceptions of the country’s future.

6. Taxation is of particular importance in statebuilding. States that rely on taxation for revenue have a stake in its citizens’ prosperity, which creates incentives to promote economic development and improve public policies in ways that meet citizens’ expectations. Tax revenue, in turn, gives states the resources to provide citizens with services and to engage in material redistribution to correct for inequitable growth, which is especially important in divided societies (Jones et al.). Paying taxes also provides citizens with an incentive to engage with government and the political process (Everest-Phillips). International assistance in taxation must extend beyond enhancing the tax administration and establishing semi-autonomous revenue authorities to efforts aimed at supporting governments in fragile states to raise revenue by taxing a large number of citizens and enterprises more consensually. (Jones et al).

Patterns of growth, employment and impact on state- and peace-building

7. The vast majority of the literature critique the dominance of the neoliberal model for growth. This model has been critiqued not only for its potential to undermine state legitimacy, discussed above, but also for its failure to generate much needed employment and poverty-reduction in fragile and conflict-affected contexts. Alternate policies and models have been proposed that are believed to contribute more effectively to statebuilding and peacebuilding processes through greater attention to job creation, inequalities and social protection.

8. Neoliberal growth policies focus on services and trade sectors to the neglect of industry and agriculture. Private investment that materialises is often directed at services and export sectors. However, agriculture often forms the backbone of many fragile and conflict-affected countries. Both agricultural and industrial production have the potential to generate growth and substantial employment (USAID; and Pugh 2007). Industry and agriculture can be supported through investment, temporary protectionism, new infrastructure and import substitution, the establishment of state marketing agencies for protection, and tax relief for cooperatives, and agricultural equipment and materials (Pugh 2007).

9. The active involvement of the state in creating long-term employment strategies for massive job creation, as opposed to reliance solely on a favourable business environment, may be necessary in certain fragile and conflict-affected contexts to generate work opportunities. The benefits extend beyond job creation to the expansion of state capacity and greater ability to provide public services and infrastructure due to a larger employment tax base and higher revenues. This in turn could boost public support for the state (Bliesemann de Guevara; and Zaum).

10. State-owned enterprises are often rapidly privatised in contexts of transition. However, these processes can be damaging from a statebuilding perspective as they can be exclusionary
with few insiders benefiting and in some case, corrupt. They can also be damaging from an economic perspective if promising economic actors, such as young entrepreneurs, are excluded from the process (Krastev; and Pugh 2007). In addition, rapid privatisation can result in the degradation of state-owned enterprise assets. An alternative to rapid privatisation would be to revitalise such enterprises under state control as a basis for the development of national industrial hubs, including an export and import-substitution focus (Barbara).

11. Privatisation of communal land ownership also needs to be carefully considered. Communal land is often seen as an obstacle to economic development. However, the commodification of land can undermine peacebuilding by creating generations of disaffected landless populations and interfering with cultural beliefs involving a relationship with land (Brown).

12. Focus on and investment in the natural resource sector as an engine of growth can undermine state- and peace-building efforts if reliance on these sectors is environmentally unsustainable and if there is a history of conflict over resources. Efforts should be made to promote economic diversification in such cases in order to move away from sole reliance on resources (Hameiri).

13. Attention to spatial and regional inequalities is also important in growth strategies and in peacebuilding. Areas with specific industrial and agricultural productive capacities may suffer from policy neglect (Pugh 2007). In addition, private-sector investment has varied geographically, creating regional variation in the degree of private-sector jobs available (Amarasuriya; and Gündüz). Linking deprived areas to growth areas through cooperatives, the provision and maintenance of infrastructure services, and redistributive policies can help to address regional disparities (Jones et al.; Pugh 2007; and Barbara).

2. General


This study examines the challenge of risk-reduction in post-conflict environments. It finds that attempts to promote inclusive political arrangements (i.e. democracy and elections) in post-conflict situations are not peace-enhancing and rather can increase the risk of further conflict. Instead, the keys to risk reduction and the consolidation of peace are an external military presence that can sustain a gradual economic recovery. The paper also stresses that there is a link between the severity of post-conflict risks and the level of income at the end of the conflict. It provides the following resource allocation principle: ‘Resources per capita should be approximately inversely proportional to the level of income in the post-conflict country. To date, allocations have been massively deviant from this simple principle’ (p. 474).


This paper argues that neo-liberal statebuilding has been unable to foster economic development in post-conflict states, thus undermining prospects for state consolidation. Reliance on the market and the common failure of private sector investment and private-sector led growth to materialise has often left nascent states without resources to build their own legitimacy. Fragile rebuilt states in particular require substantial material resources in order to make ‘side payments’ – in the form of public employment and valued public goods and services – to key social groups and forge new social contracts that are encompassing and respond to national political priorities’ (p. 310). The lack of resources has also constrained states in their ability to engage in redistributive policies to
address horizontal inequalities and regional disparities. The paper highlights the example of East Timor, where GDP growth in the first five years following the arrival of the United Nations Transitional Administration in 2000 averaged -3.3 per cent. This has provided a poor basis for the consolidation of the East Timorese state. In addition, poverty, high urban unemployment and the absence of any prospect of meaningful involvement and employment opportunities in the near future have contributed to crisis in the country.

Drawing on the East Asian experience, the paper recommends that a developmental state model is more appropriate in such contexts. Under such a model, the international community would seek to build state institutions capable of intervening in the market in support of national development objectives and capable of supporting the creation of a strong private sector. For example, a developmental approach in East Timor would have required ‘more rigorous direction of state oil revenues towards strategic infrastructural investments and local private-sector development (for instance through the provision of subsidised loans to firms, linked to industrial performance)’ (p. 314). In addition, as an alternate to rapid privatisation, which has often resulted in the degradation of state-owned enterprise assets, such enterprises could be revitalised under state control as a basis for the development of national industrial hubs, including an export and import-substitution focus. Efforts to promote agricultural development could also benefit many recently rebuilt states, such as East Timor, where agricultural production forms the backbone of the economy. The paper also emphasises that the adoption of a development state model could contribute to the strengthening of state institutional capacity, providing a more sustainable economic foundation for long-term state consolidation.


This paper argues for a decoupling of the peacebuilding agenda from the neoliberal agenda which emphasises economic growth and the globalisation of markets. It states that while economic growth can expand resources available for peacebuilding, it is more important in post-conflict contexts for policymakers to work to reduce inequality through redistributive policies. In addition, the encouragement of states to adopt neoliberal policies through conditionalities or structural adjustment policies can be detrimental to statebuilding by hindering policy choice: ‘Some of the most important decisions that govern any society are effectively withdrawn from the public sphere. This constraining of the effective policy space undermines the abilities of post-war societies to win the loyalties and confidence of citizens’ (p. 15). The paper highlights the studies of Collier and Paris, which demonstrate that efforts to end civil war require strong domestic institutions capable of pursuing multifaceted policy programmes that are able to win the loyalties of diverse and often conflicting social groups.

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This paper examines why processes by which governments become accountable to citizens has not materialised in some failing states. It identifies situations in which international interventions are likely to face particular challenges in efforts to promote such statebuilding. These include countries with small economic size and countries that are resource-rich.

Countries with small economic size are less able to benefit from scale economies in the provision of public goods in general and security in particular. The absence of scale economies also results in lower income, which in turn increases the risk of rebellion and reduces the value of investing in state capacity. The clearest solution to this structural problem is federation and the
pooling of sovereignty. The paper points to efforts in Africa to engage in greater regional integration. It notes that there benefits have been constrained to date, however, due to the vast number of uncoordinated regional arrangements. It recommends that in order to be successful, regional integration should combine political and economic integration; grow from a small core of states without a dominant member; and should extend beyond trade policy to cover a wide range of economic policies.

Countries that are resource-rich often experience a rise in growth in the short term due to an increase in export prices of commodities. However, long term growth is usually substantially reduced due to low levels of governance. The government in resource-rich countries is responsible for a larger share of GDP than non-resource-rich countries; however, they often operate without checks and balances. Donors also have limited clout over governments as they receive more revenues from resources than from aid. The paper recommends that the international community seek to promote voluntary standards, for example through a Resource charter.

### 3. Employment


This book chapter discusses the importance of employment and labour rights in conflict-affected societies. Neoliberal political economy peacebuilding interventions have focused on ‘macroeconomic stability, economic liberalisation, controlling the resource dimensions of conflict, curbing corruption and informal economic activity, establishing rule of law for predictable commercial relations, and relying heavily on small business energy and microcredit as growth generators’ (p. 139). Alternate political economies such as protectionism, universal public goods and industrial and agricultural employment strategies are usually neglected. Specific attention to employment generation and formal rights in work are treated as secondary and at times as a hindrance to modernisation by capital. Livelihood and employment generation are considered to be sufficiently addressed through structural adjustment policies and private sector development. To the extent that public works are relied upon to provide wages, this is seen as primarily an immediate safety net measure in the aftermath of conflict. However, public works projects can also be beneficial in terms of infrastructure development, the development of labour skills and social cohesion through the provision of common public goods and services.

Looking at the case of Bosnia and Herzegovina, the author states that despite the persistence of a high unemployment rate, the international employment strategy has relied on indirect effects of market forces instead of direct employment policy. Unemployment however has been a big political issue for voters and has sparked a countrywide social movement. Exacerbating this tension is the weakening of employment protection in order to promote labour flexibility. The chapter stresses that this shrinkage in labour rights, dilution of pensions for the employed and reduction in long-term consumption horizons is likely to damage state-society relations: ‘[S]elf-reliance pushes people into anti-state, often clientilistic, alternatives. […] Thus rights struggles in unprotected economies are marked by resistance through desertion of the state’ (p. 151).


This study examines some of the conceptual links made between youth, unemployment and conflict; and identifies gaps in practice – focusing on the case of Sri Lanka. In Sri Lanka, local
and international development actors have focused their strategies over the next few years to promoting rural growth and improving the business investment climate in order to create jobs. Approaches to the role of youth in the country have focused primarily on employment. Youth unemployment has been identified in Sri Lanka as the key cause of youth unrest, increasing youth involvement in criminal activities, ‘anti-social’ behaviour and militarisation of youth.

The study finds that despite attempts to build up the private sector and to increase the employability of youth through skills and attitude training, many youth are disinterested in private-sector jobs: ‘a sense of humiliation regarding “not having the right profile” and alienation prevails among young people, reinforced by programmes that seek to change their attitudes so that they “fit the bill”’ (p. 27). In addition, private-sector investment has varied geographically, creating regional variation in the degree of private-sector jobs available. Thus, despite the push to enable private-sector employment, many youth continue to prefer public sector jobs instead. Given these findings, the study stresses the importance of reviewing public-sector recruitment policies and seeking to address political control, manipulation and discrimination in hiring practices.

The study also finds that youth programming was primarily focused on male youth and young women were rarely included in employment strategies. Participation rates among women in programmes were lower. In addition, young women were constrained in their ability to apply for jobs due to societal expectations of ‘traditional occupations’ and concerns over safety.

4. Taxation


This report seeks to clarify the policy discussion on fragile states and advocates for greater attention to the process of state formation, to state-society relations and to the substance and process of social contract negotiations. It also briefly sets out the implications of a statebuilding lens for various aid practices, including the promotion of economic growth and taxation.

The report notes that there is consensus that the state is an essential facilitator of growth:

- At a minimum, the state must play a regulatory and oversight role in the creation of an effective market.
- The state must also manage state assets through regulation and licensing, in particular in the natural resources sector.
- Public finance is also of key importance and the authors support the view that deliberations over the government budget are ‘political process where priorities are identified and difficult decisions about the trade-offs between social and investment expenditure are made’ (p. 34) Thus, aid actors must ensure that they do not undermine budgetary processes as this will undermine the social contract.
- It is also important for aid actors to recognise that taxation and public expenditure have redistributive functions that allow for the state to correct inequitable growth over time, and which are especially important in divided societies.
- The provision and maintenance of infrastructural services necessary for economic growth can also be a tool to overcome geographic inequalities, in particular between urban and rural areas.

Taxation is of particular importance in statebuilding: ‘A state dependent on taxation for revenue has a stake in its citizens’ prosperity, which creates incentives to promote economic development and improve public policies in ways that meet citizens’ expectations. A citizenry that interacts with the state through taxation, and observes a relationship between tax and services, has a stake in the performance and accountability of state institutions, and is willing to cede legitimacy to the
government. Where taxation is coerced and the state is not service-oriented, perceptions of the state as distant and predatory are reinforced. [...] A critical dilemma for international actors is that persistent aid dependence creates disincentives to tax, severing the accountability relationship’ (p. 35). The paper stresses that international assistance in taxation must extend beyond enhancing the tax administration and establishing semi-autonomous revenue authorities to efforts aimed at supporting governments in fragile states to raise revenue by taxing a large number of citizens and enterprises more consensually.


This paper explores the statebuilding approach to taxation. It argues that an effective tax system can produce a ‘virtuous circle of statebuilding’ whereby: ‘Political governance, economic growth, and taxation create mutually reinforcing processes of statebuilding— institutional and political factors shape tax systems, while how taxes are raised influences the effectiveness of state institutions as well as the dynamics of the investment climate and economic growth. Economic growth and the resulting higher tax revenues in turn pay for more capable public administration and better public goods’ (p. 125). The private sector (in particular small and medium enterprises), which pays the most tax in developing countries, should be at the core of a statebuilding tax system. In particular, the informal private sector should be targeted and brought into the tax base. Inclusive economic growth is the strongest political incentive for the private sector to willingly pay taxes. If businesses perceive a benefit such as more commercial opportunities or more reliable finance, they will be more likely to move into the formal sector.

The paper identifies the following five characteristics as key to a sound taxation system (with high levels of compliance and willingness to pay), based on strengthening state legitimacy and the ‘fiscal social contract’:

- Political inclusion: Paying taxes provides citizens with an incentive to engage with government and the political process.
- Accountability and transparency: Justifying the usage of tax revenues to taxpayers increases willingness to pay.
- Perceived fairness: Perceptions of fair and just treatment increases willingness to pay.
- Effectiveness: This requires administrative capability that can translate increased public revenues into better public goods, more capable government and increased political stability.
- Political commitment to shared prosperity: Successful statebuilding requires a vision of tax as delivering a ‘national purpose’, including a link to a national strategy of economic growth promotion.

5. Agriculture


This guide brings together lessons learned from past and current efforts to promote economic growth in post-conflict countries. It looks at macroeconomic policies, employment generation, infrastructure, private-sector development, agriculture, banking and finance, and international trade and border management. The section on agriculture emphasises that restoring agriculture can have a broad impact on growth. Agriculture is also often the most promising immediate source of livelihood for much of the population in post-conflict countries. The section provides the following guidance for agricultural interventions (see p. 65):
- A key short-term objective is to reduce dependence on donated food and other relief services and avoid undermining long-term agricultural capacity.
- Tailor supply of inputs to local requirements.
- Markets should drive the transition from short-term relief to longer-term agricultural development.
- Restore physical infrastructure, especially roads and damaged irrigation structures, needed for agriculture.
- Begin work on the agribusiness enabling environment early on.


This paper explores how to boost rural growth and break the cycle of poverty and conflict in Burundi. Agriculture accounts for 94 percent of employment, 80 percent of export revenues and 40 percent of the aggregate GDP. Yet, 63 percent of the population suffers from food insecurity. The paper outlines policy reforms and investments to increase the productivity, profitability and competitiveness of the food crop sector. Increasing food supply and strengthening export crop competitiveness would contribute to increasing rural growth. The recommended interventions are:

- Strengthening input distribution systems
- Improving soil and water conservation and management
- Reinforcing technology development and transfer
- Investing in human capital at the farm level and beyond
- Building local capacity for policy analysis
- Improving infrastructure services, access to finance, and the business climate

The paper also advocates for the diversification of agricultural exports. The coffee and tea subsectors have been the key export – and mediocre performance of the coffee subsector, despite much public investment, has been responsible for the weak and volatile growth of the Burundian economy.

6. Sequencing


The guide, cited above, adopts the view of Paul Collier that interventions designed to facilitate economic growth must begin early in the rebuilding process. It provides some general guidelines for sequencing of economic policy in post-conflict environments:

- Early emphasis should be placed on providing humanitarian assistance and promoting physical security – which contributes to the likelihood of economic growth.
- Other immediate areas of attention are key public services and infrastructure to stimulate economic activity and generate quick employment, macroeconomic stabilisation and regulatory and legal reform.
- As job opportunities begin to increase with more employers able to offer sustainable productive jobs, donors should phase down their programmes for creating economic demand and jobs and focus instead on promoting private sector-led growth.

Chapter IV provides a detailed list of typical requirement in the immediate post-conflict period. The guide stresses though that deciding what to do when cannot be uniform and must be tailored to each specific post-conflict situation.
7. Case studies


This paper profiles patterns of promoting economic growth in Southeast Europe and societal outcomes, focusing on reforms in Bosnia and Herzegovina. In BiH as in the rest of the region, economic growth has been primarily dependent on dismantling the state-led economic systems, countering shadow economies, and creating an environment conducive to business and foreign direct investment (FDI). International financial institutions and international agencies have advocated for macroeconomic austerity - though policies to support low inflation, budget balancing, a stable currency and enhanced tax revenue, and rule of law reforms. Such reforms, combined with construction booms and the provision of aid, have contributed to a recovery in growth rates. This, however, has not resulted in improved citizen perceptions of the state or of the economic future of the country. There are still high levels of distrust in government. The economy still suffers from a host of problems: growth in production is weak, foreign domestic investment is slow, foreign trade imbalance is high, and the unemployment rate is high. High unemployment rates and limited prospects for employment coupled with loss of social protection have undermined social stability and contributed to the persistence of shadow economies, including ‘crime’ and informal employment. The paper makes the following observations and recommendations:

- Borderlands and spatial divergences: Areas dependent on specific productive capacities have declined tremendously as a result of failure to generate industrial production. Areas dependent on agriculture have also suffered from policy neglect. Poor areas should be linked to wealthier areas through economic enterprises. For example, in BiH, the creation of farm co-operatives that feed processing industries, in milk products and fruit, have been successful in linking deprived areas to growth centres.

- Macroeconomic stability: Macroeconomic policies should allow for some flexibility in the approach to production and equitable growth: for example, ‘as a quid pro quo for engaging foreign investors, states should be allowed credit or a system of concessionary bond issues. In this way the Bechtel organisation got the Croatian government to deficit finance the building of a highway’ (p. 16).

- Production: The lack of institutional support for industry and agriculture has been extremely detrimental in BiH in terms of food security and employment generation. It has also been problematic in terms of corruption as emphasis on service and trading economy has provided more space for organised crime and corruption. Industrial production should receive much greater attention as it is less vulnerable to corruption and has employment potential. Industry and agriculture can be supported through investment, temporary protection, new infrastructure and import substitution. Other examples of ways to improve on agricultural production include: ‘establishing [as in Macedonia] a state marketing agency for production and processing and introducing a lower VAT rate of 5% on agricultural equipment and materials. Co-operatives in BiH should be registered in order to provide support and tax relief on implements and materials – as well as to improve GDP measurement’ (p. 16).

- Employment and social protection: External actors need to focus more on job creation and support for the self-employed. Employment can be generated through attention to industrial and agricultural production, as noted above, and through labour-intensive, public works for reconstruction. In addition, institutions and local authorities need to be set up and strengthened to provide employment services and to manage social protection.

- Revenue generation: Special attention needs to be paid to revenue generation due to its important role in statebuilding and economic reforms: ‘The creation of a revenue enhancing National Border Service was a significant step in BiH that has cut smuggling
and duty evasion. But high employment taxes have had a depressing impact on growth and should be pitched lower. A single rate of VAT has been problematic for the vulnerable because social programs meant to compensate for hardship have not been implemented as a consequence of low institutional capacity’ (p.16).

- Privatisation and investment: Privatisation and foreign direct investment can not be seen as panaceas for growth and development. Privatisation processes in BiH and Kosovo have been corrupt and appear to have benefited nationalist war entrepreneurs who were best placed to capture state assets. FDI has been volatile and should be accompanied by social investment. In addition, diaspora remittances have been a key source of finance in BiH but have been directed primarily at short-term private consumption rather than long-term investment. Policy makers should seek to make remitting easier and more affordable – and should encourage through incentives and concessions investment in productive capacity.


This case study looks at the evolution of international interventions in Bosnia and Herzegovina. In the first period, 1995-1999, political and economic liberalisation policies were pursued. However, the strategy shifted toward institutionalisation after attempts to establish democracy and a market economy before strengthening the state led to negative outcomes. Instead, economic intervention under the institutionalisation strategy has centred on creating a resilient business and investment environment and promoting macroeconomic stability as a basis for economic growth. This has included strict budgetary discipline, effective taxation and structural adjustment. While, these policies have contributed to reducing opportunities for patronage and corruption, the study stresses that they have failed to increase levels of employment and to reduce poverty.

A key difficulty with the statebuilding process in BiH is limited state resources and the inability to define policies. Tax interventions in BiH have resulted in the establishment of central-state tax agencies; however, the state has not been sufficiently strengthened in its extraction and distribution capacity. This has also contributed to limited state resources and its inability to adopt programmes. Furthermore, declining development assistance, strict budget constraints and other financial, economic and fiscal policies mandated by international financial institutions (IFIs) have left the central state with minimal financial flexibility and state capacity to initiate its own programmes. "Local policy initiatives, such as (limited) protectionism or state employment in the industrial and agricultural sector, have been systematically blocked. For example, an attempt by Bosnian actors to include an interim tariff protection for agricultural goods in the Poverty Reduction Strategy Paper, in order to strengthen the precarious agricultural sector which is an important part of the Bosnian labour market, was blocked by the IFIs. Likewise, Bosnian parliamentarians’ concerns that the introduction of a single-rate value-added tax would adversely affect the poor were dismissed by the international actors. This deep internationalisation of the economic sphere has strongly limited the Bosnian state’s room for manoeuvre” (p20). This inability of the state to address societal problems and demands, to create economic opportunities and to engage in material redistribution has limited the Bosnian state’s legitimacy.

The study advocates for a shift from ‘liberal statebuilding’ to ‘welfare statebuilding’: “One of the keys to break the vicious economic circle in Bosnia described above could be massive job creation through long-term employment strategies by an active state. Through an expansion of the formal labour market, unemployment and informal sector activities could be reduced, the taxpayer basis enhanced, and consumption and thereby indirect tax levels lifted. That would result in an expansion of state capacity, and the output efficiency would produce diffuse support of the political system on the side of the population in the long run. The international agencies in Bosnia, by contrast, have merely focused on the
creation of a favourable private business environment. Yet it is the country’s oligarchy that would have the means to invest, and they have become uninterested in the production and infrastructure sectors. In such a situation, more active state involvement seems necessary to spur economic development and create working opportunities. International peace-building strategies should consider non-neoliberal measures – such as interim forms of protectionism or the fostering of state enterprises and community property – as possible alternatives to the neoliberal approach” (p. 24).


This case study profiles the focus and outcomes of international statebuilding efforts in Kosovo. It stresses that the focus of statebuilding has thus far been on political, security and rule of law issues. It stresses however that ‘one of the major long-term challenges to social stability and a sustainable peace in Kosovo is the dire state of its economy’ (p. 10). While rule of law has been promoted as a condition for foreign direct investment and economic growth, this has not been sufficient for economic development. Despite the importance of agriculture to the economy in Kosovo (70 percent of the population live in rural areas, and the vast majority maintain livelihoods through agriculture), the Kosovo government and donors have neglected to address this sector: ‘Between 1999 and 2007, only 4 per cent of donor aid was allocated to agriculture’ (p. 10).

The study also emphasises that formal, taxed employment is very low in Kosovo. This has direct implications for the state as the weak tax base limits the ability of the state to sustain institutions to provide basic public services and to invest in infrastructure. As such, the country is highly dependent on outside transfers, either through donor funding or remittances.

The international emphasis on stability and strengthening security institutions in Kosovo has according to this study also resulted in the emergence of an unbalanced state dominated by a powerful and largely unaccountable executive, with minimal checks and balances. This has allowed for opportunities for rent seeking and patronage which, in turn, have hindered economic development, and exacerbated inequality and political violence.


This paper explores why the presence of economic growth in the Balkans is not generating public support for market capitalism and why state weakness and social instability persists. The paper finds that this lack of public support is associated with distrust of the state, pessimism about the future and low levels of confidence among key social actors that their respective country is headed in the right direction. As a result, people do not have an incentive to forgo current consumption and to increase savings and investment in the future, for example through increasing the stock of productive physical capital or human capital through new skills training or investing in their children’s knowledge and skills. This in turn hinders long-term economic growth. The paper stresses that it is thus not only incentives that are important in promoting growth, but public trust in institutions and perceptions of the country’s future.

The paper attributes public distrust in state institutions in the Balkans to two key factors: the failure of states to prevent the looting of the public domain during the early stages of post-communist restructuring; and the failure to actively create, nurture and support social groups that form the core of rule of law and market-based economic activities – entrepreneurs, young managers and professionals. Privatisation processes were very damaging from a statebuilding and economic perspective as the process was extremely exclusionary with few insiders benefiting and none of the productive social constituencies included. Given the absence of natural
resources in the Balkan countries, there are no concerns over ongoing looting. As such, attention to state capacity needs to be focused on building trust and engaging productive groups. Without such efforts, people will not be inclined to save and invest in the country and young people will likely leave, hindering economic growth. In order to improve perceptions, the paper recommends greater policy dialogue in order to increase ownership of reform processes; to better sensitise parties to policy impacts; and to limit the propensity for policy makers to change policies for the sake of change, thereby promoting stability on the rules of the game.

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This paper highlights difficulties with the Australian-led Regional Assistance Mission to Solomon Islands (RAMSI). It stresses that statebuilding cannot be reduced to a view of the state as an amalgam of service-providing institutions. Rather, statebuilding should be understood as the production and reproduction of political power relationships and the transformation of state-society relations.

Conflicts over natural resources have been prevalent in the history of the Solomon Islands. However, trade in natural resources is also seen as the only viable option for engaging with global markets. The state has responded to reliance on these sectors and continued tensions over resources in a coercive manner, suppressing social and political conflict. High levels of economic growth in the country have allowed for political stability and a temporary accommodation to emerge between technocrats, politicians and the business interests associated with the resource-extraction industries. The paper argues, however, that this growth and stability is not based on sustainable development or successful statebuilding. Rather, growth has been based on unsustainable logging and fishing and a services and housing bubble created by the large number of expatriate personnel in Honiara. In addition, the development of a strong bureaucracy has not resolved poor public perceptions of governance systems. Although, RAMSI has clamped down corruption, most Solomon Islanders still expect centre-periphery relations to be based on patronage. Money politics remains prevalent and while transfers from state coffers have been blocked, funding is now coming from the private sector. This has promoted greater allegiances between elected politicians and business interests, undermining further links between the centre and periphery.

Despite the problems with focusing on the natural resource sector as the engine of growth, investments pledges continue to be directed to building up these sectors. RAMSI officials have noted that economic diversification is not part of the mission’s mandate. Relying on natural resources is not sustainable, however, and the decline of these sectors will likely undermine political stability. The paper concludes that RAMSI’s intervention in the Solomon Islands, while adopting the language of statebuilding, has resembled more attempts at crisis management.


This paper examines the impact of increased aid flow to Burundi on the country’s macroeconomic variables and the government policy response. It seeks to understand why the surge in aid has not translated yet into higher growth levels. Burundi’s growth rate averaged 2.8 percent in the post-conflict years, in comparison with Rwanda and Sierra Leone, which have registered growth rates above 10 percent on average. The paper attributes these differences to:

- Leadership and governance: The Rwandan government, under President Kagame, has worked to strengthen democratic governance and decentralised institutions. It has also increased economic activities and service delivery with the support of donors.
Levels of investment and consumption: Government consumption as a percentage of GDP is comparatively higher in Burundi, whereas foreign direct investment has been particularly low in Burundi. Private funds from abroad have been higher in Sierra Leone and the Rwandan government has engaged in strong efforts to make the country more attractive to foreign investment.

Type of aid: Burundi has received more emergency and humanitarian aid as the situation in the country remains fragile. In contrast, the situation in Rwanda and Sierra Leone has been more stable and more aid has been directed to growth enhancing sectors.


This paper examines two types of state fragility - resource-poor and resource-rich, focusing on Somalia and Iraq. Somalia, similar to Sudan and Yemen, falls under the traditional concept of poor fragile states, exacerbated by ethnic and tribal conflict. Iraq, on the other hand, is an example of state fragility related to the establishment of a conflictive form of government in a resource-rich economy. In the case of Somalia, where resources are scarce, there is minimal material incentive to create a central government. The failure to establish a stable political and governance structure in turn limits economic growth. In Iraq, the formation of a federal consociational democracy representing all ethnic groups has also impeded growth. ‘Conflict’ over resources is compounded by geography - and the form of government has resulted in political rent-seeking behaviour. The paper recommends the formulation of a national economic development plan designed and implemented by a secular central government in order to transcend divisions.

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This paper examines the challenges of statebuilding in Somalia. It stresses that the weak economy of the country is a key obstacle to statebuilding. There is a very small revenue base that a government can secure through taxes, and external funding has been unpredictable and unsustainable. The absence of a central state has resulted in the “privatisation of everything” – heavy reliance on remittances and the private sector to provide services and collective goods. Privatisation has resulted though in a largely unregulated economy with abundant criminal economic activity.

Statebuilding also faces the challenges of spoilers. Groups that have benefited from the absence of a central government and who view a functional, central state as a threat to their economic and political interests are likely to reject any statebuilding attempts. Such spoilers include business people who have benefited from state collapse; regions or militias who seek to retain control over income-generating seaports and the revenues they generate; and clans and other social groups who fear that the state will come under the control of a narrow coalition of clans.
8. Additional information

Author
This query response was prepared by Huma Haider huma@gsdrc.org

Contributors
Louise Anten (Clingendael)
Ivan Briscoe (Clingendael)
Anne Brown (University of Queensland)
Rahul Chandran (Centre on International Cooperation, NYU)
Berit Bliesemann de Guevara (Universitaet der Bundeswehr Hamburg)
John Gorlorwulu (George Fox University)
Pierre Guislan (World Bank)
Canan Gündüz (International Alert)
Shahar Hameiri (Murdoch University)
Dorsati H. Madani (World Bank)
Rolf Maier (Clingendael)
Michael Pugh (University of Bradford)
Astri Suhrke (Chr. Michelsen Institute)

Websites visited
Centre on International Cooperation (NYU), Chr. Michelsen Institute, Clingendael, FRIDE, GSDRC, GTZ, Google, IDRC, IFC, International Alert, ODI, OECD, Oxford University, Political Economy Research Institute, Reliefweb, SEEP Network, World Bank, University of Bradford, UNU, UN, USAID, USIP

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