



CENTRE FOR THE FUTURE STATE

Societies, States and Citizens

A policymaker's guide to the research



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This paper is based on the findings of a ten year research programme undertaken by the Centre for the Future State, located at the Institute of Development Studies, University of Sussex and involving collaboration with partner institutions from Asia, Africa, and Latin America. The central research question has been how to increase effective, accountable public authority in poor countries of the global South.

For further info please visit: <http://www2.ids.ac.uk/futurestate/>

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“States and societies help build each other. Understanding these relationships is the key to improving aid effectiveness”.

1. Overview

Governance matters for development. Fragile states that lack the ability to control violent conflict and deliver basic services remind us how vital effective, accountable public authority is to achieving development. There is consistent evidence from research and donor evaluations that well-intentioned development efforts are frequently undermined by weaknesses or obstacles that are political or institutional, rather than financial or technical in nature. Yet there is also mounting evidence that efforts to nurture “good governance” by transferring political and institutional models from rich to poor countries, and strengthening the capacity of formal state and civil society institutions, have had limited impact. So donors need a different approach.

This briefing paper is based on a ten year programme of DFID-funded research by the Centre for the Future State¹, located at the Institute of Development Studies, University of Sussex. The central message is that achieving better governance is not a precondition for development but an integral part of the development process. States and societies help to build each other. Bargaining between the state and society – between people who hold political/military power and organised social groups – is fundamental to achieving progressive change: more peaceful resolution of conflict, more productive investment of resources, and more inclusive public goods. Understanding how these domestic political processes play out in a particular country context, and how they are influenced by external interventions, is key to improving the effectiveness of aid-funded development efforts. Instead of top-down programmes to impose Western institutional models and best practice, donors should focus more on local capacity and local political processes, and look for ways of building on them.

Supporting Evidence

¹ For a synthesis of research findings see IDS, Centre for the Future State (2005) *Signposts to More Effective States: Responding to development challenges in developing countries*, and IDS, Centre for the Future State (2010) *An Upside-down View of Governance*, Brighton: IDS



2. States in a post-bureaucratic age

2.1 States matter, but state building need not follow Western models

Even in a globalised world, states matter. As already noted, this is demonstrated most clearly in so-called “fragile states” that lack the most basic capacity to control their own population and territory. In stateless societies (such as Somalia) traditional social structures may be able to provide a basis for negotiating disputes and building trust. However there are limits to what can be achieved without an overarching source of political authority able to organise collective action backed by coercion (for example to enforce sanitary standards for the export of live-stock). Moreover without effective state authority, traditional structures can become undermined or co-opted – for example by warlords or predatory business interests².

However the term “state building” can be unhelpful because it tends to evoke the historical experience of Western countries, and focus attention on the creation of a particular set of formal institutions: an elected executive and legislature, a rules-based bureaucracy, an independent judiciary, a security apparatus under civilian control, and a regulated market economy. Building such institutions is a valid long term goal, but they are the outcome of protracted political processes and it is unrealistic to expect poor countries to reproduce them in the short to medium term.

It may be more useful to think about the functions than the form of public institutions, and the process of creating them rather than a particular destination. In most poor countries the boundaries between “state” and “society” are unclear, and the task of organising collective action to create public goods (security, peaceful resolution of conflict, basic services) will be shared between a great variety of state and non-state actors. Policymakers should pay more attention to how elements of “public authority” are in practice being created in many different ways, both inside and outside the formal state, and through interaction between public and private actors. This is explored further in section 3 below.

2.2 “Good governance” is a flawed approach

The last two decades have seen an explosion of “good governance” initiatives: OECD governments are now spending over US\$ 10 billion a year on efforts directly aimed at improving governance in poor countries, and aid conditionality linked to improvements in public sector governance is also on the increase³. Yet evaluations have revealed the limitations of programmes designed to strengthen formal, rules-based

Supporting Evidence

2 Leonard, D. (2009) *Rediscovering Political Order: The Somali Systems Today*, IDS Working Paper 316, Brighton: IDS.

3 World Bank (2005) *World Bank Review of Conditionality*, Washington DC: World Bank.



institutions through civil service reform, anticorruption measures, rule of law programmes, democracy support, and attempts to improve the investment climate⁴.

Efforts to use donor money and technical assistance to strengthen the ability of civil society organisations to make demands on government (for better services, or more democratic accountability) have also had mixed results. They have created a large number of advocacy and service delivery NGOs that are dependent on donor funding, often have a weak membership base and unclear mandates, and may be reluctant to get involved in political confrontation with governments⁵. While they can offer services that are valued by poor people, claims that support for such organisations “strengthens” civil society more broadly are almost certainly inflated: a plurality of organisations does not equate to political pluralism⁶. Donors also risk undermining local capacity if they create new structures but fail to take account of their impact on very informal, village level customary institutions (the National Solidarity Programme in Afghanistan being a case in point)⁷.

This does not mean that donors should abandon well targeted efforts to support core governance functions, including the security sector (especially in post-conflict situations), and financial and regulatory functions (for example taxation, government procurement and central banking, where Weberian organisations that are insulated from societal pressure may be particularly relevant). Nor does it mean that aid agencies should not fund NGOs. But it does suggest that interventions need to be selective, sustained, much more realistic about likely short term outcomes, and better attuned to local political interests and incentives. Donors cannot hope to recreate in poor countries formal institutions of the state, market and civil society that resemble those of OECD states, and expect them to work effectively in a very different social and political environment.

2.3 The role of the state is changing

States matter but they do not need to do everything. The Weberian model of centralised, hierarchical bureaucratic capacity has become less relevant in both OECD and developing countries in the face of decentralisation, privatisation, democratisation, citizen participation and increasing service delivery by non-state actors. States are having to adapt and take on a different (but equally demanding) role: one of influencing, networking and regulating rather than old-fashioned “command and control”⁸. The particular challenge for many poor countries is that they lack the capacity to impose an overarching policy framework and enforce basic standards; and that they are confronted by a huge diversity of non-state actors and informal institutions, many of which enjoy a high degree of autonomy. So Western models of policy reform that emphasise contracting out, competition between service providers, and citizen participation in monitoring may be unhelpful if they fail to take account of how such arrangements play out in a very different political context (see section 3.5ii below).

Supporting Evidence

4 World Bank (2008) *Public Sector Reform: What Works and Why?* Washington DC: World Bank; Norad (2009) *Anti-corruption Approaches. A Literature Review*, Oslo: Norwegian Agency for Development Co-operation.

5 Bano, M. (2008) ‘Dangerous Correlations: Aid’s Impact on NGOs’ Performance and Ability to Mobilise Members in Pakistan’, *World Development* 36:11: 2297-2313.

6 Carothers, T. and Ottaway, M. (eds) (2000) *Funding Virtue: Civil Society Aid and Democracy Promotion*, Washington DC: Carnegie Endowment for International Peace

7 Brick, J. (2008) ‘The Political Economy of Customary Village Institutions in Rural Afghanistan’, paper prepared for Annual Meeting of the Central Eurasian Studies Society, Washington DC, September 2008.

8 Ansell, C. (2000) ‘The Networked Polity: Regional Development in Western Europe’, *Governance: An International Journal of Policy and Administration* 13.3: 303-33



More broadly, donors need to beware of pursuing approaches that are currently fashionable – or indeed working well – in developed countries, without taking sufficient account of the very different (and varied) political and institutional context in developing countries. The record speaks for itself: in quick succession, donors have advocated state-led development, then liberalisation, privatisation and the retrenchment of government from core functions, followed by “bringing the state back in”, democratisation, decentralisation, the establishment of autonomous agencies, the creation of public-private partnerships, and civil society participation in the delivery of core services.

2.4 The context for state building is changing

Increasing interaction between rich and poor countries in a globalised world has created new development opportunities, as rich countries come to recognise the interdependence of their interests with those of poor countries, and the need for common action over climate change, security, financial stability, economic growth and an increasing number of other issues. But it has also created unprecedented opportunities for elites in poor countries to pursue personal enrichment, notably through capture of natural resource revenues and criminal activities. This has given rise to perverse incentives, and weakened the interest of elites in engaging with their own citizens, building public institutions and nurturing the economy. The result has too often been weak governance and persistent violent conflict, as unofficial, non-state actors have moved to fill the vacuum, often themselves financed by criminal or resource extraction activities. So the context in which poor countries today are seeking to create more effective, accountable public authority is in many ways more challenging than was historically the case for Western countries⁹.

Supporting Evidence

⁹ Moore, M., Schmidt A. and Unsworth, S. (2009) ‘Assuring Our Common Future in a Globalised World: The Global Context of Conflict and State Fragility’, paper for DFID.



3. States and societies help build each other

3.1 State-society bargaining underpins the creation of effective, accountable public authority

States in developing countries often look over-powerful: repressive, exclusionary, corrupt, and unaccountable. The temptation is to privilege measures to constrain them. This may not be a very fruitful strategy, because while states may have “controlling” power, they often lack “constructive” power: the ability to reconcile conflicting interests and to design and implement good public policy. A major reason for this is that states are often disengaged from citizens, especially if they are not dependent on taxation for raising revenue. Building effective, accountable public authority requires striking a balance between the need for states to have “autonomy”, and the need for them to be “embedded” in society¹⁰. States need coercive power to impose order – but they also need buy-in from societal actors to provide the legitimacy that transforms raw power into less coercive political authority. So getting the underlying diagnosis right is important: where states have weak capacity to respond, looking for ways of increasing productive interaction with citizens may be a better strategy than seeking to impose constraints or additional demands.

Historically states have become both more capable and more accountable through processes of bargaining (often involving violent conflict) among social groups and between social groups and the state. Progressive change can result when bargaining allows different groups to identify common interests and find ways to pursue them. For example:

i) Historically in Western Europe bargaining between the state and citizens over taxation was critical to creating more effective, accountable, responsive states. The state’s need for revenue (notably to fight foreign wars) gave rulers an interest in taxing citizens, and therefore in promoting their economic prosperity, and in developing bureaucratic capacity to collect and administer tax revenues. The experience of being taxed encouraged citizens to mobilise, and engage politically – to resist or negotiate tax demands, and to monitor the way in which government used their tax payments. Bargaining over taxation increased the predictability and efficiency of taxation; mobilisation of interest groups and increased public debate improved the state’s capacity to design and implement policy; public scrutiny of expenditure became more effective; and the legislature strengthened relative to the executive¹¹.

ii) The current context for developing countries is very different, but there is good evidence that the basic mechanism of tax bargaining remains relevant. Research in Ghana, Kenya and Ethiopia has shown how government reliance on taxation has been linked to pressures for increased responsiveness and accountability. The processes involved

Supporting Evidence

10 Evans, P. (1995) *Embedded Autonomy: States and Industrial Transformation*, Princeton: Princeton University Press.

11 Moore, M. (2007) *How Does Taxation Affect the Quality of Governance?*, IDS Working Paper 280, Brighton: IDS.



included direct tax bargaining with citizens, which led to particular episodes of political reform; tax resistance by citizens in response to unpopular governments, which created more indirect pressures for change and subsequent reform; and taxation as a catalyst for strengthening civil society organisations, and encouraging mobilisation around broad common interests¹².

iii) Bargaining between groups that hold political/military power and those that hold economic power is fundamental to negotiating a political settlement, managing violent conflict, and supporting productive investment. This relationship can be fraught, competitive and exclusive: politicians are tempted to predate on private capital, while holders of capital may use their economic power to organise violent opposition or extract exclusive benefits through monopolies and restrictions on competition. However each group also needs the other and stands to benefit from cooperation. Politicians need private capital to provide state revenue, finance political parties and invest to create prosperity that supports political order. Holders of private capital need public authority to provide order and security, physical and financial infrastructure, and credible assurances that they will be able to retain the profits from their investments. There are thus opportunities for progressive change. Donors would do well to pay more attention to these relationships, and to the potential for productive bargaining between state and business interests (see 3.2 iii below).

Supporting Evidence

12 Prichard, W. (2009) *The Politics of Taxation and Implications for Accountability in Ghana 1981-2008*, IDS Working Paper 330, Brighton: IDS; Prichard, W. (2010) *Taxation and State Building: Towards a Governance-focused Tax Reform Agenda*, IDS Working Paper 341, Brighton: IDS.

13 Masud, M. (2002) *Co-producing Citizen Security: The Citizen-Police Liaison Committee in Karachi*, IDS Working Paper 172, Brighton: IDS.

3.2 Public authority can be created in unexpected ways

Max Weber taught us that informal arrangements and personalised relationships lead to bad governance. We have taken his teachings too far. Contemporary research shows that informal arrangements and personalised relationships can also be part of the solution, with potential to contribute over the longer term to more inclusive, rules-based arrangements. Elements of “public authority” – the provision of collective goods – can be created outside the state, for example when trust between businesspeople substitutes for legal enforcement of contracts. They can also be created through informal collaboration between public and private actors. For example:

i) The Citizen-Police Liaison Committee in Karachi was funded and manned by wealthy businesspeople. Under an arrangement authorised by the president of Pakistan, it was directly involved in supporting core policing services, including funding and managing the main databases on crime and vehicle theft, playing a major role in the investigation of kidnappings, and undertaking spatial crime analysis. This was a highly unorthodox arrangement, violating the basic principle of separation of public and private interests in a very sensitive area of government business. But careful design and management, and a strong web of informal relationships (revolving around trust, reputation and shared interests) helped maintain accountability despite the absence of formal contractual arrangements¹³.



ii) For several years taxes on road passenger transport operators in Ghana were collected by a private business association, the Ghana Road Passenger Transport Union. The Ghana Revenue Authority cooperated in this arrangement in part because it had no other way of taxing the sector. GRPTU members, most of whom are small (one vehicle) operators also benefited. They valued the services provided by the union at lorry parks, funded by part of the revenue collected, while roadside collection by the union gave them some protection against illegal extortion by police. The arrangement was far from ideal – administrative costs were high, much of the tax levied did not reach the public treasury, and there was intimidation of smaller, rival transport unions. But it allowed government to tap into an important source of revenue in the informal sector, and suggests that innovative approaches of this kind could have wider application¹⁴.

iii) In China, transitional, unorthodox, informal relations between investors and local government officials effectively substituted for more formal property rights in the early stages of market-led growth, in quite unexpected ways¹⁵. In Mexico some sectors of the economy thrived during a long period of political instability and civil war between 1876-1929, based on very local co-operation between politicians and business¹⁶. In Egypt, a new government in 2004 (including for the first time the appointment of businessmen to ministerial positions) triggered positive changes in relations between officials and business. A common understanding of problems and common interests in addressing them facilitated targeted solutions that boosted investment in specific sectors with good profit potential. These relations were initially informal and exclusive, but became more institutionalised and inclusive over time¹⁷. While formal legal protection of property rights and enforcement of contracts remains a good long term goal, these cases suggest that it is possible to make progress in the short to medium term through more informal arrangements rooted in common interests in productive investment.

It is worth noting that all of the above were “home grown” initiatives, involving no external support or funding.

3.3. States help shape opportunities for collective action

Development practitioners have great expectations of civil society. They tend to see it as a virtuous, relatively autonomous and democratic sphere, standing in opposition to an authoritarian state, and seek to strengthen its ability to demand accountability and give poor citizens a “voice”. However research tells a more complex story¹⁸.

First, civil society encompasses a wide diversity of actors and interests with complex relationships with each other and with the state, politicians and political parties. Second, it is often organisations and individuals that are well connected to government and political parties that are best able to influence public policy¹⁹. Participating in negotiations over policy

Supporting Evidence

14 Joshi, A. and Ayee, J. (2002) *Taxing for the State?: Politics, revenue and the informal sector in Ghana*, IDS Bulletin Vol 33 No 3.

15 Qian, Y. (2003) ‘How Reform Worked in China’, in D. Rodrik (ed), *In Search of Prosperity: Analytic Narratives on Economic Growth*, Princeton and Oxford: Princeton University Press.

16 Haber, S., Razo, A. and Maurer, N. (2003) *The Politics of Property Rights: Political Instability, Credible Commitments, and Economic Growth in Mexico: 1876-1929*, Cambridge: Cambridge University Press.

17 Abdel-Latif, A. and Schmitz, H. (2010) *State-Business Relations and Investment in Egypt*, IDS Research Report 61, Brighton: IDS.

18 For a summary see IDS, Centre for the Future State (2005) *Signposts to More Effective States: Responding to governance challenges in developing countries*, pages 20-33, Brighton: IDS.

19 Gurza Lavalle, A., Acharya, A. and Houtzager, P. (2005) ‘Beyond Comparative Anecdotalism: How Civil and Political Organisations Shape Participation in São Paulo, Brazil’, *World Development* 33.6: 951-6.



reform can enhance their ability subsequently to hold providers accountable. So autonomy is not necessarily the key to effectiveness. Thirdly, how the state is organised, and how it designs and implements public programmes can help create incentives for collective action by poor people (or those operating on their behalf)²⁰. This is important because such groups are unlikely to take the risks, and invest the time and effort needed to sustain effective, ongoing collective action unless they believe it will be worthwhile. Increased transparency, accountability, information and opportunities for participation are all important in supporting collective action, but they are not sufficient.

Two examples illustrate how the state can influence collective action:

i) Research into health and social assistance programmes in Brazil and Mexico shows how different types of reform influenced opportunities for collective action. Health reforms were negotiated and designed in ways that provided mechanisms – such as health policy councils – that gave collective actors a role in ongoing monitoring. By contrast, cash transfer programmes for poor people were deliberately designed to bypass civil society intermediaries that were seen as corrupted and politicised. This gave collective actors little opportunity to mobilise²¹. Data from São Paulo show that levels of social accountability are indeed much higher for health than for social assistance programmes, reflecting in part the different institutional models that have been adopted.

ii) The Maharashtra Employment Guarantee Scheme is a large, long-standing public works programme that has recently served as a model for employment schemes in other Indian states. It was deliberately designed to stimulate the mobilisation of potential beneficiaries, by providing dedicated (and therefore predictable) funding and a legal guarantee of employment for destitute people, provided that 50 of them registered to demand work. This has encouraged poor people to mobilise, and activists to support them in claiming their rights, contributing to the scheme's survival despite changes in the political conditions that originally nurtured it²² (see 3.5 iii below).

Supporting Evidence

20 Houtzager, P. And Joshi, A. (eds) (2008) 'State Reform and Social Accountability', *IDS Bulletin* 38.6.

21 Ibid.

22 Joshi, A. (2009) 'Do Rights Work? Law, Activism, and the Employment Guarantee Scheme', *World Development* 38.4: 620-30.

3.4 Informal local governance institutions remain influential

Many poor countries are not 'consolidated' states where formal institutions have established dominance over other sources of public authority. Especially at a local level, informal, so-called "traditional" institutions remain surprisingly influential, despite post-independence moves to abolish them in pursuit of modernisation. Their relationship to the formal state is often contested and ambiguous, and attitudes towards them tend to be highly polarised. Supporters see them as repositories of local culture and legitimacy; opponents as repressive and incompatible with contemporary human rights norms. There have been moves in recent years in many parts of Asia, Africa and Latin America to revive informal institutions and give them legal recognition, as governments struggle to



establish legitimacy and authority. Donors and governments, especially in fragile states, face difficult choices: should they ignore traditional authorities, try to repress them, or actively use and collaborate with them?²³

In-depth, comparative research in rural areas of Karnataka, Rajasthan and Pakistani Punjab shows that in practice informal local governance institutions vary enormously, sometimes between neighbouring villages. They can work in ways that complement the formal state but can also compete with it. Village councils in Karnataka, composed of leaders of local caste groups, have moved beyond traditional roles of resolving disputes and regulating social relations, and are becoming active in funding development projects and influencing elections to formal village councils²⁴. In Pakistani Punjab individual hereditary landowners often exercise informal authority in ways that entrench the interests of dominant groups, perpetuate poverty and compete with formal institutions.

The extent to which informal or traditional institutions will act dictatorially depends in part on whether they enjoy monopoly power. Punjabi village landlords may exercise harsh authority because villagers have few alternative means of resolving disputes or gaining access to employment. Many village councils in Karnataka and Rajasthan act with restraint and make efforts to consult and establish consensus because they know that, if dissatisfied, people can turn instead to local politicians, the police, the courts, or connections in the public service²⁵.

There are no right answers for or against informal, “traditional” institutions: much depends on what the realistic alternatives are. Developing countries, faced with a complex mix of institutions, need to pick and choose, and to adapt what they already have. It would help for people to set aside prejudice and undertake more detailed, objective research into how particular arrangements actually function at a very local level.

3.5 Political context shapes behaviour

Donors often pin their hopes on individual reform “champions”, and use the term “political will” as a catchall to avoid unpacking the complex factors at work in shaping policy. Individuals clearly make a very important difference, but they come and go, and their behaviour is strongly influenced by the political and institutional context within which they operate. Three examples from the research illustrate the power of political incentives:

i) As Chief Minister of Bihar State, India between 1991-2005, Laloo Prasad Yadav presided over the systematic destruction of state government capacity, a stagnant economy, and accelerating levels of corruption and criminality. It was particularly telling that the state government failed to claim much of the money it could have received from the Government of India for anti-poverty programmes. This reflected the large number of vacant posts at higher levels of the Bihar government bureaucracy. The vacancies did not result from a lack of qualified

Supporting Evidence

23 For a summary see IDS (2010) *An Upside-down View of Governance*, pages 49-58, Brighton: IDS.

24 Ananth Pur, K. And Moore, M. (2010) ‘Ambiguous Institutions: Traditional Governance and Local Democracy in South India’, *Journal of Development Studies*, 46.4.

25 Mohmand, K.S.; Moore, M.; Ananth Pur K.; Cheema, A. and Lodha, S. (work in progress).





candidates, but reflected a deliberate political strategy. Laloo Prasad came to power as leader of a coalition of so-called “backward” castes and Muslims, promising to replace upper caste dominance of the bureaucracy, police and judiciary. Blocked by civil service rules and resistance from the media and judiciary from getting his supporters into government jobs because they lacked formal qualifications, he kept their hopes alive by refusing to recruit or promote qualified, upper caste candidates. The situation in Bihar was transformed after Laloo Prasad was defeated in state elections in 2005. The new state Chief Minister has become a model reformer. Laloo Prasad himself went on to become a competent and energetic railways minister in the central government²⁶.

ii) In Ghana, repeated attempts to improve urban sanitation and waste collection services in the cities of Accra and Kumasi were derailed by patronage politics. The background was a huge and increasing public health problem in both cities; decentralisation of responsibilities for sanitation and waste management to municipalities with wholly inadequate funding and staffing; and pressure from donors for privatisation, and later for increased community participation. Prior to 1982 public toilets were free but poorly managed by public sanitation workers. A twin track approach was adopted in the 1990s, with contracting out to private managers complemented by involvement of community groups in local cleaning and maintenance. However, contracts came under the control of members of the Metropolitan Assembly, who set up front companies to win the business. Control of toilets was also a vital source of patronage, allowing Assembly members to reward supporters with jobs and other favours. Community groups were not sufficiently well resourced and established to be able to operate independently: most were created by or dependent on local politicians, and were, in effect, also part of the urban political machine. In this case, privatisation and community participation fuelled patronage politics²⁷.

iii) The history of the Maharashtra Employment Guarantee Scheme (see 3.3 above) also shows the importance of politics. There was a strong political coalition of support for the scheme in the early days, backed by public sympathy generated by a drought between 1972-4. The scheme served the interests of the dominant Maratha-Kumbi caste-based alliance in the Congress government, which had a rural power base in Western Maharashtra. It was carefully negotiated with large landowners to ensure that they did not see it as a threat to their ability to attract agricultural labour. There was support from urban taxpayers in Mumbai, concerned about the prospect of a leftist agrarian revolution. Support also came from political activists and trade unions. A steep decline in expenditure under the scheme in the late 1980s coincided with a fiscal crisis, and a shift in political power to the BJP/Shiv Sena, whose urban powerbase meant that they were less responsive to the needs of the rural poor. Nevertheless, for reasons outlined above the scheme survived, albeit with diminished resources and impact.

The implication of these cases for donors is clear: they need to understand the political economy context shaping the interests and incentives of local elites. These incentives are powerful: it is unrealistic to expect

Supporting Evidence

26 Matthew, S. (forthcoming) *State Incapacity by Design? Understanding the Bihar Story*, IDS Working Paper, Brighton: IDS.

27 Ayee, J. and Crook, R. *Toilet Wars: Urban Sanitation Services and the Politics of Public-Private Partnerships in Ghana*, IDS Working Paper 213, Brighton: IDS.





aid conditionality to have much influence on elite behaviour, or to expect transformational change in patrimonial political systems in the short to medium term. However the interests of political and economic actors are diverse and do shift in response, for example, to security threats, or changes in levels of domestic political competition, fiscal circumstances, regional and global markets, or demographic trends. This offers a way to make progress.



4. Implications for Donors

The overall message from this research is optimistic: progressive change can happen when people start to see that they have common interests in cooperating to create collective goods. There can be productive bargaining between public and private actors that results in positive sum outcomes (improved security, peaceful resolution of conflicts, more productive private investment, better public financial management, more inclusive public services). Moreover the processes of bargaining between state and society can themselves strengthen opportunities and incentives for collective action (including action by or on behalf of poor people) as well as the capacity of the state to respond.

This has some very practical implications for aid donors. They should be modest about their ability to influence local political processes directly through short-term aid interventions. They should be much more alert to the ways in which aid, and the behaviour of rich country governments and businesses, can have an indirect impact (positive and negative) on incentives for constructive state-society bargaining. More specifically donors could:

- Do much more to empower local policymakers, for example by financing good quality research and support for data collection and policy analysis. A good example is research by the Centre for the Future State into informal local governance institutions in Pakistani Punjab which has proved of such interest to the provincial planning department that they have co-financed the work.
- Prioritise action on things that external actors can directly influence, and that are fundamental to shaping the interests of elites in poor countries. In particular there is scope for much more effective international action to constrain elite access to rents from natural resource exports and criminal activity, by better regulation of global financial flows, more transparency about oil revenues, and reform of the international regime governing narcotics.
- Look for scope to build on common interests -- between rich and poor countries, and between international, national and sub-national actors, both public and private. A good example is action over the past 10 years to control illegal logging, where reputational concerns of OECD governments and businesses, and growing public awareness of links between deforestation and climate change -- both stimulated by international NGOs -- has led to changes in arrangements for EU and US market access for tropical timber, in turn shifting incentives of governments, timber merchants and local forest users in exporting countries. Small amounts of aid have supported the process²⁸.
- Look for opportunities to support -- and be careful not to undermine -- constructive state-society bargaining in poor countries: for example more inclusive political settlements, or support for more effective, equitable, transparent tax regimes, or for business associations organising

Supporting Evidence

28 Lawson, S. (2010) *Illegal Logging and Related Trade: Indicators of the Global Response*, Chatham House briefing paper, Chatham House: London.



around shared interests in public goods. Look for the potential overlap between a development agenda and the interests of political, religious, business and community leaders. This implies reassessing strategies for supporting civil society, with less focus on pursuing a specific policy or rights-based agenda, and more on what could stimulate a wide range of different groups to organise effective, ongoing collective action.

- Don't take a narrow, short-term approach to assessing aid effectiveness. There is growing awareness of the potential for aid conditionality and aid dependency, especially in Africa, to have a negative impact on local policy-making capacity and accountability to citizens²⁹. How aid is designed and delivered affects relations between governments and citizens in poor countries: for example volatile aid delivered through parallel structures created by donors can undermine government incentives for effective planning and budgeting, and opportunities for legislatures and organised groups of citizens to engage in policy-making and monitoring of results.
- Don't try to sell a preconceived reform agenda based on Western models – be open to unorthodox ways in which elements of public authority are in practice being created, often in unexpected ways.
- Overall, show less concern with micromanaging aid, and much more with the political dynamics that influence its effectiveness.

Many of these ideas are beginning to inform donor approaches, particularly in fragile states. But adopting them as mainstream practice would imply a big shift in how donors see their role: from being experts with responsibility for “delivering” on the millennium development goals, to being much more effective facilitators of locally driven change.

Supporting Evidence

29 Glennie, J. (2008) *The Trouble with Aid: Why Less Could Mean More for Africa*. London, New York: Zed Books.