Reconstructing Weak and Failed States: Foreign Intervention and the Nirvana Fallacy

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Attempts to reconstruct weak and failed countries suffer from a nirvana fallacy. Where central governments are absent or dysfunctional, it is assumed that reconstruction efforts by foreign governments generate a preferable outcome. This assumption overlooks (1) the possibility that foreign government interventions can fail, (2) the possibility that reconstruction efforts can do more harm than good, and (3) the possibility that indigenous governance mechanisms may evolve that are more effective than those imposed by military occupiers. It is argued that reconstruction efforts focus on resolving the meta-level game of creating self-sustaining liberal democratic institutions while neglecting the nested games embedded within the general meta-game. An analysis of Somalia, a prototypical failed state, is provided to illuminate these claims. While Somalia lacks a central government, the private sector has developed coping mechanisms to fill the void. These mechanisms have proven to be more effective in generating widespread order than attempts by foreign occupiers to impose a self-sustaining liberal state.

The problems generated by weak and failed states are among the most relevant issues in the world today.[1] The potential chaos that these states can produce poses a threat to global political and economic security and stability. Understanding what can be done for weak or failed states, where the basic institutions necessary for liberal democratic political, economic, and social orders are either absent or dysfunctional, is the central policy issue facing the international community.

As illustrated by the cases of Afghanistan, Bosnia, Cambodia, Haiti, Kosovo, and Somalia, policy makers have often sought to address this issue by engaging in reconstruction efforts. Reconstruction entails occupation with the aim of creating or restoring physical infrastructure, facilities, and minimal social services, as well as spearheading fundamental social change through reform in the political, economic, social, and security sectors. The ultimate goal is the achievement of a self-sustaining liberal democratic, economic, and social order that does not rely on external monetary or military support.[2]

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[1] Eizenstat, Porter, and Weinstein (2005:136) discuss the characteristics of weak and failed states. The weakness of states can be measured along three margins performed by the governments of strong states: security, the provision of basic services, and the protection of essential civil freedoms. Failed states do not provide any of these functions while weak states are deficient along one or two of these margins.

Much of the recent literature on reconstruction analyzes past efforts in order to establish general "lessons learned" that can serve as a generic template assisting foreign governments in current and future efforts (see Dobbins et al. 2003; Pei 2003; Orr 2004; Diamond 2005; Dobbins, Crane, and Jones 2005). These studies start with the assumption that foreign occupiers *can* achieve the desired ends of establishing sustaining liberal orders and focus on finding the best means of doing so. Rarely, if ever, considered is that it is unclear that occupiers can effectively generate peace and self-sustaining cooperation around liberal democratic ends.

As the historical record indicates, foreign governments cannot consistently impose effective liberal democratic institutions in weak and failed states. For instance, Minxin Pei (2003:52) calculates a 26% success rate for U.S.-led reconstruction efforts since the late nineteenth century.[3] Considering the broad overall performance of reconstruction efforts is important in understanding the general pattern of outcomes. However, such analysis does not offer insight into understanding *why* these outcomes came about. The goal of this article is to contribute to this understanding.

The core thesis is that reconstruction efforts suffer from a nirvana fallacy.[4] In its simplest form, the nirvana fallacy assumes that the grass is always greener on the other side. In terms of weak or failed central governments, it is assumed that foreign governments can generate, via occupation and reconstruction, an outcome preferable to that which would occur absent these interventions. This assumption overlooks (1) the possibility that foreign government interventions can fail, (2) the possibility that government efforts can do more harm than good, and (3) the possibility of the evolution of endogenous governance mechanisms that are more effective than attempts to impose government by military occupiers.

In game theoretic terms, it is argued that reconstruction efforts focus on resolving the meta-level game of creating self-sustaining liberal institutions while neglecting the nested games embedded within the general meta-game. The nested game framework is best developed by Tsebelis (1990) and the logic behind this approach is straightforward. While an actor's decision may appear suboptimal to outside observers, it is often the case that the observer has an incomplete perspective. While the observer focuses on one specific game, the actor is involved in a network of embedded or nested games. Numerous games are played simultaneously and the resulting meta-game may be too complex for a general characterization. In short, the nested game framework provides a means of understanding why an actor, faced with a series of choices, does not select the option that appears to be superior to the outside observer.

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[2] This end goal of establishing a self-sustaining democratic order is taken as given. It should be noted that there is debate in the economics literature regarding the correlation between democracy and economic growth (see Knack and Keefer 1995; De Haan 1996; Hall and Jones 1999; Tavares and Wacziarg 2001). This article does not seek to contribute to this debate but instead focuses on understanding the ability of external governments to establish democracy in countries characterized by weak and failed states.

[3] Pei defines success as a democracy that sustains for at least 10 years after the exit of occupiers and uses the Polity IV index that measures the level of democracy or autocracy in a country. Many highlight Germany and Japan as examples of the effectiveness of occupiers to reconstruct war-torn countries. While these are two cases of success, deeper analysis indicates that the initial endowments in Germany and Japan were drastically different than those countries where subsequent reconstructions have taken place (see Bellin 2004–2005). Others may point to colonialism as a case of the successful transfer of Western institutions. However, there are some fundamental differences between colonialism and modern reconstructions. For instance, there is much greater emphasis on protecting human rights, multilateral control, and promoting self-sustainability in modern reconstruction efforts (Marten 2004:62–66).

[4] The term "nirvana fallacy" was first used by Demsetz (1969) to describe the comparison of real markets with ideal government institutions lacking imperfection. Such reasoning concludes that government intervention is required to overcome the imperfection of markets. However, this overlooks the reality that government is imperfect as well and may fail to allocate resources as effectively as even an imperfect market. Similar reasoning can be applied to reconstruction efforts. In the context of reconstruction, the nirvana fallacy viewpoint would indicate that in the face of a weak or failed central government, external occupiers can provide a better outcome relative to what exists in the absence of reconstruction efforts.

In the context of reconstruction efforts, nested games are critical to consider because in many cases these nested games constrain the achievement of a solution to the meta-game—establishing a central democratic order. As such, viewing weak and failed states through the nested game framework can provide insight into why attempts at reconstructing these states have or may fail. It also provides one explanation of why it is a mistake to assume that reconstruction efforts are preferable to refraining from intervention.

In order to clarify the nested game framework, consider the Israeli–Palestinian conflict. To the outside observer, it makes sense for the parties involved in this conflict to strike a cooperative agreement. If such an agreement were reached, the parties involved would be better off. They would be able to enjoy political and civil liberties as well as a higher standard of living. But this cooperative solution may not be optimal to the parties actually involved in the Israeli–Palestinian "game." Indeed, there are numerous smaller games that increase the difficulty of solving the larger meta-game. These games are played not just between Israelis and Palestinians, but also within these groups. For instance, simultaneous games between moderate and extreme Israeli politicians, between Israeli politicians and voters, between Israeli politicians and West Bank settlers, between Palestinian citizens and politicians, and between Abbas and Hamas, among others, contribute to the difficulty of solving the broader meta-game (Cowen 2004:4–5). In this context, the nested game framework can assist policy makers in understanding the array of games being played, which may constrain the effectiveness of policy choices. All societies have nested games, but in some cases the nature of these games is more conducive to a liberal democratic meta-game. Japan and Germany are two readily apparent examples of this last point (see Bellin 2004–2005).

While these nested games may prevent the possibility of solving the meta-game by establishing central institutions, this does not necessarily result in chaos. Indeed, nested games can potentially create cooperative outcomes that, while structured differently from the desired liberal democracy, provide widespread order and allow a society to function in the presence of a weak or failed state.

In order to explore the thesis of this article, a detailed analysis of Somalia, a prototypical-failed state, is provided. While Somalia lacks a central government, the private sector has developed governance mechanisms to fill the void. These mechanisms have proven to be more effective in generating cooperation and order than previous attempts by foreign governments to impose a central government. Indeed, counter to their intent, attempts by external governments to establish a central government in Somalia have served to exacerbate conflict instead of generating coordination around cooperative ends.

The aim of this article is not to defend the current situation in Somalia as a utopia or a desirable state of affairs. As will be discussed, Somalia is an extremely impoverished country suffering from many problems—health, education, infrastructure, and so forth—stemming from economic underdevelopment. Instead, the aim of this analysis is to establish that it cannot be assumed that the outcomes generated by military occupation and reconstruction are preferable to the outcomes generated in the absence of those interventions.[5]

I recognize that focusing specifically on Somalia as the main case study has both strengths and weaknesses. The main weakness is that only one case is considered in detail. One must be careful not to generalize from the failure of one reconstruction effort because each country is characterized by a unique endowment of culture and historical experiences. However, there is good reason to conclude that many weak and failed states possess many of the same general characteristics as Somalia.

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[5] Cowen and Coyne (2005) consider the mechanisms that facilitate or constrain the transformation of postwar situations from instances of conflict to instances of coordination around cooperative ends.

For instance, the World Bank recently began the "Low-Income Countries Under Stress" (LICUS) initiative to highlight those countries that fail to provide even the most basic services. Afghanistan, Haiti, and Somalia, all recent U.S.-led reconstruction efforts, make the LICUS list. In the post-9/11 world, low-income countries under stress have been identified as a major threat to U.S. national security. And although reconstruction efforts via military occupation have yet to take place in all of these countries, it is clearly one policy option that will be considered. Further, along three key margins of state failure—economic development, political institutions, and violence—Somalia is comparable with most other weak and failed states (see Clapham 2004:84–90; Rotberg 2004). Finally, Jeffrey Herbst (2000:3) has analyzed state creation and consolidation in Africa and has found that the unique and fundamental problem facing African states is how to "broadcast their power over sparsely settled lands." Within this context, understanding reconstruction efforts in Somalia can also shed light on the potential for future efforts in other African countries.

Also offsetting the weaknesses of the single case approach are several benefits generated from engaging in detailed case analysis. First, such analysis allows us to better understand the specific causal mechanisms at work in the case of Somalia. This will contribute to our understanding of what went wrong with past reconstruction efforts in the country. Further, carefully analyzing Somalia as a representative case in order to understand the importance of nested games can yield important insights for other reconstruction efforts in weak and failed states. As such, it can serve to illuminate the nested game framework and nirvana fallacy as they relate to past, current, and future reconstruction efforts in weak and failed states.

The main implication of the analysis that follows is that while the failure of endogenous institutions in countries with weak and failed states may indeed be significant, the failures generated by foreign governments may be even greater. Interventions by foreign governments in weak and failed states do not necessarily generate a preferable state of affairs. Indeed, in many cases where reconstruction efforts have failed—for example, Haiti (1915–1934, 1994–1996), Cambodia (1970–2003), and Cuba (1898–1902, 1906–1909, 1917–1922)—civil war and brutal autocratic regimes have resulted. While an effective and strong liberal government may be preferable to the situation in such settings, this state of affairs may not be feasible.

Failure of Reconstruction Efforts to Resolve the Somalia Meta-Game

The Republic of Somalia was formed in 1960 under the direction of the United Nations by joining decolonized British and Italian Somalia. Somalia is located in the eastern-most part of Africa, commonly referred to as the "Horn of Africa." Somalia's coastline runs along the Red Sea to the north and the Indian Ocean to the south. Accurate population figures are difficult to find although recent estimates place the population between 8 and 10 million (Central Intelligence Agency 2004). The Republic was initially modeled after Western democracies with a Prime Minister, National Assembly, and an elite bureaucracy. However, political institutions failed to operate in the manner desired by their designers. To understand why, one must consider the network of indigenous institutions that existed before the creation of the Republic.

The physical landscape of Somalia was a major influence on the development of indigenous institutions. The land is characterized largely by desert with an arid climate, brush vegetation, and little rainfall. The main economic activities include farming and pastoralism. The viability of farming is largely constrained by the amount of rainfall, while the available brush supports grazing livestock. Owing to the difficulties posed by the physical environment, clans of Somalia pastoralists have

developed to enable collective support and to enforce property rights. Clans and the subgroups within clans are fundamental aspects of life in Somalia and, as such, are critical to understanding the evolution of the social, economic, and political landscape (Lewis 1961:2–4, 1994).

Clans are determined by patrilineal descent and membership can be as large as several hundred thousand members. Within the larger clan structure, smaller groups, known as *diya*-paying groups, also exist. Ranging in size from several hundred to several thousand members, the *diya*-paying group is an alliance of related lineages formed via contract. The contract states that members of the alliance should pay and receive blood compensation ("*diya*"[6]) together. An injury suffered or caused by any member of the alliance implicates all members of the contract. For instance, if a member of Group A kills or injures a member of Group B, Group B will collectively claim compensation from Group A. When injuries occur and compensation is due, the contract states the burden and distribution of who is to pay.

Of all the relationships an individual may have, membership and loyalty in a *diya*-paying group is the most binding and frequently used by Somalis. The *diya*-paying group is the basic political and judicial unit. The individual members of a *diya* group provide support for other members through collective political and judicial means. They also provide a form of social insurance whereby members present goods and services to other members who are negatively affected by crisis, drought, or harvest failure. The *diya*-paying groups also serve to protect members' property from other clans through the threat of retaliation from the entire group. Elders make key decisions and rules within the groups are determined via unanimous consent.

While the *diya*-paying group provides means of governance within clans and also the threat of collective action against other clans, *heer* provides a means of contracting between clans. *Heer* refers to agreements between clans and can be viewed as an unwritten but binding contract that states responsibilities and penalties for failing to act in the stated manner. *Heer* serves to govern the interaction between clans with such things as common pool resources. The interclan council of lineage leaders, the *Guurti*, enforces sanctions for violators of the *heer*. While governance institutions that are internal to clans (i.e., *diya*-paying groups) operate relatively effectively, interclan mechanisms do not operate as smoothly. Many disputes are resolved, but minor infractions have occasionally escalated into full-fledged conflict between clans (Lewis 1965:10–12; Adam 1995:20; Brons 2001:100–121; Shivakumar 2003:14–16).

Given that individual identity and the daily operation of society are derived from clans and the subgroups within clans, Somalis have no experience with a centralized liberal democratic Somali government. Stated differently, no meta-game around a central Somali state has ever evolved endogenously. Instead, numerous smaller games have evolved and developed over time involving a wide array of actors, including relationships within and between clans, warlords, Muslim clergy, and NGOs, among others. The dynamics of these mini-games serve as a major constraint on any attempt to settle the Somalia meta-game and establish central political institutions. As Menkhaus (2004:38) notes "a broad section of Somali society possess veto power over state-building, peace-keeping and law enforcement. This makes negotiating toward those objectives all the more difficult." Understanding the prevalence of these nested games provides key insights into why the centralized political institutions created in 1960, and attempts to create similar institutions in the 1990s, failed.

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[6] *Diya* refers to Islamic blood compensation paid by a person who has committed homicide or wounded another individual.

With the creation of the Republic of Somalia in 1960, political affiliations quickly developed along clan-based lines. Before independence, two parliaments existed—one in the north and one in the south. A unitary parliamentary republic governed the independent Republic. The majoritarian parliament created a set of incentives that led to constant struggles where clans would attempt to form coalitions and then create disputes among other clans in order to control a majority. Regional differences between northern and southern clans also constrained the extent of cooperation. As Brons (2001:164) notes "Parliamentarians perceived the central state framework as a source of opportunities and enrichment (...) the political system...became another layer in the personalized and/or clan-oriented arrangements (...)." In short, the central government of the Republic of Somalia did not yield benefits to members of Somalia society at large. Instead, it was seen as a tool to be used by a few to expropriate from the many. As such, the political system was characterized by constant fragility eventually resulting in a military coup of 1969.

With the assassination of President Abdirashid Ali Shermarke in October of 1969, Major General Muhammad Siad Barre seized power via a bloodless coup. The result was a centralized state developed along totalitarian lines. Barre ruled over the revolutionary council composed of his family's clans. The council banned certain clan activities and exploited the weakness of interclan norms to divide potential threats to his position of power. In some cases, the government provided arms to feuding clans. As such, the activities of Barre's regime significantly damaged strong norms of governance within clans while also eroding governance mechanisms and agreements that had existed between clans. Despite the repressive measures, the informal economy still functioned throughout Somalia and enabled most of the populace to survive (Marchal 1996; Mubarak 1997:2028–2029). The Barre regime was able to effectively settle Somalia's meta-game via continued force, coercion, and repression. Parties did not voluntarily coordinate around the central political institutions, but rather were forced to do so.

The Barre regime was relatively stable until the later part of the 1980s. The policies of the regime resulted in repression and inequities throughout the country. Over time, dissident groups in various parts of the country formed and obtained the size and strength to wrestle control of certain areas from the regime. These groups included the Somali National Movement (SNM) in the northwest, the Somali Salvation Democratic Front (SSDF) in the northeast, the United Somali Congress (USC) in central Somalia and the Somali, Patriotic Movement (SPM) in the south. The civil unrest caused by these dissident factions eventually spread to the capital of Mogadishu and resulted in the collapse of the Barre regime in 1991.

The collapse of the regime resulted in a power struggle among competing clans for control of the central government. While the various dissident groups had agreed to act as a united front in their fight against the Barre regime, cooperation did not continue in the wake of its collapse. One faction of the USC formed an interim government in Mogadishu without consulting the other faction of the USC or the other dissident groups. In response to the interim government, the SPM and the SSDF formed a loose alliance to contest the USC. This led to violent conflict, especially in southern cities, both between factions of the USC and also between the governing USC faction and the SPM/SSDF alliance. In April 1991, the two sides (the USC and the SPM/SSDF alliance) agreed to a cease-fire but the agreement was very fragile and eventually broke down.

In the northern region, the SNM refused to recognize the USC interim government as legitimate or to participate in USC-led unification talks. Along these lines, the SNM consolidated its position and assumed all local administration in the northern region. Governance did not go as smoothly as intended, primarily because of tension between clans located in the region. The SNM consisted mainly of members of the Isaaq clans. Members of other clans in the northern region, specifically the Gadabursi and Iise clans, resisted the authority of the SNM over their

territory. Following some violent conflict between these groups, the leaders of the SNM convinced the leaders from all of the major northern clans to attend a conference in Burao in April 1991. At the Burao conference, several resolutions pertaining to the future of the northern region were debated and passed. The key outcome of the conference was the creation of the independent Republic of Somaliland in May 1991.[7]

Continued violent conflict in the southern part of Somalia led to divided control of the capital city, Mogadishu. The combination of civil war and a widespread drought and famine led to United Nations (UN) intervention in April 1992.[8] The UN Operation in Somalia (UNOSOM I) was created to oversee the cease-fire in the capital city of Mogadishu, to provide security for UN personnel, and to deliver humanitarian assistance. In August 1992, the mandate originally granted to UNOSOM I was expanded to include not just the capital city, but also the distribution centers throughout Somalia. It quickly became evident that UNOSOM I could not provide the desired security and protection. The original UN-mediated cease-fire failed to sustain as both sides refused to compromise positions of political authority. Each side engaged in looting and interference in the delivery of humanitarian supplies and services, claiming that such activities would assist the enemy.

Responding to these difficulties, the UN Security authorized a U.S.-led Unified Task Force (UNITAF) for deployment in December 1992. The initial U.S. involvement was limited and aimed at providing security and protection along the lines of the UNOSOM I. Eventually, the mandate granted to UNITAF expanded under UNOSOM II in May 1993 to include reconstruction efforts to democratize Somalia.[9] Specifically, the expanded mandate gave UNOSOM II the authority to seize weapons and rehabilitate and construct political and economic institutions along Western lines, as well as attempt to foster national reconciliation and stability. UNOSOM II lasted from May 1993 until May 1995 (Dobbins et al. 2003:58–60). UNITAF was successful in delivering some humanitarian assistance to Somalis. However, neither UNITAF nor UNOSOM II was effectively able to end conflict and generate sustaining political, social, and economic change (Menkhaus 2003b).

With the exit of foreign occupiers, many expected Somalia to collapse into a violent state of chaos. In fact, the opposite occurred. While one could argue that the lack of a central government has contributed to some problems, it is not "inherently linked to other crises in Somalia such as criminality and armed conflict" (Menkhaus 2004:17). Indeed, a closer look illustrates that individuals can enjoy an environment of peace, lawfulness, and security in the absence of a central government.

With the exit of occupiers, several autonomous states within the larger Republic of Somalia have emerged. As discussed above, the independent state of Somaliland had formed before the UN occupation. While not recognized by any foreign government as a legitimate state, Somaliland has remained stable with the creation of a constitution.[10] The autonomous region of Puntland, which has been self-governing since 1998, consists of the regions of Bari, Nugaal, and northern Mudug. Finally, southwestern Somalia, a self-proclaimed state as of 2002, consists of Bakool, Bay, Gedo, Jubbada Dhexe, and Shabeellaha Hoose regions (Central Intelligence Agency 2004).

Upon closer inspection, one currently observes widespread order with pockets of conflict in these regions. The magnitude of order is even more evident when

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[7] Somaliland includes the Awdal, Woqooyi Galbeed, Togdheer, Sanaag, and Sool regions.

[8] The famine, which occurred from late 1991 to 1992, claimed an estimated 240,000 lives. The cause of the famine has been attributed to the armed conflict and plundering that took place during the civil war (Refugee Policy Group 1994:5).

[9] UNSCR 814 indicated that it is critical to establish "transitional government institutions and consensus on basic principles and steps leading to the establishment of representative democratic institutions" (quoted in Dobbins et al. 2003:67).

[10] For an analysis of the formation of the Somaliland constitution, see Shivakumar (2003).

compared with the conflict that occurred first under the Barre regime and then under foreign occupation. In fact, one can make a strong argument that attempts by foreign governments to revitalize a central state since 1991 have only served to increase the level of armed conflict.

There have been 13 failed foreign-led attempts at national reconciliation in Somalia since the collapse of the Barre regime in 1991.[11] Given the historical experiences with clan-based loyalties and also conflict resulting from past efforts at constructing a central government, many Somalis view politics to be a zero-sum situation. Instead of providing mutually advantageous benefits to society at large, it is expected that any central political structure will create clear winners and losers. As such, any effort to generate a central government leads to conflict as individuals and clans attempt to become the political winners. As Menkhaus (2004:18) notes, it is "the process of state-building which appears consistently to exacerbate instability and armed conflict."

As already noted, the UN-led peace agreement in 1991 was short-lived, eventually unraveling into violent conflict. Further attempts to generate central institutions have had a similar result. Consider, for instance, the Kenya-mediated peace process sponsored by the Intergovernmental Authority on Development (IGAD) in 2002. Attempts to gain positions of political power before the IGAD talks were at least partially responsible for the violent conflict that took place in previously peaceful regions of the country. Indeed, the selection of indigenous individuals to participate in talks regarding the future of the country is a contentious issue.

Indigenous actors view participating in peace talks as a key ingredient in securing a favorable position in any future government that may evolve from the talks. With positions of political power and the associated benefits up for grabs, individuals are willing to engage in high-cost activities, including violence.[12] Conflict occurs not only between clans but also within clans as individuals seek the top positions of clan leadership in the hope of increasing their chances of participating in and influencing the broader peace talks.

While the aims of foreign powers to bring a central state to Somalia may be noble, these interventions have had the perverse outcome of inducing greater conflict and instability. Given the potential that foreign intervention can create more harm than good, it makes sense to consider alternative forms of governance and order. In other words, given the inability of foreign government to exogenously construct effective institutions of government, focus must shift to the evolution of endogenous mechanisms for governance. In the case of Somalia, much can be learned from exploring the private means of governance that have emerged and proven to be relatively successful when compared with centralized attempts at political control. The implications of the analysis add valuable insight into current and future attempts to reconstruct weak and failed states.

Coping Mechanisms and the Evolution of Cooperative Solutions to Nested Games

In the absence of a central government, many would assume that Somalia would quickly devolve into a state of chaos and continuous conflict. However, when compared with the relevant benchmarks, wealthier countries within its region, Somalia fares better on some key margins, as illustrated in Appendix A. For instance, Somalia has less extreme poverty and more income equality as compared with richer

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[11] The result of the 14th and current effort to create a central government remains to be seen. Peace talks in Mbagathi, Kenya, in 2002–2003 led to the creation of a transitional government. However, the transitional President, Abdullah Yusuf, and his cabinet have not yet return to Somalia and lack a budget and army.

[12] It is estimated that a six-hour battle in Somalia costs the parties involved a total of at least $100,000 (Coke and Al-Qaeda 2004).

countries in the region. In Somalia, 43% of the population lives on $1 or less a day compared with 50% in West Africa and 52% in neighboring countries. Further, the private sector has been relatively effective in providing key infrastructure such as roads, airports, and telephones. Somalia offers approximately 3 km of road per 1,000 people, equal to the amount offered in comparable countries in the region. Somalia possesses more telephone lines per 1,000 citizens than West Africa and the same number as neighboring countries. Further, Somalia has more Internet subscribers as compared with West Africa and its neighboring countries. Internet cafes have opened throughout the country and Somalia has some of the lowest per-hour rates (around $0.50 per hour) in Africa. There is a large diaspora (estimated to be around seven million people) who remain in contact with relatives in Somalia. Email, in most cases, has proven to be the cheapest means of doing so (see Winter (2004).

Of course, one cannot paint an overly positive picture of Somalia. The country suffers from many problems related to economic underdevelopment. For instance, mechanisms are lacking for the delivery of safe water. Literary and education rates are among the lowest in the world. As the data in Appendix A indicate, Somalia suffers from major health issues as well. However, even on most of these margins, Somalia is not drastically worse when compared with similar countries that possess a central government.

The main point is that in the absence of a central government, the private sector has performed better than many would expect. Indeed, the private sector has been better able to provide general order when compared with attempts by foreign occupiers to do the same. As Menkhaus (2003a:1) notes "Since 1995, Somalia has witnessed important changes in its politics, armed conflicts, local governance, economic activities, social institutions, and household coping mechanisms." In a similar fashion, Peter Little (2003) has analyzed the stateless Somalia economy and has highlighted the diverse array of trades that takes place. This trade encompasses both domestic and cross-border trade (Little 2003:6, 91–98). The current lack of widespread violence, which stands in stark contrast to the violence that occurred as a result of foreign attempts to establish a central state, is perhaps the most evident example of this. The key question is in the absence of a central government, how have Somali citizens been able to cope? Understanding the coping mechanisms that have and continue to endogenously evolve is critical for understanding cooperative solutions to many of the nested games that exist throughout Somalia.

Social interaction and exchange requires coordination between individuals. This coordination is greatly facilitated by trust-enhancing institutions that allow individuals to signal their trustworthiness and credibility to others.[13] These mechanisms serve to lower the transaction costs associated with coordination and interaction. Trust-enhancing institutions differ in complexity and magnitude. Some, such as reputation, may be effective in smaller groups while others, such as a widely accepted form of money, may be effective at facilitating interaction on a larger scale.

In many societies a central government plays an active role in either creating or maintaining trust-enhancing institutions. It is normally held that weak and failed states, which lack a strong and effective government, will also lack the trust-enhancing institutions necessary for peaceful exchange and operation. However, as the case of Somalia indicates, this preconceived notion is not entirely true. Even in the absence of a central state, the private sector has been innovative in generating solutions to facilitate interaction and exchange. In several cases, the coping mechanisms that have developed have enabled the transition from personal to impersonal exchange. In other cases, transactions are limited to local networks.

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[13] Institutions can be defined as the formal and informal rules governing human behavior and the enforcement of those rules.

Little (2003), Nenova (2004), and Nenova and Harford (2004) identify two general categories of mechanisms that have emerged in Somalia's private sector in order to facilitate cooperation. These include (1) the use of clans and local networks of trust coupled with the simplification of transactions and (2) importing governance by relying on foreign institutions. We will consider each of these categories in turn to gain an understanding of how cooperative outcomes are obtained in the absence of a central state.

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Local Networks and Simplification of Transactions

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Local networks play a major role in interactions throughout Somalia. Trust stemming from reputation and clan relations is a major aspect of many transactions (Little 2003:12). The role of local networks manifests itself in a number of ways. Perhaps the most important is the legal system.

In the absence of a centralized court system, Somalia lacks formal contract and criminal law as found in the West. To fill this void, traditional clan-based conflict resolution mechanisms—the *diya* and *heer*—are used to deal with disputes. As discussed in the second section, these mechanisms have a long history in Somalia. Clan and group elders hear disputes and decide on a judgment that is respected by all parties involved.

Traditional clan resolution mechanisms are also used to settle land property disputes. Formal property rights are nonexistent in Somalia. Private, customary law has solved the problem via homesteading. Property is recognized as being owned when an individual occupies and builds on a plot of land. Conflicts regarding ownership and restitution are typically settled and enforced within the clan along the lines discussed above.[14]

A system of brokers has emerged that facilitates trade in the cross-border cattle market. Brokers (called *dilaal*) reduce transaction costs by matching buyers and sellers. Further, they ensure that the animal is not stolen and that the exchange takes place as specified. Brokers typically receive a fee that is a percentage, typically 1–2%, of the animal's price (Little 2003:109).

Private companies signal credibility and trustworthiness in a number of ways. Those who run private companies often have a well-known reputation across clan lines. This is effective in repeated interactions but does not necessarily solve problems related to one-shot interactions. Another means of overcoming problems related to credibility is for entrepreneurs to simplify transactions in order to make them manageable. For instance, in the absence of large-scale utilities, entrepreneurs provide electricity via generators to smaller sets of clients. This allows them to build a relationship with their clients and also monitor usage. Meters to track usage are largely absent due to the costs associated with their operation. To overcome this problem, entrepreneurs charge per light bulb on a daily basis. This process has resulted in the provision of power to areas of the country that never had power when a central government existed.

Existing social networks are also important in the absence of state-organized welfare and safety nets. This is perhaps most evident in the case of water supply. Similar to electricity, Somalia lacks an effective countrywide, public water system. Entrepreneurs have constructed a private system that extends throughout the country. This system is a combination of cement catchments, private boreholes, and transportation systems from the major cities to rural areas. Traditionally, families unable to afford water do not have to pay. Instead they receive water from others in the community or directly from the entrepreneur. Others secure credit from close family members and friends in order to purchase water (Nenova 2004:8–9).

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[14] For more on the role of private courts in providing law and order, see Menkhaus (1998).

Clan networks and personal trust have also allowed for the continuance of foreign trade, especially in livestock, despite the absence of a central state. This is due to a tradition that began when a central state existed. Historically, Somali livestock owners would offer credit to livestock exporters. Such agreements involve a pre-negotiated price for the goods that were paid by the exporter to the livestock owner once the export proceeds had been secured (Mubarak 1996:151–152; 1997:2032). Trading relationships based on similar credit arrangements have allowed foreign trade to continue after the collapse of the Barre regime. These foreign trade relationships, as well as the welfare arrangements discussed, are based on reputation within clan networks because they require intricate knowledge of the credibility of others.

Reputation is also the basis of the *abbaan* system, which initially developed during the precolonial period and has remerged after the collapse of the Barre regime. This system is centered on caravan trade and, more specifically, the travel of the caravan to the coast and back to the point of origin.[15] The difficulty lies in potentially hostile clans that exist along the path of travel. In order to overcome this problem, the leader of the caravan enters into a protection-based relationship with the clans passed on the way to the coast. A protector (known as an "*abbaan*") from the clan being passed is selected based on his reputation, status, and strength of lineage. Reputation is based on past experience and word of mouth.

The *abbaan* receives gifts in exchange for providing protection. In turn, the *abbaan* is responsible for attacks on the caravan that he has agreed to protect. Any type of attack on the caravan is also an attack on the *abbaan* and his lineage and is met with swift retaliation. The *abbaan* is responsible for compensating the caravan if such attacks occur and cause damage. The credibility of the *abbaan* in fulfilling his duties is ensured through reputation and also through potential retaliation from the lineage of the caravan as well (Lewis 1994:114–115; Marchal 1996:41–44, 50, 82). The network of *abbaans* has been critical in maintaining trade networks even during the most violent conflicts.

Importing Governance

Money is a critical trust-enhancing institution contributing to the movement from personal to impersonal exchange. A widely accepted currency enables anonymity and reduces information costs associated with exchange. Individuals are willing to accept money in exchange for valuable goods or services even though they may know nothing about the person they are exchanging with. As such, individuals do not have to be concerned with the credibility of a potential exchange partner or the goods/services being received if the trading partner is offering money. Somalis have continued to utilize effectively the Somali currency even with the collapse and continued absence of a central state and central bank.

In Somalia's domestic market, the currency printed under the Barre regime, the schilling, continues to circulate. Despite the absence of a central bank, it remains in use and floats against other foreign currencies that are also traded freely in domestic markets. The U.S. dollar has emerged as a secondary currency. The inflow of U.S. dollars occurred largely during the UN missions in the area in the early/mid-1990s. Even with the end of the UN missions, U.S. dollars continued to flow into Somalia through remittances, proceeds from exports, and spending by aid agencies and NGOs. The value of the Somali schilling is largely determined by market conditions and the prospects of a stable peace. For instance, when rumors of political flare-ups circulate, many hoard dollars (Marchal 1996:104–109; Mubarak 1996:149–150; 1997:2031).

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[15] In the precolonial period, the caravans would mostly be on foot or cart. In the post-Barre period, the caravans often consist of trucks.

There have been several attempts by different groups to print new currency in various parts of Somalia. These efforts have largely failed to be sustainable over time. For instance, the two rival groups occupying Mogadishu issued currency in 1992 (in the northern part of the city) and 1995 (in the southern part of the city). However, most individuals in these regions continue to use Somali schillings and U.S. dollars. In a similar fashion, the government of Somaliland introduced an independent currency in 1994. A major motivation beyond the issuance was to signal independence from the rest of the country. As part of the process, the government of Somaliland also set up a central bank that, in theory, would support and protect the currency with reserves. However, due to expansionary policy, the currency has depreciated and most traders have returned to the use of the schilling and dollar (Mubarak 1997:2031).

Financial services continue to exist in the absence of government as well. Financial houses offer a range of financial services for individuals within Somalia. The *hawala* ("to transfer") system is the major provider of financial services used in most Muslim countries. In Somalia, the *hawala* system is the main mechanism for the transfer of remittances from abroad. The system is beneficial in that it is relatively cheap and relies on financial institutions outside of Somalia. In total, the system facilitates the movement of approximately $500 million to one billion U.S. dollars into Somalia each year.[16] Funds can be transferred from Europe, North America, Asia, and Australia to Somalia.

The system utilizes agents stationed in international locations (Europe, North America, and the Middle East) who accept deposits for a commission fee (usually around 5%). After accepting the deposit, the agent deposits the money in an account that is then transferred to the clearinghouse office located in a country neighboring Somalia. At the same time, the agent emails or faxes the clearinghouse with the details of the transaction. When the deposit clears, the clearinghouse contacts an agent within Somalia located closest to where the intended recipient resides. Word is sent to the individual and when he or she arrives to claim the funds, they are quizzed in order to avoid fraud. The quiz consists of questions about clan lineage and is based on information provided by the initial depositor overseas (Omer 2003).

Although the major function of the *hawala* system has been to facilitate remittances from abroad, additional services are often offered. These services include traveler's checks and noninterest-bearing deposits. In some rare cases, consumer credit is provided. However, consumer loans are usually obtained from friends, family members, or international sources (Nenova 2004:5; Nenova and Harford 2004:3).

In addition to the financial services industry, Somalis have also imported preexisting governance mechanisms in order to provide basic infrastructure including telecommunications and transportation. In many cases private companies based in countries outside of Somalia have partnered with local companies and entrepreneurs to provide goods and services. These partnerships with foreign companies allow local companies to rely on the preexisting standards and ways of doing business.

Telecommunications is one of the main industries where partnerships have been effective in providing infrastructure and services. Initially, the indigenous telecommunications companies used the preexisting infrastructure, much of which had been damaged or destroyed during the civil war. Over time, however, the local companies partnered with established companies such as Sprint, ITT, and Telenor. In doing so, they were able to offer GSM connections and build new landlines.[17] In

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[16] The remittance system has come under increasing scrutiny from Western countries who view it as a potential mechanism for the transfer of terrorist funds (see Menkhaus 2003a:17–19).

[17] Global Systems for Mobile Communications (GSM) is a leading digital cellular system.

addition to traditional phone services, these companies also offer fax and Internet services. Competition in the telecommunications industry has driven prices down in Somalia to a level that is lower than most African countries. For instance, international calls have fallen from $5–7/minute in the 1990s to $0.50/minute in the larger cities and $1.50/minute in small cities. In order to punish nonpayers, telecommunications providers have agreed to share a list of defaulters. Recently, the providers in Mogadishu have agreed on interconnection standards that should increase the efficiency of the services provided (Nenova 2004:2–3; Nenova and Harford 2004:2).

The air transportation sector, which is entirely privately owned and operated, has continued to grow in Somalia and also relies on outsourcing. Five major carriers currently operate, offering cargo and passenger flights both domestically and internationally. Planes are often leased from Boeing (a U.K.-based carrier) in order to increase consumer confidence in the safety of the aircraft. Along similar lines, flight and maintenance crews are often leased from established companies in Eastern Europe to signal credibility and safety. By importing the standards developed by these international companies, indigenous entrepreneurs have effectively circumvented the absence of standards and regulations usually set by a central government.

Summation and Implications

In summary, many small, overlapping and simultaneous games characterize the relationships between the various actors throughout Somalia. Coping mechanisms—clans, clan subgroups, reputation, importing governance, and so forth—have developed, allowing for cooperative solutions to these mini-games. While conflict is still present, cooperative solutions to these nested games enable widespread coordination around peaceful norms. Attempts by foreign governments to construct a central government and solve the Somalia meta-game lead to a large bargaining game between the many dispersed parties throughout the country. In this context, players want to establish their reputation as a ''power player'' within the political process. In turn, this situation leads to a struggle, oftentimes violent, for control of power. The process of conflict continues until the attempts to solve the meta-game end, after which social relations can again be characterized by the many nested games that existed before the attempt at reconstruction.

Ideally, a strong central state would effectively provide public goods and facilitate interaction and exchange across the country. However, a strong central political order is not feasible given the nested games that characterize Somali society. Historically, attempts to establish such a state in Somalia via occupation and reconstruction have resulted in failure and chaos instead of the desired shift in trajectory to an institutional path allowing for economic development.

The critical point of the analysis of Somalia is that, in the absence of a central state, the result has not been widespread chaos. Instead, endogenous rules and mechanisms that allow individuals to ''get things done'' have developed and created widespread cooperation. This is even more evident when compared with the widespread conflict that resulted when foreign governments attempted to create a central state.

Conclusion

The case of Somalia indicates that policy makers need to rethink both the widely accepted characteristics of weak and failed states and the feasible policy prescriptions available to the international community in dealing with these states. On the first point, Menkhaus (2004:77) notes ''Much of the conventional wisdom of the Somalia crisis—the nature and scope of lawlessness, the dynamics of armed conflicts, the interests of its key political actors in rebuilding a functional state and

reviving the rule of law, the agenda and state of its radical Islamist groups, and the extent to which it is a safe haven for global terrorist networks—is a misreading."[18] This misdiagnosis has led to policies and interventions resulting in ineffective and perverse outcomes as evidenced by the 13 failed attempts by the international community to impose a central state in Somalia. Using the nested games framework can assist policy makers in avoiding the same mistake in other weak and failed states. While establishing a strong central state may appear feasible to outside observers, the array of existing nested games may constrain efforts to achieve the desired end.

If there is one generally applicable lesson that can be learned from Somalia and applied to other cases, it is that each weak and failed state will be characterized by a unique set of nested games that preclude a one-size-fits-all policy by the international community. The specific nature of these mini-games will vary from place to place. Some may limit the ability to establish central institutions along liberal lines while others may be conducive to and support the establishment of such orders. Thinking in these terms can shed light on the successes and failures of attempts at generating peace and reconstruction. For instance, it can illuminate the complex array of nested relationships that may prevent the achievement of a solution to the larger meta-game in Afghanistan, Iraq, or in the Middle East peace process.

Given that policy makers may be unable to refrain completely from intervening in weak and failed states, what then are some possible alternatives to the current strategy of reconstruction via military occupation? One possible alternative is to limit interventions specifically to humanitarian aid and preventing genocide as in the case of Rwanda. Indeed, the initial intervention in Somalia was successful in delivering some humanitarian aid. The major difficulties began when the goal of the mission changed from delivering humanitarian aid to democratizing the country. It is important to note, though, that humanitarian aid can have negative unintended consequences as well. For instance, the delivery of aid in Somalia led to competition between clans to secure support as well as fragmentation between the urban and rural elements of the country (Little 2003:47).

Along the lines of limiting goals, Marten (2004) argues that the United States should focus on "security-keeping," where emphasis is placed not on reconstructing a society but on providing a stable environment in which indigenous citizens can create and develop sustaining institutions. Such an approach emphasizes local involvement in generating lasting social change. One disadvantage to this approach is that indigenous reconstruction may be a long and variable process. As such, it requires strong political will for foreign countries to maintain security forces in weak and failed states. It also requires restraint on the part of policy makers to refrain from expanding the mission from one of humanitarian aims to one of reconstruction.

Boettke and Coyne (2006) emphasize the critical role of a commitment to free trade in spreading liberal democracy. This commitment goes beyond free trade in goods to include trade in cultural products such as ideas and beliefs. Such trade can facilitate the creation of a common ground between different cultures and allow for voluntary acceptance instead of coerced adoption by citizens of weak and failed states. Pursuing free trade agreements, such as the one currently in place between the United States and Jordan, is the main implication of this strategy.[19] Similar to

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[18] Somalia is often identified as a potential safe-haven for terrorists. However, to date no direct terror threat has emerged and many argue that the general environment of Somalia is inhospitable to terrorists. Among other things, there is no illiberal state to protect terrorist organizations. As such, terrorist operations are more exposed to international monitoring and sanctions (Menkhaus 2003a:17, 2004:55–75). Despite this, one should expect increased monitoring and intervention in Somalia on the part of the international community to ensure that terrorists do not use Somalia as a base for operations. For more on the threat of terrorism in Africa, see Lyman and Morrison (2004).

[19] The United States and Jordan signed the Jordan Free Trade Agreement in October of 2000.

the security-keeping strategy, the main downside of this approach is that the process of change can be long and variable. Further, the beneficial impact of trade is not always directly evident.

The alternatives discussed above are important to consider. It is generally a mistake for policy makers to assume that reconstruction efforts in weak and failed states via military occupation will yield a desirable state of affairs. Foreign interventions can have a positive impact, but they can also generate disastrous consequences. While a strong and effective state may be preferable to the current situation in these countries, it is unclear that the necessary institutions can actually be established. One cannot compare the current circumstances of weak and failed states with the ideal of a strong central state and conclude that intervention will help achieve the ideal. By assuming that intervention generates the desired state, one falls prey to the nirvana fallacy.

Appendix A: Development Indicators[20]—Somalia, West Africa, and Neighboring Countries[21]

Income[22]

	Per Capita Household Income (US$) 2002	Population Living on Less Than PPP$1 a Day (%) 1998*	Gini Coefficient 1997[†]
West Africa average	501	50	45
Neighboring countries average	438	52	47
Somalia	226	43	40

*PPP dollars are U.S. dollars adjusted for purchasing power parity.
[†]The Gini coefficient ranges from 0 (perfect equality) to 100 (perfect inequality).
PPP, purchasing power parity.

Health Indicators—General Population

	Private Health Expenditure (% of GDP) 2001	Health Expenditure per Capita (PPP US$) 2001	Population With Access to Safe Water (%) 2000*	Physicians (per 100,000 People) 1990–2003[†]	Under-nourished People (% of Total Population) 1999/2001[‡]	Malaria Cases (per 100,000 People) 2000[§]	Tuberculosis Cases (per 100,000 People) 2000[¶]	Probability at Birth of Surviving to Age 65, Female 2000–2005[‖]	Probability at Birth of Surviving to Age 65, Male 2000–2005
West Africa average	2.0	53.5	59	8.8	29.4	9,308.5	443.7	39.2	34.6
Neighboring countries average	3.7	72.7	60	10	39.5	605.3	749.3	34.5	30.5
Somalia	1.5	15	21	4	71	118	757	44	38.2

*Source: Nenova and Harford (2004:2).
[†]Data refer to the most recent year available during the period specified.

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[20] Unless otherwise noted, the source of development indicators is the United Nations (2004).

[21] West Africa includes: Benin, Burkina Faso, Burundi, Cameroon, Central Africa Republic, Chad, Republic of Congo, Democratic Republic of Congo, Côte d'lvoire, Gabon, The Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, and Togo. Neighboring countries include Djibouti, Ethiopia, and Kenya.

[22] *Source*: Nenova and Harford (2004).

‡Data refer to the average for the years specified.

§Data refer to malaria cases reported to the World Health Organization (WHO) and may represent only a fraction of the true number in a country.

¶Data refer to the prevalence of all forms of tuberculosis.

‖For both "probability at birth of surviving to age 65" data refer to estimates for the period specified. Data refer to the probability at birth of surviving to age 65, multiplied by 100.

PPP, purchasing power parity; GDP, gross domestic product.

Health Indicators—Children

	Probability at Birth of not Surviving to Age 40 (% of Cohort) 2000–2005*	Children Underweight for Age (% Under Age 5) 1995–2002	Children Under Height for Age (% under Age 5) 1995–2002†	One-year-olds Fully Immunized Against Tuberculosis (%) 2002	One-year-olds Fully Immunized Against Measles (%) 2002	Births Attended by Skilled Health Personnel (%) 1995–2002‡	Maternal Mortality Rate Adjusted (per 100,000 Live Births) 2002¶
West Africa average	40.2	26.8	32.5	73.7	56.8	47.1	913.8
Neighboring countries average	45.2	28.7	37.7	73	64	25	860.0
Somalia	36.5	26	23	60	45	34	1,100

*Data refer to the probability at birth of not surviving to age 40, multiplied by 100. They are medium-variant projections for the period specified.

†For children underweight and underheight, data refer to the most recent year available during the period specified.

‡Data refer to the most recent year available during the period specified.

§Annual number of deaths of women from pregnancy-related causes. The adjusted number shows the figures reported by national authorities adjusted based on reviews by the United Nations Children's Fund (UNICEF), World Health Organization (WHO), and United Nations Population Fund (UNFPA) to account for well-documented problems of underreporting and misclassifications.

Telecommunications Diffusion

	Telephone Mainlines (per 1,000 People)		Cellular Subscribers (per 1,000 People)		Internet Users (per 1,000 People)	
	1990	2002	1990	2002	1990	2002
West Africa average	4.2	9.2	0	36.4	0.0	6.6
Neighboring countries average	7.3	10	0.0	20.3	0.0	6.7
Somalia	2	10	0	3	0	8.8

Transportation and Infrastructure[23]

	Roads (Thousands of Kilometers per Million People) 1997*	Total Airports (Paved and Unpaved) 2002	Total Airports per Capita (per Million people) 2002	Airports with Paved Runways 2002	Airports with Paved Runways per Capita (per Million people) 2002	Motor Vehicles per 1,000 People 1994–2003[†]
West Africa average	3	38.9	6.7	6.1	1.1	7.4
Neighboring countries average	3	108.7	12.3	12	2.5	14.5
Somalia	3	60	7.5	6	0.74	3

*Source: Nenova and Harford (2004:2).
[†]Data provided are the most recently available for the 1994–2003 time period.

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[23] *Source*: Nationmaster.com (2004). Nationmaster.com aggregates information from CIA World Factbook, December 2003; United Nations World Statistics Pocketbook and Statistical Yearbook; World Bank, *World Development Indicators* 2001.

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