



States in Development: Understanding State-building

A DFID WORKING PAPER

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This working paper summarises initial research on the issue of state-building, it is part of an ongoing learning process within DFID. The views expressed are those of the author; this paper is for discussion only and does not represent UK Government policy.

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Sources - In 2007 DFID produced a discussion paper on state-building which drew on: a) a study by ODI, b) a literature review completed by GSDRC/University of Birmingham and c) a framing paper (commissioned by OECD-DAC). This paper was further informed by a search of the academic literature.

The discussion paper was reviewed by a panel of international experts, a panel of DFID country offices, members of the OECD-DAC Task Team on State-building and DFID advisory groups. DFID is grateful to all those who participated in this process. A summary of the contribution by international experts is available at www.dfid.gov.uk.

Unless otherwise stated references to expert opinion are drawn from contributions to the DFID consultation process.

Section One: Introduction and Approach

This Working Paper is part of an initial DFID learning process on state-building. The aim of this work has been to establish some language and concepts that aid our understanding of how states do or do not work, helping us to identify areas for further research and for future guidance. In the process this phase of work has engendered a rich debate among international experts and development practitioners. **The work on state-building has underlined the centrality of states within development, and has also highlighted the potential for donors to both help and hinder their improvement.**

Development is now premised on engagement with states, and it is assumed that these operate in a recognisable and familiar way. The international architecture for economic, political and development co-operation are all based on assumptions about state capability and structure. Yet the reality of states and their ability to function is more complex than either our assumptions, or international architecture, would suggest. It has also been argued that in many ways the global environment for state-building is now worse than ever before.¹ Given this context, this paper suggests that **looking more closely at `state-building' allows international actors to consider underlying realities, putting social, economic and political analysis into a historical context.** In so doing it helps us to accept that some states may never look similar to our own (and indeed given the realities of their own contexts, why they probably shouldn't).

The need to better understand state-building is not an academic exercise; states are crucially important to the future of those who live under their jurisdiction. It has been suggested that there are over 40 fragile and conflict affected states;² those most off-track in reaching the MDGs and least likely to enjoy growth and poverty reduction. It is an urgent priority for development actors to support positive state-building processes and to avoid harming any progress that is being made. This paper suggests that applying a state-building lens has potential to improve the impact of aid, while failure to consider these issues will reduce the net overall benefit brought by aid programmes.

This paper therefore provides a way for readers to understand states, and the processes that drive their development. **Section Two** outlines language and key concepts for state-building; drawing on political-science, governance and economic literature to set out definitions that can underpin models of how these processes work. **Section Three** puts forward two conceptual frameworks, or models, for state-building dynamics. The first is a model of how state-building can work to produce capable, accountable and responsive states, this is described as responsive state-building. The second is a model of unresponsive state-building, a set of dynamics likely to lead to states affected by problems such as endemic rent-seeking or political repression. **Section Four** looks at those factors that are likely to influence the direction of state-building, including issues that are shaped by policy decisions.

¹ A point argued by Mick Moore and Sue Unsworth, of IDS, in their contributions to the DFID state-building consultation process.

² Using OECD-DAC definitions

Finally **Section Five** draws some initial conclusions on the implications of this work for donors.

Section Two: Concepts and Terminology

Dialogue on state-building is often blighted by the use of common terms without common meanings, we therefore need to offer some definitions of the key concepts involved. Perhaps no concept is more central to the discussion than that of the State. **States have become the dominant model for organising societies within defined territories.**³ The process by which territories and peoples become identified with these distinct organisational structures is often termed state-formation (a process that may occur through separation from a larger state structure or colonial power). State structures are the visible embodiment of the idea of the state: the Ministries, agencies and forces created to act on the instructions of the individuals who have gained political decision making power (governments).

State-building is the process through which states enhance their ability to function.⁴ The aims of this 'functionality' will differ (affected by factors such as government priorities), and may or may not emphasise areas orientated to the public good. Therefore state-building is a value neutral term, our preference is that it lead to effective economic management with political and economic inclusion, but it is not inevitably so. State-building takes place in all states, whether rich or poor, resilient or fragile, all states are seeking to make their structures better at delivering on the goals of government. Importantly, members of the international community, collectively or individually, do not do state-building outside their own borders. State-building is a national process, a product of state-society relations that may be influenced by a wide variety of external forces (including trade or the media as much as aid), but which is primarily shaped by local dynamics

The structures of the state are determined by an underlying political settlement; the forging of a common understanding, usually among elites, that their interests or beliefs are served by a particular way of organising political power.⁵ A political settlement may survive for centuries, but within that time decision making power is likely to transfer among elite groups as individual governments come and go. Elites are prominent within the literature on state-building, but elites can rarely take social constituencies for granted, they must maintain an ability to organise, persuade, command or inspire. Wider societies are **not** bystanders in political settlements or state-building.

Adrian Leftwich points out that political settlements now mostly adopt the structures of the 'modern' (legal-rational) state (rather than say 'feudal' structures). The 'modern' state usually includes a political executive and separate, permanent and professional structures to implement policy, such as Ministries. Yet this paper points to the fact that the modern state may not fit with the aims of the

³ The definition of the state within this paper owes much to the work of political scientist Joel Migdal.

⁴ This formulation of state-building draws on Verena Fritz and Alina Rocha Menocal, 'Understanding State-building.'

⁵ A concept explored further by Verena Fritz and Alina Rocha Menocal and by Joel Migdal and Marina Ottaway in their contributions to the DFID consultation process.

settlement itself. While settlements may adopt the formal structures of the modern state the ethos of the elites dominating the political settlement may be more feudal than modern.

State's (modern or otherwise) never finish enhancing their ability to function. States are never 'finally' built, they change and adapt over time, State-building is an iterative process, it is shaped by elite interaction, and by state-society relations. The crux of a creative tension between a state and its constituencies, is the state's drive for dominance and loyalty throughout its territory and the public's expectations in return for security and economic well-being. These processes occur at many levels and are susceptible to the unpredictability of events (crop failures, striking oil).

This tension can be idealised into the reciprocity of the social contract, but more accurately resembles what, Joel Migdal describes as 'cumulative struggles for domination.' **None of these processes should be seen as neatly linear nor symmetrical.** For example Pakistan's desire for a greater role in the Federally Administered Tribal Territories is not neatly offset by 'social contract' style expectations for service delivery on the part of the population.

Tanzania emerged as a union of Tanganyika and Zanzibar with few of the attributes normally associated with successful state-building. Tanzania is heterogeneous, had a low institutional capacity and also had weak economic growth. The country's main state-building advantages lay in the ability of political leaders, particularly Julius Nyerere, to bring elites within political structures. By 1982 a shift in domestic and external expectations created pressure for the political settlement to evolve. Tanzania began a process of political and economic reform that led to elections in 1990 and ultimately produced a period of sustained economic growth. The strength of the post-independence political settlement arguably helped Tanzania to respond to the pressures for economic and political change; pressures that might otherwise have caused instability.

States also vary in the degree to which they manage state-building by coercion, but even the most repressive states seek to stake a claim to some form of legitimacy; essentially a claim that state institutions have a moral right to continue to lead the state-building process. The claim to legitimacy can rest on numerous grounds (such as tradition or popular support), but the greater the acceptance of this claim the better the prospects for maintaining dominance.⁶

Proactively claiming legitimacy and nurturing loyalty usually involves some attempt at 'nation-building,' the fostering of a common identity among the governed who will hopefully come to see themselves as Pakistani, Tanzanian or British. Nation-building must be seen as a distinct activity that normally parallels state-building.⁷ Where the state deliberately excludes its own people from its nation-building agenda (such as the religious minorities or ethnic Madheshi's in pre-2006 Nepal) then the state-building process will carry an ongoing risk of challenge. Success in nation building offers no guarantees of easier state-building, surveys in DRC suggest a strong sense of national pride despite great scepticism about the state. An important related term is political community, identification with the

⁶ For a fuller discussion of legitimacy see the CIC/IPA paper: 'From Fragility to Resilience' a contribution to the State-building Task Team of the OECD-DAC.

⁷ See CIC/IPA: 'From Fragility to Resilience.'

political processes or order within a state's territory. Evolving political settlement's are more stable where the sense of political community is strong.

International Drivers are global trends that while not directly controlling state-building do exert influence. These can be positive, such as the role of international media in promoting human rights, or they can be negative, such as the co-optation of political leaders by international criminal groups. Trends in donor policy are an international driver, as is the effect of migration and global challenges that impact the futures of all state-building processes, such as climate change.⁸

Section Three: State-Building Models

3.1 Responsive State-Building

The language and concepts outlined in Section Two provide a means for describing aspects of state-society relations; but how do these work in combination to give shape to a state-building dynamic? **This section outlines how these conceptual processes can result in state-building that is responsive and pro-poor, or in state-building that lacks real drive towards capacity, accountability and responsiveness.**

This section will describe processes that in practice are messy, implicit and non-linear. It is therefore important for international actors to use state-building to assess how things 'are,' rather than how development dogma tells us they should be.

Across the spectrum of development there are states of all sizes and social characteristics that have forged 'responsive' state-building processes. **Responsive state-building does not occur at a certain stage of development; instead it is a product of a wide variety of policy and non-policy factors that can occur in any state.** Responsive state-building is essential to the process of developing the capable, accountable and responsive (CAR) states outlined in the DFID's White Paper, 'Eliminating World Poverty: Making Governance Work for the Poor.' The UK is not neutral on questions of state-building, the UK has explicit commitments to encourage state-building that ultimately brings benefit to the poor.

Responsive state-building involves three necessary areas of progress:

1. Political Settlement
2. Survival Functions
3. Expected Functions

3.1.1 Political Settlements

The **first** necessary area of progress is the development of a political settlement. The terminology of 'political settlements' has become much used, but often lacks

⁸ See the Development Policy Review article by Mick Moore and Sue Unsworth, 'Britain's New White Paper' 2006.

definitional clarity.⁹ **Some commentators prefer the term 'elite consolidation,' emphasising the centrality of processes that persuade elites to coexist peacefully.** Political settlements are not the same as peace agreements (although the latter may be part of establishing the former). Political settlements are the deeper, often unarticulated, understandings between elites that bring about the conditions to end conflict, but which also in most states prevent violent conflict from occurring. Political settlements happen because of self interest (hope of greater benefit from a common state-building project) or due to a strong sense of shared ethos (such as religious or ideological conviction).

Where a new political settlement is forming a first step may be the emergence of a group with sufficient power to start imposing or negotiating a settlement. Political settlements can therefore arise through the clear victory of one set of actors over others, but only if the defeated view their prospects through renewed conflict as poor. **In essence political settlements are in place wherever those with the power to threaten state-structures forego that option either for reward (which may simply be personal security), for the sake of belief, or to wait an opportunity to become the government overseeing the existing structures.**¹⁰

Most political settlements now have an explicit articulation (enshrined in an evolving document – usually a constitution). Ultimately, however, no political settlement can afford to be static. **For a political settlement to endure it must absorb social change, for example settlements formed by elites that exclude a growing middle class usually become subject to a step change; a 'Great Reform Act,' suffragettes struggle or people's movement.** It has been suggested that in most states constitutional reform has become the metaphor for the renegotiation of power.¹¹

Transfers of government within a political settlement may be peaceful or violent without fundamentally changing the settlement itself (dynasties come and go but this is a reshuffling of elite groups, the structures and rules of power are the same). **In some instances the end of a government marks a step-change or renegotiation of the settlement as actors transform the nature of political power and with it the established structures of the state** (the fall of Communism in E.Europe and of Apartheid in S.Africa).

3.1.2 Survival Functions

The **second** area of progress for responsive state-building is a set of core functions essential to the survival and strength of the institutional framework of the state. **Following the emergence/evolution of a political settlement the structures created must be able to fulfil three core competencies or become vulnerable to challenge.** These 'survival' functions are not exclusive, in some contexts states will face other 'survival' issues (e.g. addressing a humanitarian crisis), but as a minimum all responsive state-building processes must develop capacity in relation to:

⁹ Joe Migdal points out that the concept has a lineage dating back to the work of Barrington Moore.

¹⁰ Merilee Grindle reminds us that these are often 2nd and 3rd best deals on the part of elites, overall political settlements need only be the least worst option.

¹¹ A point made by Tom Carothers

- Security - to be able to control, if not monopolise, the use of violence;
- Revenue - the ability to raise funds sustainably, particularly through taxation;
- Law - the capability to rule through laws; and to be seen to do this.

Achieving competence in these areas is necessary but not sufficient to the process of responsive state-building (the relationship with political settlements and expected functionality remains key). Even so, becoming proficient in these survival functions will usually buy time for states as they seek to develop competence in other areas. The reasons why these functions are important are both pragmatic and symbolic, they are also usually mutually reinforcing.

Within the literature it is widely accepted that the first of these survival functions, security, matters greatly for state-building. **James Putzel's insights from the Crisis States Research Centre suggest that `security requirements trump all other development needs.'**¹² Understanding the importance of security, however, needs to be nuanced and the concept of `order' is also helpful. Order comprises two forms of security: enforcing and protective.

Nascent or weak settlements will first and foremost vie for a form of security that establishes credibility and wards off (or eliminates) internal or external threats, demonstrating that somebody is in control (enforcing security).¹³ **Settlements with a strong drive for state-building will also normally seek to achieve security that underlines legitimacy**, ensuring that the state is seen as the protector of its people. The governed have confidence that, provided they do not threaten the state, they will come under its aegis and be left in peace (protective security).

Survival Functions - Gabi Hesselbein, Frederic Golooba-Mutebi and James Putzel have published a paper through the Crisis States Research Centre on the Economic and Political Foundations of State-Making in Africa. They argue that leaders in Uganda and Rwanda have been relatively effective in creating integrated militaries with unified chains of command. Leaders have also sought to ensure the loyalty of security forces through regular pay and adequate welfare. Both countries have worked to ensure that military structures operate within government control. Just as importantly leaders have sought to use expansion and adaptation of the political settlement as a means to head off possible conflict and instability.

Security may be crucial, but state structures must also be able to pay their way. Tax (rather than just revenue) matters for several reasons. **States are more likely to strengthen their structures when they need to work at raising resources** (rather than having the potential `rents bonanza' of oil). Working to raise revenue through tax creates linkages with society and helps generate expectations of accountability. Domestic revenue can also create confidence that the state has financial sustainability, rather than being dependent on unpredictable aid flows or commodity prices. OECD-DAC has produced a useful paper on tax and governance.

¹² Notes for Workshop on Preliminary Findings, submitted to DFID, unpublished.

¹³ See also Michael Mann's published work on `despotic' power.

Security and tax are intuitively important, even at a basic level, for the viability of state structures. The issue of law has, however, been the subject of much debate. Some vest great faith in rule of law as the cornerstone of state-building, an approach that fits strongly with an 'institutional' emphasis rooted in a belief in the dominance of the 'modern' state. This can lead to a 'chicken and egg' discussion, one side contending that changing the rules reshapes political behaviour, the other that rules get obeyed when they reflect political realities.

What seems clear from the literature and evidence as a whole is that **progress** on rule of law is significant for the development of responsive state-building. The importance of demonstrating progress in this area is for reasons of trust in the political settlement (see below) and also delivery on public expectations. At the level of 'survival functionality,' however, Tom Carothers has argued that the key component is rule **through** law. **Rule through law is the way in which the state makes known to its people the state's expectations of their behaviour.** This is a key complementary component to the issue of security, the state making known the conditions under which enforcing security might be used and thereby engendering some predictability of state behaviour. Laws may initially be limited in scope, but over time are likely to extend to measures that create wealth and help tax collection (such as standardising weights and measures).

Survival functions therefore provide incentives for the state to engage with society at the multiple levels needed for state-building. James C Scott has shown that strengthening survival functions usually entails a drive to make society 'legible.' States must count, map, register and study their societies to gather tax, enforce laws, raise armies – encouraging the state to 'permeate' its society (reaching to the remotest region or social group).¹⁴ In the process the state has incentives to nurture wealth creation (as a means to boost revenue and produce materials needed to enforce order). Ultimately the greater contact between state and people that is generated as states seek to make their societies legible creates potential opportunities for the articulation of social expectations and pressure for the state to respond to its people.

3.1.3 Expected Functions

The **third** area of essential progress is the achievement of an 'expected' level of functionality. Expectations of how the state *should* perform on issues important to its own citizens and external actors (such as donors). **Expected functionality sees responsive governments trying to keep up with demands for better roads, social provision, policing and other services.** For all states a degree of action on public expectations is not optional if stability is to be maintained; even repressive states usually deliver against some expectations as a way to reduce dissent. Levels of performance will vary due to commitment and/or capacity, and the nature of expectations will vary from state to state.

The distinction between survival and expected functions should not be viewed too dogmatically (each has elements linked to the other - expectations will exist in

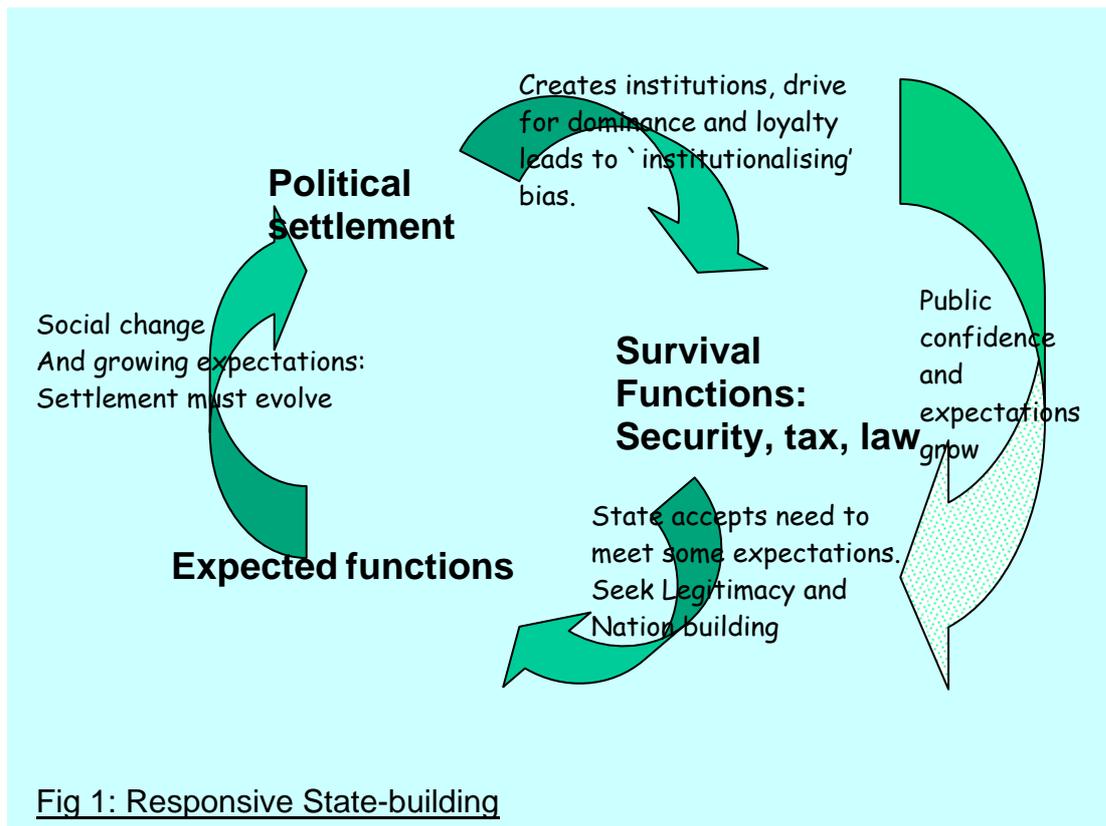
¹⁴ Scott's 'Seeing Like a State' offers a rare attempt to chart state-building dynamics from the perspective of the state's need to engage with social and economic issues.

relation to security and states see a healthy population as security related etc). But, survival functions are qualitatively different in maintaining a minimum level of control, they are the areas that those dominant within the political settlement must attend to first, and most effectively, if they want the instruments of the state to be their vehicle for policy.

Expectations differ greatly, between countries, and across societies with public demands often coalescing around the multiple identities that most people carry (gender, religion, region, family status etc). In essence expectations are the result of the aggregation and expression of shared preferences and opinions, a process often dominated by organised avenues for expression, such as political and civil society. Even in states seeking to be responsive there is always the danger that some voices will dominate over others, with the voices of women for example, often marginalised, silenced or coerced. States differ in their ability to balance and gauge approaches to expectations. Successful responsive states take a view that they must form coalitions with social groups in order achieve government goals. Whether democracies or not, responsiveness is as much a product of political realism as it is of any noble state-building ideal.

In responsive states it is the negotiating process surrounding expectations that helps to drive the dynamic of state-building. Private sector actors also play a role both in voicing demands and helping to provide resources for the state as it develops. Mushtaq Khan believes that the relationship between holders of economic power, and holders of political power, will help determine the nature of the political settlement and its level of drive towards state-building.

A summary of responsive state-building suggests a dynamic in which efforts to build capacity bring the state into greater contact with society, fuelling pressure for it to respond to expectations. Initially the pre-occupation may be with reducing dissent, or even nurturing a healthier population to counter an external threat. Nevertheless willingness to engage and respond to demands increases the permeability of the state to social change (the voices of the middle class, or of expanding urban centres); prompting pressures for evolution in the political settlement. Processes that have played out in states as diverse as S.Korea, Taiwan and Mexico. Hence responsive state-building tends to foster expanding political settlements, and adaptable settlements are the bed-rock of resilient states.



Democracy provides an institutional framework that has the potential to mediate these processes and enable a constant evolution of the political settlement. It is important to bear in mind, however, that democracy is no guarantee of a responsive settlement, nor are responsive settlements confined to democracies.

3.2 Unresponsive State-building

So far we have focused on how political settlements strengthen state structures, creating a path towards responsive state-building and greater resilience. But Patrick Chabal points out that some settlements 'institutionalise' (rely on and develop formal institutions) more than others. **Not all settlements naturally lead to stronger survival and expected functionality.** Instead settlements can generate ineffective, repressive and corrupt (unresponsive) states. Why do some political settlements generate a drive that is clearly orientated towards non-responsive state-building?

Settlements rely heavily on satisfying the self-interest or core beliefs of key elites, and the cause of unresponsive state-building often lies in this need to keep powerful constituencies on board. For example, where the balance of power among elites is uneasy there is a premium on placating those who are potential threats. Mushtaq Khan argues that political settlements in which power is evenly shared may therefore be inherently unstable.

Where leaders try to buy elite support the nature of available resources will shape the approach that is taken (whether to pursue this through stronger institutions or through alternatives such as patronage). Paul Collier's work

underlines the role of resource levels in the sustainability of settlements.¹⁵ In some contexts limited resources make it difficult to satisfy the expectations of those who need to be brought within the settlement. Elsewhere high levels of natural resources can dull incentives to strengthen state structures (such as revenue raising).

The impact of resources can be seen in states where maintaining a settlement means acquiescing to powerful social groups with financially unsustainable expectations. In Zimbabwe pressure to placate war veterans with large benefit payments was followed by pressure for land seizures. Policies which helped to undermine economic management and also some previously effective state institutions. What these types of processes have in common is the desire on the part of dominant elites to use resources directly for political purposes, creating incentives for them to view state institutions as either unimportant, or potentially a threat. The potential to placate elites and constituencies through responsive state-building (improved service delivery, gender equity, political empowerment etc) may be viewed as either too poorly focused on core supporters, too slow, or too uncertain.

The influence of resource issues on elites can often be exacerbated by the international environment and what have been termed 'global drivers of bad governance.' These issues, such as global crime and international corruption, help elites to fund political settlements through illicit cross-border revenues (rather than through survival functions such as tax). There may also be pressure to take this approach, such as the active encouragement of corrupt practices by outside businesses or criminal groups. International actors may also limit the demand side of state-building, by drawing civil society towards a focus on external donors or by prioritising global media over local.

Political settlements with a weak drive for responsive state-building can therefore be fostered by their international environment, or by domestic pressures that restrict the room to strengthen the functions of the state. Unresponsive state-building can also be exacerbated by the nature of state structures and political rules. **A poorly designed institutional structure for politics may make the operation and evolution of a political settlement more difficult.**

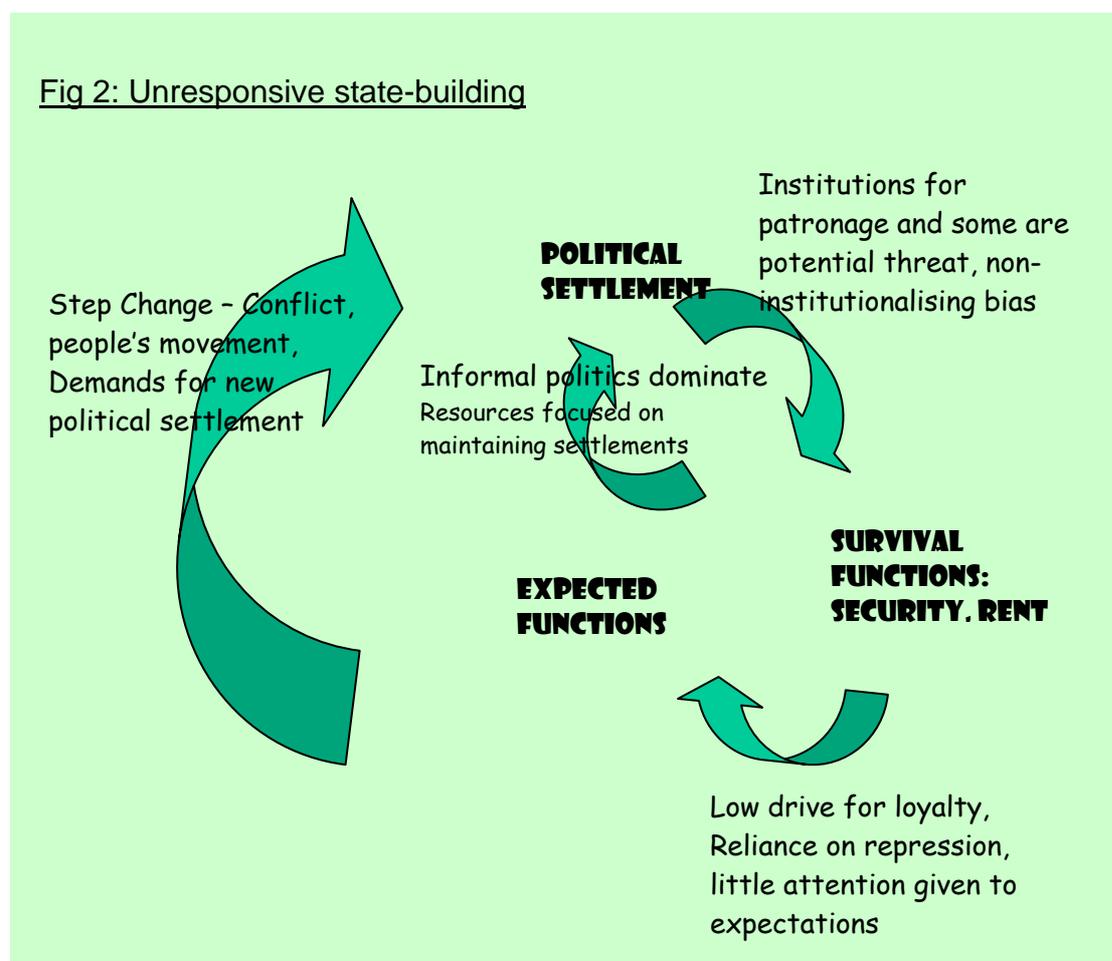
This can include fragile democracies (statistically the most unstable countries), where constitutions may not be sufficiently adaptable, or may not provide soft-landings for losers. Elections, for example, often fail to produce a distribution of power that matches elite expectations or their raw physical power, creating a powerful group potentially alienated from the nascent settlement. (These challenges do not suggest a retreat from democracy support – democracy is arguably now the preferred vehicle for political settlements by the public in nearly all societies – they do, however, suggest support that is highly contextualised).

A further issue that is particularly prominent in unresponsive state building is the question of ideology. Some political settlements may be driven by an ideological or religious vision for the state and nation that accelerates the capacity building of some state-structures, but which also places constraints on the way in

¹⁵ Collier's book 'The Bottom Billion' offers an account of why settlements succeed or fail.

which the state will respond to public expectations. An example of a state in which ideology has played an important part in setting the parameters of state-building has been Burma. In situations with ideologically driven settlements the state often has a view of what the public 'should' want, rather than pursuing a pragmatic relationship in which the desire for dominance and loyalty entails a willingness to listen to social voices. Ideologically driven settlements risk becoming inflexible; failing to evolve and ultimately being overtaken by social and political change.

Some political settlements therefore have low incentives for responsiveness, and any desire to 'enhance the state's ability to function' may have little to do with the public good or with public expectations. The nature of the settlement may determine that state-building is a vehicle to enhance gains from rent-seeking or the means of political repression and is confined to those instruments essential for these purposes (aspects of survival functions). Unresponsive state-building can enjoy periods of stability (secured through patronage or repression), but will remain vulnerable to significant shocks, such as economic crises or an explosion of underlying dissent. Managing any reform in such states can become more difficult and liberalising fuel prices or encountering shortages can rapidly lead to crisis.



Importantly many states will exhibit characteristics of both responsive and unresponsive state-building, often as a result of geographical and historical legacies. Regional differences can exist in relation to all three aspects of state-building (political settlements, survival functions and expected functions). Resilient

and fragile state-building processes can coexist with substantial pockets of the population outside full government control.¹⁶

3.3 More on Political Settlements

The discussion of both responsive and unresponsive state-building suggests that the nature of the political settlement is central to whether states become effective or not. The nature of political settlements is therefore an essential part of understanding state-building. **Settlements are visible through the machinery adapted or created to manage politics (how governments are formed and operate).** These include electoral processes, Parliaments, political parties, cabinets and heads of state. Predominantly these are now organised around the idea of democracy, but alternative organisational principles include: autocracy, monarchy, theocracy or nationalism. The nature of the institutions and their organising principles are inextricably linked to the language of legitimacy that is used for a political settlement (liberty, tradition, divine right etc.). The machinery established is by implication the preferred route for navigating any future changes to the political settlement.

3.28. Political settlements rarely fall into place neatly. Wherever possible previously dominant elites will try to manage the process through which political settlements evolve (e.g. post-communist elections); with a softer landing one aim. **Not surprisingly the failure of political settlements is most pronounced early in their life.** New political settlements (such as in new states or states where an old settlement has collapsed and been replaced e.g. failed autocracies) face daunting institutional challenges. The existing machinery of the state may lack experience in keeping the stakeholders to the new settlement on board, and their ability to do this may be outstripped by the unrealistic expectations of those who saw the new settlement as an opportunity for gain (sometimes contributing to rapid changes of power, such as Obote-Okello-Museveni in Uganda).¹⁷

¹⁶ The importance of local contexts has partly fuelled a debate on the significance of decentralisation/local governance in the context of both survival and expected functionality. What is clear is that local government is often the first point of contact between citizens and state, and therefore has a profound impact on the trajectory of state-building.

¹⁷ There is now a proliferation of indices that seek to track the fragility or failure of states by aggregating indicators of instability, insecurity and poor political-governance, most offer interesting insights on the challenges facing political settlements. Even so the detailed studies of the Political Instability Task Force phase reports offer the most detailed exploration of issues associated with unstable settlements.

Political Settlements can take many forms. Five ways of visualising political settlements are:

Engineered Settlements – Explicitly negotiated sometimes with external mediation, often as part of a formal ‘peace process’ or following external intervention. These include ‘pacted’ or ‘consociational’ settlements. The work of William Zartman is a useful introduction to key concepts.

Political Sedimentation (Chabal) – The product of prolonged crisis, the uneasy arrangement among elites that becomes semi-solidified as a basis for state institutions.

Imposed Settlements – A clear victory by one group allows them to impose a settlement on other elite groups, maintained through a high capability for enforcing security.

Entrenched Settlements – Political settlements can achieve a degree of legitimacy and popular acceptance that makes direct challenges unlikely to succeed. Evolution becomes the primary mode of change. Long established democracies tend to be entrenched settlements.

Stagnant Settlements – Societies change and political settlements must evolve to survive. Non-participatory settlements (autocracies) may eventually face challenges as a result of urbanisation and education. Settlements that deliberately exclude parts of the population may become stagnant. (Recommended reading includes Marina Ottaway and Tom Carothers).

Section Four: Why do some states manage state-building better than others?

4.1 Policies and Contexts

There will be contexts in which state-building analysis suggests that a step-change or renegotiation of the political settlement is essential to progress. However there are also cases where even initially weak settlements can become the basis for improved responsiveness and growth (Mozambique, Malawi, Cambodia, El Salvador). **Experience therefore indicates that there are variables that help to determine the changing relationship between settlements and state-building.**

There are a number of schools of thought on why political settlements differ in their ability to generate responsive state-building, and also why institutions with a strong mandate for state-building differ in their success. **The three most persuasive**

viewpoints in the literature are summarised here; in addition possible key factors that influence these processes are also listed:

Firstly, a major contention is that although any set of institutions will struggle to manage state-building with a weak political settlement, some institutional arrangements may work better than others. The Political Instability Task Force (PITF) drawing on Polity IV data-sets (developed to track political/social indicators across states) partly ascribe the causal relationship for weak settlements to the institutional relationships they observe. This suggests that certain types of institutional support are more likely to generate strong settlements that can carry forward an institutionalising state-building agenda. PITF argue that three issues indicate states with the highest risk of major instability: the first is the replacement of the executive (for example are there elections and are they free and fair), the second is the degree of constraints on the power of the executive.¹⁸ The third is the relationships among contending political groups (factional or non-factional). PITF work suggests that in contexts with high factionalism the establishment of trust among elites is an important part of the process of developing political resilience.

Experience from **Latin America** suggests that state-building challenges do not end when countries achieve middle-income status, instead the need for political settlements to constantly evolve creates risks of instability. Countries may have regions where state-building is fragile and contested. DFID has responded to these challenges through political party reform programmes intended to build capacity for the evolution of political settlements. Parties are helped to become more inclusive of marginalised groups and those excluded from the political process are supported in efforts to gain a voice.

Secondly, it has also been argued that focusing on delivery of services and local development may bolster legitimacy and confidence in the settlement. This view has often underpinned ideas of 'peace dividends' and Quick Impact Projects (QIPs), but is not necessarily confined to post-conflict environments. Ghani and Lockhart have provided a fuller view of how boosting a broader set of government capacities can support state-building. Emphasising state competence can also have the benefit of shifting national political debates to issues of performance, and away from lingering doubts about the wisdom of a political settlement. An emphasis on progress against expectations ('backfilling' legitimacy) is taken further by Stephen Krasner who argues for the contracting-out of state-functions as a means to demonstrate effectiveness.¹⁹

The literature suggests that effective delivery is only part of the story of why some states consolidate their political settlements more readily than others. **The third**

¹⁸ Full openness in all three areas is more consistent with stability, whereas full openness in one area and closedness in others may exacerbate problems (for example open competition for power leads to more instability if there is a high level of factionalism, rather than open political participation).

¹⁹ The importance of rapid delivery to the bolstering of political settlements is not empirically proven, but intuitively resonates with the need to convince parties to political settlements that their interests lie in stability. Some rapid delivery approaches (following a major shift in the political settlement - such as a peace agreement) may result in only low levels of credit accruing to the state (with projects being implemented by NGOs or the UN). This might even undermine confidence in the state's performance, particularly if in contrast high-profile services implemented directly by the state are performing poorly (police, local government). Donors can also leap to conclusions about which service delivery areas will have the greatest state-building impact.

school of thought on these dynamics suggests that the relationship between `survival' and `expected' functions may also be important through mutual reinforcement. Work by the Crisis States Group on Africa indicates that an emphasis on survival functions may work in post-conflict contexts. The work argues that Rwanda and Uganda created positive dynamics for reform through the processes of strengthening their political settlements and control of security. The CSG paper does not, however, offer a clear picture of the underlying processes involved.²⁰

These three schools of thought offer insights into state-building paths from fragility to resilience, but wider evidence including from S.E.Asia and Latin America, suggests that a number of factors can influence the state-building process. **These factors will have an impact on incentives that exist for elites to pursue responsive and unresponsive state-building.** Therefore, either by chance, or policy choice, state-building will be affected by:

1 Growth – Growth and state-building have a mutually reinforcing relationship. Evidence emphasises the importance of politics for investment and trade. A political settlement that inherits or rapidly generates expansion of investment and trade will be able to generate a virtuous cycle as confidence in the benefits of the settlement also grows. But the ability of growth to help stabilise a political settlement will also depend on how or whether its benefits are distributed across social constituencies.

2. Revenue Base – Tax raising is important to state-building, but the environment for tax raising can vary. A country with little trade and with an impoverished population may struggle to generate revenues, while some contexts may have powerful social groups who have grown to expect special privileges in avoiding tax. As a survival function tax can provide confidence in future state delivery, and act as a driver of state-society relations (encouraging expectation and accountability). But some states will find the environment for tax raising considerably easier than others.

3. External threat – While being surrounded by conflict affected countries can lead to becoming embroiled in the problems of a bad neighbourhood an isolated external threat can act as a positive spur to state-building by focusing the minds of elites. The experience of Taiwan, South Korea, Pakistan, India all suggest that the need to be ready for potential conflict can act as a powerful driver of state-building.

4. Risk – The importance of `public confidence' has a converse in the equation made by stakeholders of their major sources of risk. State-building is more likely to gain traction and move into an institutionally managed process if most stakeholders evaluate their greatest sources of day to day risk as resting with other parts of society, with the state acting as `protector.' Where the greatest source of predatory risk comes from the state the political settlement will

²⁰ Economic and Political Foundations of State Making in Africa: Understanding State Reconstruction, Gabi Hesselbein, Frederick Golooba-Mutebi and James Putzel, A Crisis States Research Centre paper.

be challenged. In some countries criticism of the police may reflect a sense that they represent more of a risk than guarantor.

5. Inclusion and Rights – Political inclusion matters, particularly if the evolution of political settlements is to keep pace with social change.

States with organised discrimination have a statistically higher probability of instability.²¹ It is also important that political inclusion does not get confused with organised factionalism, suggesting a continued relevance for de Tocqueville's idea of membership based civil society cutting across identities. Equally there is evidence²² of a growing sense within most states that democracy, political inclusion and human rights are global norms (fostered for example by access to global media). Political settlements that fail to recognise social acceptance of these norms risk challenge.

6. Helpful and Unhelpful Friends – External actors can not do state-building in other countries but they can have an impact.

For many states the role of donors will be important in either helping or hindering the process. For example by providing resources to sustain the dynamic (or to weaken it through tax suppression). International actors will also influence how states are affected by negative global trends, and how they benefit from changes in areas such as trade and technology. Traditionally 'geo-political' relevance was seen as a key determinant of state-building (a state's priority within cold war politics) and states will still be affected (positively and negatively) by external actors to varying degrees.

7. Legacy – Some political settlements are blessed with being able to co-opt the strong infrastructural legacy of the past (including some newly independent states), others are hampered by weak institutions.

All political settlements also inherit some problematic hangovers from the past (such as social exclusion or embedded corruption). A central theme of state-building experience, however, is the importance of building on whatever constructive legacy exists, it probably provides the only common understanding and reference point for what institutions 'should' be like. New political settlements also inherit elements of legacy that are difficult to change quickly, such as geo-political position, structure of the economy and geography.²³

8. Leadership – Some leaders are seen as having a clear state-building agenda that stands-out from the rent-seeking or patronage based approach of their peers or predecessors

(Edward III, for example, in the context of England). The role of leadership is contentious, with a view that for external actors institutional and incentive issues should be seen as more central. Even so there is no doubt that leadership has a very dramatic effect on the direction and impact of the state-building dynamic.

9. Cultural Ideas of Stateness – Some commentators variously argue that

²¹ See PITF Phase III and Phase IV.

²² While the Afro and Latin barometer surveys show a healthy scepticism for politics they also show underlying belief in these globalised norms.

²³ Signposts to More Effective States, Sue Unsworth, Centre for the Future State

`cultural perceptions of stateness' matter, arguing that **people tend to have very different idea of the role of the state in Europe, the US or Asia.** Some states may therefore face a combination of cultural influences that emphasise the individual as opposed to the political community or vice-versa.

10. Time – Historical opportunities exist within a timeframe of public mood and expectations. A new political settlement (the return of democracy) may arrive on a tide of support only for the initial honeymoon period to prove short-lived. Or a new elite group may sweep aside predecessors only to see the time for establishing security squandered in infighting, before a new insurgency arises to challenge their power. Judging time is extremely difficult, an early rush to elections may fracture a fragile consensus among elites, long delay may destroy public trust. Timeframes can be changed, through effective communication or the delivery of clear and transparent sequencing, but timing will also be impacted by unforeseen events.

4.2 A touch of confidence

This paper has outlined a number of factors (e.g. growth, external threat, leadership, risk) that help to determine whether difficult settlements can come good. **Many of these factors point to the important influence of issues that can be summarised as confidence in the potential for progress, or the presence of spoilers.** Issues of confidence and spoilers have a reciprocal relationship with the factors that influence state-building, feeding and being fed by each (leaders can inspire confidence, and leaders who have the confidence of the public are more able to lead).

Political settlements must inspire confidence in their durability and capability. We might hope that this confidence is built on legitimacy and trust (and confidence can be greatly boosted by either or both), but confidence can be a more basic belief that the state is going to survive and accomplish most of what it sets out to achieve. Confidence can not, however, be reduced to a simple equation. It will also be influenced by the beliefs and identities of the public and their willingness to associate themselves with the state-building process. Confidence can be fickle, it may be boosted initially by the rise of a new settlement and a visible process to claim legitimacy (such as elections), only to be quickly undermined by instability or the challenge of those able to claim other forms of socially embedded legitimacy.

Confidence can not be bought through a Quick Impact Project (although they will be accepted with thanks). But there are areas where actions can have an impact and these often relate to political settlements and the state's survival functions. Among international actors a great deal of store is often placed on elections as a confidence building measure and this can be an important step in demonstrating the stability of a political settlement (where stability exists). Elections are often therefore a tantalising promise of the `consolidation' of a political settlement and Donal Cruise O'Brien has spoken of elections as part of the essential `ritual' of state. This can, however, mean a high level of expectations building around elections in environments where the political settlement actually remains uneasy and vulnerable to collapse. In many environments such processes need to

be viewed in the light of the wealth of work on peace-building and conflict prevention.

Also important to the level of confidence is the degree of rule of law (the state respecting its own rules). Rule of law acts as a guarantee that understandings will

be respected. If rule of law is absent then parties to a political settlement carry a high level of unpredictability and risk. An important element of this is the actual experience of the public of 'human rights,' the degree to which their encounters with the state affirm that they are viewed as stakeholders within the state-building process. A stakeholder whose rights are respected. Also, where states are sensitive to international or domestic approbation, then international human rights instruments can become part of the framework of guarantees. The importance of Rule of Law is particularly stressed within 'Limited Access Order' literature.

Cambodia emerged from decades of conflict and foreign intervention with a weak political settlement, initially overseen by UN peace-keepers. After 1998 the consolidation of power by a dominant political party, the Cambodia People's Party, brought some stability, although with criticisms of imperfect democratic practice. For much of the post-1994 period government service delivery remained poor, and expectations of government have been low. More recently economic growth and external aid flows have helped government to make progress on basic services and the extension of rural roads. DFID Cambodia analysis suggests that expectations of government are now growing; but the absence of conflict, and the maintenance of a fragile stability, created a prolonged period of public patience with both a weak political settlement and poor service provision.

Within the search for confidence the role of both outsiders and of spoilers can be critical. Outsiders can confer a degree of legitimacy to new political settlements (through international recognition) and send signals of their support and good faith. In some circumstances direct intervention may also help to provide the security that a political settlement otherwise lacks (as happened in Sierra Leone).

While external actors can not make state-building 'work' the international system has numerous ways to help or hinder the process.

While confidence can be built it can also be undermined, and here the role of spoilers is important. **There are many spoilers that will affect state-building, including elites who remain unreconciled and the impact of global drivers of bad governance such as globalised crime or access to arms.** Externally driven spoilers can include pressure on all the key domestic actors (state institutions, civil society, private sector) to engage more with their international counterparts than with each other.

Yet even where a clear state building agenda is in train and progress being made, spoilers may be unavoidable. For many states 'counter-deliverables' will be an aspect of some of the spoilers they face. Put simply in balancing the competing demands of social constituencies it is inevitable that some groups will not be pleased. While addressing some of the expectations of the public (building schools) a state may also be making life harder (ending the income from child labour). In Afghanistan the essential need to pursue counter-narcotics (both an economic and a security need) nevertheless creates a counter-deliverable in short-

term economic disruption for some farmers. Whether counter-deliverables outweigh deliverables will help determine confidence (and levels of support).

Section Five: Implications for International Actors:

The model of responsive state-building outlined above points to some factors that can help or hinder progress towards a responsive dynamic. We have also seen that while some political settlements may start with a low drive towards responsive state-building this can change. Most international actors are not neutral on these questions, believing that states should move towards responsive state-building. **But can understanding some of the issues involved in these dynamics help international actors assess their own responses in a diverse range of contexts?**

The models of responsive and unresponsive state-building do suggest that issues of prioritisation and sequencing matter a great deal. **Sequencing within each of the three areas of state-building (political settlements, survival functions and expected functions) will be important;** working for example initially on those areas of public expectations most likely to impact on confidence. The models also suggests that focusing purely on enforcing security, to the detriment of protective security, may undermine confidence and reduce the orientation of an emerging state-building dynamic towards responsiveness.

The questions arising from state-building can help international actors to think through a variety of questions that could be seen as 'due diligence' or 'moral hazard.' **The implications of the models above are that international actors in general, and donors in particular, should consider the following principles:**

A Positive Agenda: Fives Does

- 1. Do Prioritise and Sequence – A state-building lens suggests that states need to prioritise within the three key domains in order to progress on responsive state-building.** Merilee Grindle has already suggested some approaches to prioritisation using the categorisation of states developed for DFID by Mick Moore.²⁴ International actors can send signals that prioritisation will be supported. In 2006 following the popular overthrow of Nepal's royal regime donor's met to discuss the implications of the changes. A decision was taken not to promote major new initiatives and agendas while the new political settlement remained weak. The intention was to avoid overloading actors who needed to focus on consolidating a changing political settlement. Resisting the temptation to press for new programmes (often described as a 'peace dividend') is not easy, but can be effective in preventing the distraction of actors away from key state-building steps.
- 2. Do Support Emerging Political Settlements..... – The international community is most likely to funnel resources towards expected**

²⁴ Grindle, 'Good Enough Governance Revisited,' Development Policy Review, Sept 2007

functionality, but has the potential to make a significant contribution elsewhere, including in helping to consolidate political settlements. In one resource rich state the Countries at Risk of Instability analytical framework has been used to assess the incentives and disincentives for political actors to remain within a weak political settlement. International actors have used this analysis to float ideas on how the incentives for stability can be guaranteed. Such interventions are usually low cost, but can play a constructive role.

3. **.....and Survival Functions – Survival functions can be a neglected area for international actors, including both revenue raising and security.** International actors are often hesitant to support either enforcing or protecting security and many donors have greatly downscaled their commitment to areas such as police reform. Support to Security Sector Reform that prioritises public confidence can have a disproportionate value where positive political settlements are emerging
4. **Do look at political economy analysis through a state-building lens - Analysis to construct a state-building view should form part of country planning processes.** International actors should use their existing analytical tools (such as Drivers of Change, Countries at Risk of Instability, Critical Path, Country Governance Assessments) to construct a picture of the sustainability of the political settlement, its state-building agenda, the strength of survival functions and the ability to progress on expected functionality.

State-building: Analysis and Action

Political Settlements – DFID has used Critical Risks of Instability analysis to identify possible problems within a fragile political settlement. Critical Path Analysis has also been used to assess key steps towards major landmark events in a political settlement.

Survival Functions – DFID DRC commissioned a study in 2006 looking at priorities for action in fragile states when everything is urgent. This drew on lessons from a range of countries including Sierra Leone, Liberia and Afghanistan. The results confirmed DFID DRC's focus on security sector reform as a priority area for support.

Expected Functions - DFID Nepal used opinion surveys and a participatory governance assessment to help distinguish between 'real' and 'assumed' expectations.

5. **Do consider net or aggregate policy impact –** International actors will influence and impact state-building across a range of policy areas, with potential for trade-offs between different policy objectives. Equally in the narrower field of development assistance some development activities may support responsive state-building dynamics (fostering state-society engagement, supporting survival functions etc) while others may undermine it (promoting parallel systems). It also needs to be borne in mind that different donors may be working at cross-purposes on state-building, some aligning

with state-building dynamics while others are potentially undermining them. **International actors should therefore undertake state-building health checks to assess net overall impact on state-building dynamics, both from a whole of government perspective and also across the donor community.** An issue to consider within the concept of net impacts is willingness to stay engaged and the problem of unpredictable aid flows or unpredictable policy responses.

Problems and Pitfalls: Five Don'ts

6. **Don't forget that state-building is not just about the state – States matter, but understanding state-building also entails considering the dynamic relationships involved, particularly the importance of state-society relations.** Encouraging positive state-society dynamics entails working with civil society on the demand side of reform (such as the ARVIN approach pioneered by the World Bank). Supporting civil society can be particularly helpful where it encourages membership organisations that cut across identities and which view domestic fundraising, and engagement with national government as central to their role (helping to reduce any fixation with donor policy agendas).
7. **Don't Impose Expectations - It is important for international actors, particularly donors, to respond to real rather than assumed, expectations.** This includes gathering evidence in acute state-building environments on the most pressing areas of public demand. The example of Cambodia suggests that provided the most basic public demands are met (such as security or peace), states may benefit from sufficient time to identify and prioritise public expectations. The UK Government's Stabilisation Unit also emphasises that where political settlements are weak supporting countries should ensure that initiatives are aligned with positive political processes. By-passing Governments through NGOs and other mechanisms, or failing to brand initiatives as 'state' ones may undermine emerging democracies or peace processes.
8. **Don't bet on the wrong elites – Analysis of a number of emerging political settlements has pointed to the dangers of misjudging the ability of elites to gain legitimacy and confidence.**²⁵ International actors need to consider the relationship between elites and social constituencies and consider the relative position of elites claiming different forms of legitimacy, or whose actual power (for example through force of arms) is different to their ability to mobilise popular support. For international actors the most challenging contexts are those where elites have incentives to favour rent-seeking over institution building. In these instances writers such as Paul Collier have suggested that new instruments are needed. Certainly prolonged alignment with trends supporting institutionalisation (e.g. social pressure and accountability structures within the state), may support the reform and evolution of the settlement

²⁵ For example see various articles by Toby Dodge on 1920s Iraq.

- 9. Don't Permanently Suppress Revenue** – This paper has pointed to the importance of revenue raising as a way of generating public confidence in the permanence of the state, and as a prompt for public demands for accountability. **In some instances, where government budgets are largely funded by aid, the incentives to raise taxes could potentially be reduced.** It is argued that aid may not create the levels of confidence (due to fluctuating aid flows) provided by tax, nor stimulate similar state-society dynamics. Conversely, some practitioners argue that while tax is important in theory it is difficult to see any alternative to aid dependency in contexts where large parts of the population live in absolute poverty. There is also evidence that oppressively implemented taxation creates further instability. A medium course is to advise international actors to recognise the damaging effect of long-term dependence on aid and prioritise support to the state in strengthening a viable and fair revenue raising system.
- 10. Don't confuse state-building with peace-building, but do understand their complementary roles - Peace-building and also stabilisation thinking can greatly help donors to think through long-term state-building issues and to identify trends with which they might align.** Some donors have explicitly tried to make this link, such as UNDP/USAID's document 'First Steps in Post-Conflict State-building' which offers useful thinking on bridging immediate and longer term issues. The UK Stabilisation Unit has similarly constructed an approach to post-conflict environments that explicitly lays the ground for support to ongoing national state-building efforts. While state-building occurs in all states, rich or poor, conflict affected or peaceful, there is no question that the relevance of understanding these dynamics can be particularly high in countries with acute state-building challenges.

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