ISE | Citizen-Centered Approaches to State and Market

Building a Shared Agenda for the State in the 21st Century:

Lessons, Challenges and Opportunities

ISE Partners Consortium 2016

Institute for State Effectiveness

Institute for State Effectiveness (ISE) Partners' Consortium Meeting
In Conjunction with the Rockefeller Brothers Fund and Smith Richardson Foundation

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I.   Introduction

On June 6-7, 2016, the Institute for State Effectiveness convened a meeting of senior representatives from across the public, private and civil society domains to share and reflect on "the state of the state" – challenges to and opportunities for the role and functions of the nation-state across the world – as well as the status of current approaches to country reform and development. The meeting was co-hosted in New York City by the Rockefeller Brothers Fund (RBF) and Smith Richardson Foundation (SRF), and co-chaired by RBF President Stephen Heintz and SRF Senior Vice President Marin Strmecki.

Since 2006, ISE has worked to build consensus around the importance of an agenda for enhancing state effectiveness as a key element of international order and stability. Ten years after ISE's key conceptual frameworks on the role and functions of the state and the need for a new citizen-state compact were first validated at the World Bank-UNDP Greentree state-building meeting, there have been both successes and failures in the field. Several countries have confronted challenges and achieved breakthrough transitions and stand as examples to other reformers embarking on similar paths. Others have struggled to adjust to ever-evolving local and regional challenges, and some have descended into violence and disorder. Those who share ISE's viewpoint have moved from a small minority to a strong minority, but its principles have not yet been mainstreamed into practice. Today, a new combination of global challenges is undermining established orders and creating uncertainty in both developed and developing countries. The consequences of these disrupting factors, however, are not being met by a shared understanding and operating framework that can address the underlying causes driving instability and help navigate uncertainty.

ISE is in the midst of reviewing current practices and refining key concepts, approaches and tools to ensure that they effectively address the opportunities and challenges faced by leaders and organizations at the forefront of policy design and implementation. The 2016 Partners' Consortium Meeting marked an early milestone in ISE's 18-month 'State of the State' (SoS) process. The process sets out to:
- frame the current landscape, both in terms of broader trends and challenges for the state;
- consider what we have learned over the last decade;

- anticipate the opportunities and challenges for the decade ahead, help set out a collective future agenda.

This note is an expanded version of the overview report that was disseminated before the meeting. It captures the major discussion points, insights, and recommendations that came out of the 2016 Partners' Consortium meeting and documents some significant trends identified by respondents in our initial phase of SoS consultations.

II.   Defining the Current Historical Moment

The Imperative To Change: New Conditions Have Created New Challenges

The ISE meeting took place at a distinctive moment in history. Past experience will always provide a good starting point for informing contemporary decision-making, but the current environment requires new thinking about current and likely impacts on the role and functions of the state in the 21st century.

Participants agreed that there is an urgent and universal need to develop an agenda and framework for rebuilding and reimagining the state's ability to meet rising citizen expectations and help ensure global order. In every part of the world, to varying degrees, citizens are losing confidence and trust in their governments, the ruling establishment, political process, and international governance institutions.

In many places, young, tech-savvy generations are breaking with a history of unquestioning acceptance and demanding changes from their leaders. They don't hesitate to press their case in the streets and form new movements, both on and offline, to push for an end to long-tolerated problems like corruption and economic and social inequality. This disconnect is not confined to the youth – there are many signs that older populations are also feeling anxiety about their failure to adjust to the impact of globalization and rapid technological change.

Increasingly frequent expressions of citizen disaffection highlight a growing crisis in state legitimacy, and a crisis of leadership in addressing it. The failure by states to respond to their peoples' demands reinforces feelings of popular discontent, stokes resentment of elites, and further widens the political disconnect. Closing the sovereignty gap – the gap between our recognition of the state as the legitimate unit of global order, and its capacity to meet its citizen's needs – is a central challenge for leaders navigating transformation and adaption. A renewal of the state that is driven by responding to the needs of citizens has the strongest chance of success in these uncharted waters.

The clear urgency of the situation, however, has not been adequately matched by new ideas and improved policies and practices to produce better outcomes. A key problem emphasized by participants is that **the conversation among policy-makers lacks a coherent intellectual and practical agenda that can help guide and shape approaches for re-envisioning the state-citizen compact and for supporting locally driven reform processes.**

Global Trends Shaping the State: Understanding the Current Environment

The 2016 Partners' Consortium occurred in a vastly different context from the previous 2011 meeting. **Participants identified political, economic, security, and social trends shaping the role of the state and affecting the broader environment for the relationship between state and citizen. These trends present an imperative to update the typology of state fragility.** Highlights of this discussion follow.

The three core systems that have guided global development for the last 300 years – the nation-state system, representative democracy and carbon-fueled economic development and industrialization – are all showing signs of anachronism and need to be reimagined for the 21st century:

- The **crisis of the nation-state:** States seem to be under stress everywhere. In many parts of the world, we see a "hollowing out" of the state, driven by a combination of migration, corruption, competitive pressures from the private sector, and disruption in traditional career paths.

- A **crisis of representative democracy** is characterized by a fundamental disconnect between citizens around the world and the elected officials and party platforms that are supposed to represent them. The consequence is a pervasive and still-growing distrust of political establishments, the dramatic rise of populist politicians, a growing polarization between left and right, and a decreasing willingness to engage in civil and meaningful public discourse.

- The **crisis of a carbon-fueled economy** is producing a new consensus on the urgency of addressing climate change and recognition of familiar challenges, such as water conflicts. Especially after the 2008-9 financial and fiscal crisis, and deep concern over growing inequality and the impact of new technologies and globalization on the ability of economies to support employment and inclusive growth, the confidence of the 1980s and 1990s in neo-liberal, laissez faire economics has now evaporated. It leaves open the question of what paths to economic growth and industrialization are likely to be most successful.

These three crises are compounded by the fact that **globalization** – the free movement of ideas, capital, and to some extent goods and people – **continues to surge ahead while the rules of the game have become unfit for purpose.** Across the world, popular anger and backlash to unfettered globalization are taking different forms. In advanced economies, whole sections of the population are losing their place in their respective economies. With new technologies and patterns of trade, developing countries' traditional paths to economic development are now uncertain.

Additional key trends that are shaping relations between states, and posing fundamental questions about the state and the functions that it is set to deliver include:

- The **rise of global competition and new actors** has led to significant shifts in state interaction, with **geopolitics** taking center stage coupled with the **larger retreat and fragmentation of global governance**. These changing configurations of power have reduced the political capital for tackling shared problems like migration and climate change and led to a growing focus on bilateral relationships. There appears to be a slowing down and, in some cases, a reversal of supranational integration: the EU crisis, the failure of the Doha Round, the decreasing significance of the UN and the polarization of the UN Security Council, and even the inadequacies of the latest Paris accord on climate change.

- **The anemic global recovery from the 2008-9 financial and fiscal crises** has largely continued downward pressures on public budgets. The continued global atmosphere of fiscal restraint is limiting tools available to governments to increase economic growth and employment. The economic landscape looks vastly different across the world – with technological change for advanced and emerging economies, and the displacement of traditional types of employment, but growth, in new areas.

- **Growing levels of inequality** within and between states despite exponential growth is another significant trend. A dramatic rise in income inequality is observable in developed and developing nations alike, and also extends to gender, region, and ethnicity, among other areas. **A key concern expressed at the meeting was the close integration between the private sector and the government at the expense of the public interest.**

- **The rapid pace of technological innovation** and the centrality of technology in our modern lives have become major disruptive forces in politics, societies and economies. Major advances in information and communication technologies have placed unprecedented amounts of information in the hands of citizens, consumers and businesses, offering the promise of economic progress through better access to global knowledge and finance. At the same time, technological innovation seems

to be one driver of **growth of social movements** both progressive and regressive in response to uncertainty and changing circumstances. Technology provides exciting ways for citizens to participate in democratic decision-making, but if the appropriate avenues and architectures are not in place, it can also enable feelings of polarization, dashed expectations, and general negativity.

- **Demographic shifts,** including growing young populations in some countries, large elderly populations in others, rapid urbanization, large-scale and often involuntary migration. Aging populations in mature economies in Europe and Japan bring to the fore issues of how to replace a shrinking workforce and pay increasing costs for the elderly. Youth bulges in Africa, the Middle East, and Asia carry implications for political stability and legitimacy, and the ability of services to meet growing demand. Across the world, the pace of rapid urbanization and the emergence of mega-cities with changing patterns in mass international migrations also carry significant economic, social and environmental impacts.

- **The hollowing out of the state and growth in criminality and corruption.** A number of countries are becoming overwhelmed by criminality and corruption, whose perpetrators endanger citizens and steal state resources to enrich interests at the nexus of criminal networks and powerbrokers. For example, across patches of Latin America, notably the Northern Triangle of Honduras, Nicaragua, and Guatemala, violence and criminality are growing at breathtaking levels, forcing nearly ten percent of the region's 30 million inhabitants to flee. In parts of the Balkans, progress is threatened by weak institutions and criminalized political economies.

- **The emergence of violent, ideologically driven extremism**. Whether based on religious, ethnic, social or political grounds, extremist violent movements driven by narrow interpretations of grievances are growing and continuing to attract new followers. New waves of violent attacks are taking the lives of thousands of civilians and exploiting larger conflict dynamics, especially in weak states. Approaches to countering and preventing violent extremism, however, must go beyond security dimensions – which often tend reinforce these ideologies – and also address governance-related causes of and solutions to this phenomenon.

- **Intensifying nationalism and authoritarian nostalgia**. The mobilization of traditional identities and nationalism has grown as questions of sovereignty and national identity are taking shape and coming to the fore, largely in response to the uneven and inequitable patterns of growth. In places as diverse as the UK, Greece, Catalonia, and the United States, China, Russia, and Turkey, people are demanding protection against the perceived social, economic, and political dislocations of globalization. Related, there appears to be a growing trend of 'authoritarian

nostalgia' across the political spectrum, premised on the notion that authoritarian or quasi-authoritarian leadership can navigate these challenges and deliver services more effectively than democratic leadership can.

Less than two weeks after the 2016 Partners' Consortium Meeting, citizens of the United Kingdom surprised the world by voting to leave the European Union. **The debate surrounding the 'Brexit' referendum encapsulated many of the global trends participants discussed at the meeting.** Moreover, the sentiments driving the 'leave' vote paralleled the grievances expressed by American voters behind the unprecedented rise of anti-establishment U.S. presidential candidates Donald Trump and Bernie Sanders, as well as the reasons for the growing popularity of anti-immigration parties across Europe.

At the 2011 Partners' Consortium Meeting, there was a sense of an emerging consensus on the need for an agenda to reinvigorate the state in a form fit for globalized citizenries, polities, and economies; the question was the "how" of advancing a state to better fit these needs. In 2016, with countervailing trends strongly in play, there is a much greater urgency both to strengthen the consensus on the need for and functions of the state, as well as the "how" of reaching that objective.

The Traditional State, Now In Flux

Across the world, global trends are dislocating traditional patterns of governance, economy, and society, and upending longstanding relationships between citizen, state, and market. The state is being redefined in multiple ways across different contexts.

ISE is working to refine a taxonomy of states and the challenges and opportunities they face. Such a taxonomy might include the following categories of states:

- **OECD countries:** The financial crisis highlighted the relationship of the state to the economy in OECD countries, while also bringing to the fore the role of the state in setting rules for managing globalization. Across the developed world, states are struggling to regulate markets and adapt to changing circumstances while meeting the needs and expectations of their citizenry. Rising resentment over the fallout of globalization and the effects of the financial crisis of 2008 have exacerbated the erosion of the middle class and widened inequality, which has shaped citizen attitudes and deepened divisions along recognizable lines – urban vs. rural and small town; college educated vs. non-college educated, and young vs. old, among others. In response, we see the rise of right and left wing populism and nationalism as well as increasing disconnection from political establishments and parties across the United States, the United Kingdom, Europe, Singapore, as well as other parts of the world.

- **Fragile and conflict-affected states** are bringing back the question of state effectiveness from both security and development perspectives. Peace agreements in Burundi and Mozambique have relapsed. Newly established countries are under strain – South Sudan has collapsed into conflict, Kosovo's young people are voting with their feet and leaving in large numbers for European neighbors. Despite a laudable push to "build back better" in Haiti, the billions spent on the effort largely bypassed the Haitian state and left the same levels of poverty and institutional corruption in place. While Sierra Leone and Liberia successfully beat back the Ebola threat, its outbreak exposed both country's threadbare health and disaster response services despite a decade of post-conflict recovery. Key questions include: how to equip reformist leaders and citizens for the best chances of success, and how to rethink donor policies to best support national agendas and institutions.

- **Middle-income countries** face a range of challenges, from the "middle-income trap", the just demands of a rising middle class for social protection, damage to the environment from rapidly growing economies, the challenges of uneven development without instruments for inclusion, and rising demands from a young population for employment opportunities. Many countries struggle with the post-Soviet legacy; others are struggling with the global economic slowdown after a period of rapid growth; still others are discovering that a lack of what ISE terms "national accountability systems" has allowed significant resources to be diverted from the public purse for private gain.

- **Western Asia and North Africa (WANA) transitions and conflicts.** The responses in this region have so far been insufficient to resolve either the size of the challenge or adequately address the underlying causes driving radicalization, violence and conflict, namely the lack of inclusive, effective and legitimate systems of governance in the region. ISE identified several broad groupings of countries with different challenges and opportunities. One, the oil exporters (Algeria and the GCC countries), which are beginning to recognize the need to rethink the current governance system due to dropping oil prices and the financial constraints it imposes on subsidies. Two, the countries of Tunisia, Lebanon, Jordan, and Morocco, where reform promises are promising but growth and development remain low, making them even more susceptible to spillovers from the conflicts. And three, the countries mired in conflict (Libya, Syria, Iraq and Yemen) that require differing approaches to resolving conflict, together with planning for the recovery and reconstruction of the state.

III. A Focus on State-Building: What Should We Know By Now?

The international response to weak states still remains focused on mitigating the consequences and applying 'band-aid' solutions to the problem. The way that international assistance is delivered regularly works at cross-purposes with state-building, as it often fragments and undermines the rule of law and institutional capacity. Plenty of leaders of organizations may have willingly signed up to new principles, such as the New Deal, but policy instruments and skill sets have not been aligned to the task – especially with regard to timelines, national ownership, and donor flexibility. As a result, it seems that these initiatives have changed language and substance of policy commitments, but not practice or outcomes.

The current discourse on state-building has become increasingly pessimistic and overly technical. The less-than-successful experiences in Iraq and Afghanistan have discredited ideas of peacebuilding and state-building for many – largely missing opportunities for building on lessons of success *and* failure to produce better policy responses and to adapt tools that can support locally-driven processes of reform and change.

Participants stressed the need to "support societies to build institutions *and* a vision for their future", rather than react to current challenges only through the use of force. The use of short-term security solutions, driven by the threat of counterterrorism and extremism, risks subsuming the broader state-building agenda and exacerbating underlying political, economic, and social grievances that drive violence and disorder at the national *as well as* regional and global levels.

Despite the prevailing pessimism, **participants argued that in fact we know quite a bit more than we did a decade ago about the right starting points for successful post-conflict state building. Key lessons include:**

- **Timeframes for success are much longer** than previously appreciated. Some of the fastest transformations have taken upwards of 30 years to build and consolidate legitimate institutions, and to make qualitative changes in perceptions and attitudes more broadly across societies, as described by the 2011 *World Development Report*. Building consensus and peace is a dynamic process that moves backwards and forwards as established elites compete with new or formally marginalized groups seeking voice and redress. This evolving appreciation for expanded time horizons, however, has not been matched by corresponding shift in approach by donor institutions, which continue to operate under short time horizons and remain focused on short-term tasks, e.g. dealing with a specific crisis, cutting a deal to achieve a political agreement, etc.

- Development actors **increasingly recognize the importance of politics** in state-building processes and its implications for development prospects. This rediscovery of politics places emphasis on political economy analyses to better understand how

different interventions and types of political settlements drive particular outcomes, especially with regards to violence, service provision or economic growth. Accordingly, donors and other institutions have developed a number of analytical frameworks and tools aimed at assessing the political and institutional contexts. **Participants noted how privatization efforts immediately after conflict, for example, can create enormous opportunities for corruption that can help explain why investment remains so low and why it has been so difficult to generate new sources of employment and growth.**

- Related to this have been **efforts to operationalize elite settlements**. Open and inclusive political settlements have been identified as central to building stable and effective institutions as well as managing conflict in highly divided societies. Peace agreements negotiated among a set of narrow and self-serving elites may be necessary to end violent conflict, but they are acknowledged as insufficient in addressing many of the underlying drivers of violence. Initiatives and new mechanisms to promote public participation and phased building of inclusive policies and institutions can create an important balance to elite-based politics and processes that tend to serve narrow interests. Yet many continue to fail – such as the Yemeni National Dialogue – because of pressures created by external interests and rushed timelines. This clearly requires a fresh look – in ISE's view, understanding the phasing and sequencing of peace agreements, and how to craft mechanisms to address underlying political issues, is often not adequately focused on.

- Tackling corruption remains a key challenge in most contexts but there are many examples of cities and towns, ministries and agencies, and countries making significant **progress in the fight against grand and petty corruption**. In addition to the classic examples of Singapore and Hong Kong, more recent progress in Colombia, Indonesia, and Georgia tell us that fighting corruption requires systemic changes in controls, incentives, and monitoring arrangements but within an overall strategy that prioritizes and appropriately sequenced efforts in-line with institutional capacities and resources. These examples suggest that donor-supported anti-corruption efforts may want to incorporate more modest strategies and objectives, stronger implementation modalities, concrete prioritization of issues, and a fuller appreciation of the role that development assistance can play in either creating or closing opportunities for corruption, among others.

- A significant development since the last meeting — where participants discussed the imperative for international actors to align their efforts with national goals, and the need for stronger coalitions between donors and clients around a vision and plan for transformation – has been the **establishment of collective bargaining fora**, such as the g7+ group that brings together fragile countries to share

experiences and strengthen their collective voice in renegotiating the terms of aid based on national ownership with international institutions. The New Deal endorsed in Busan in 2011 marked an important step forward on the commitment to align aid to national goals and to building national priorities through national budgets. So far, however, political commitment has been lacking for real change: the g7+ has found it difficult to deliver on its initial objectives while donor instruments are still not aligned to the task. While the principles of Busan and g7+ are agreed by both donors and recipients, they are often far removed from the practicalities and realities arising from day to day issues facing government ministers and their donor counterparts. What keeps ministers awake at night is often several degrees removed from what worries donors.

Despite knowing more than we did five years ago, a gap remains between what we know works and the tools we bring to bear. **A key question that animated conversation at the meeting focused on why there has been such little take-up of newly acquired knowledge and instruments?** And what can account for the resistance to reform among many international organizations? The gap between what we know works and the tools we bring to bear can be partly explained by bureaucratic stasis, aided by the mentality of a world divided into development countries and donor countries that creates obstacles to productive coalitions necessary for global stability and prosperity.

In many countries – including, but not limited to, Afghanistan – the legacy of fragmented state-building, where a multitude of donor-imposed projects flood a country, constrains the ability of reformers to implement national priorities. The proliferation of international actors and instruments has led to further fragmentation, making international consensus at the policy-level difficult, while also undermining institutional capacity, reform processes, and national ownership. Within the donor community, the leadership and political will necessary to break the development system's problematic adherence to the project as the unit of delivery has not yet materialized. Related is the elusive issue of how best to measure success over the short, medium, and long-term. In practice, the current focus on project completion by intermediaries tends to focus on easily identifiable *outputs* at the expense of tangible and measurable *outcomes* for citizens and the state in question. It is encouraging that the World Bank's new strategy towards the WANA region is focused on supporting peace and stability strategically, rather than the implementation of diverse projects.

Successful experiences remind us that state building is a multi-year, even multi-decade, endeavor that requires a deep understanding of local conditions, stakeholder orientation, and how to craft pathways that create consensus. Cases of success, such as Colombia and East Timor, can help deepen our understanding of the lessons, insights, and capacities needed to support reformers and leaders determined to address citizen demands for reform and transformation. But these, as with all cases, cannot be applied randomly; the

key challenge is to understand which are relevant to which circumstances. The question is how states, leaders, and citizens can harness this knowledge and adapt and work together to produce the best chances of success. **Large-scale national programs in the right contexts can establish effective service delivery and help enhance the legitimacy of the state. As one participant noted, the absence of service delivery can surely undermine stability and legitimacy.**

What The Case Of Colombia Can Teach Us

The story of Colombia from a failed state to a 'model' state-building experience helped focus discussion on some of the ingredients of success while also underlining the conditions that shaped choices of reformers as they confronted challenges.

At the outset, a participant reminded us that we risk learning the wrong lessons from Colombia, given the prevailing focus on the role of the military campaign and the leadership style of President Uribe, even if both these factors were indeed critical. By the early 1990s, the violence in Colombia had become so widespread that the political elite recognized the need to address grievances. The 1991 constitution created a 'window of opportunity' by opening up the political process, decentralizing power, and granting greater authority and autonomy to its cities.

Central to Colombia's transformation was a focus on improving performance legitimacy – especially at the city level – by redefining government's role as a servant to its citizenry and strengthening the institutions necessary to address three broad but critical issues: inequality, violence, and corruption. Other elements that helped change dynamics in Colombia included:
- A focus on social inclusion *and* the rule of law, especially in providing human security in the big cities of Colombia through improved policing and investment in public infrastructure.
- A law, order and security strategy, backed by US military support in the 2000s, helped weaken the FARC, coupled with the focus on institutional change and improving the delivery of services.
- The rebirth of cities such as Medellin and Bogota, where Mayors focused on infrastructure development schemes that targeted social inequity, poverty, and economic inequality (e.g. through mass transit projects, libraries and parks, etc) and engaged citizens in the projects.
- Decisive long-term leadership and vision at the national and city levels that could generate trust and confidence built on tangible results on the ground.

Colombia's experience provides important lessons that others can learn from, and

demonstrates how performance legitimacy can encourage stability and growth. Across many parts of the Middle East, citizens increasingly speak of 'legitimacy through competence' and hold up cases like Dubai, where the government – even if not democratic – is seen as providing for a vision for the future of the country and is effectively delivering services to its citizens.

IV. The Role of the State in the 21st Century: Challenges, Opportunities, and Key Issues Ahead

The 21st century challenge for nation-states and their governments is how they can become more responsive and accountable to citizens as a way of bolstering the citizen-state compact. The overarching question for citizens to answer is: what kind of state are they interested in having? In other words, what defining character of the state would make it most effective? Answers to those questions can help identify the functions that citizens expect their government to perform and at what levels: national, regional, municipal, village, etc. These questions may seem abstract, but can be grounded by specific frameworks, such as ISE's core state functions framework, which lays out ten functions that states must perform in order to be effective. The functions range from providing security to managing infrastructure and human capital to engaging with citizens. As specific core functions are strengthened, the state becomes more responsive and accountable.

Over the last decade of working with states to strengthen their core functions and institutions, ISE has learned and codified lessons that have value in a wide range of circumstances. First, if it is to meet its citizens' needs, each state must perform a core set of universal functions. The degree of importance of each function varies, as does its form. Second, the technical process of strengthening core functions requires reform-minded political leadership with the right political coalitions and sufficient political will to engage in the difficult, and at times unpopular, work of reform. Third, context dictates instruments. Different categories of states, such as those outlined above, experience different challenges at various times in their evolution and history. Endogenous factors such as a state's governance history, institutional legacy, demographics, and geography mean that it will need tailored approaches. In essence, the challenge has been to understand each country's stages of growth, and how phases of market building are sequenced with citizen participation and political processes.

While every state is unique, there are some current universal issues that won't change anytime soon. In order to anticipate and successfully handle these challenges, states may have to adapt their roles and strengthen their governance functions. Participants identified

some specific issues worthy of further investigation by ISE and the field in general in the years ahead, including:

1. Rethink "thinking and working politically" – **political parties and inclusive politics:** Recent trends suggest a deepening disconnect between citizens and democratic politics and institutions, and a growing failure of political representation. People everywhere appear less committed to national political systems and mainstream politics, and have become more susceptible to radical parties and populist rhetoric. What lies at the heart of this disconnect? What are the opportunities available for citizens to intervene in public and political life? How can political parties and other political agencies reconfigure and develop, mobilize, and connect with citizens?

The question of inclusive representative democratic politics is even more difficult to address in transitions from conflict or authoritarianism to democracy. There has been much debate about the relationship and sequencing of democracy, state-building, and development. While the importance of democratic culture in creating and sustaining quality institutions is widely acknowledged, a focus on holding elections quickly in the absence of other elements of democracy tends to worsen the prospects of reform by creating opportunities for corruption and subversion. In many cases, for example, parliaments turn into auction houses where votes and special interests are horse-traded behind the scenes. Central to thinking through the sequence of political transitions is a deeper appreciation of the local political economy and the potential role that political party development or other mechanisms can play to enhance popular participation.

The UN's new language on 'sustaining peace' recognizes the growing challenge of preventing conflict relapse or the emergence of new forms of violence in transitional and established contexts. Since the 1980s, there has been an historic surge in peace agreements, but many of them fail – some estimates put the failure rate at 50 percent. In conflict-affected contexts, narrow peace settlements or agreements may be necessary to end the violence, but they can often reproduce and inflame societal division if they are seen as entrenching the power structures that emerged from the conflict, rather than as the beginning of a series of transitions.

Constructing legitimate governance and enlarging political participation is a long-term dynamic process that requires further investigation into how different elements and instruments in a political transition are sequenced, a holistic view of the political economy, and the role that other participatory mechanisms – such as national dialogues or national community-building programs – can play in complementing and strengthening democratic institutions. In established democracies, growing levels of political, economic, and social polarization also requires governance systems to evolve in ways that can better meet the needs of their citizens and economies.

2. The role of regional integration and cooperation:
Regional cooperation and integration can play a significant role in addressing challenges and maximizing opportunities across security, economic, and governance. In particular, it can help overcome the dynamics of conflict and promote peaceful relations between neighbors. The experience of Europe – and more recent examples, including the African Union, the Mekong, and recent initiatives along the New Silk Road in South/Central Asia – illustrate the potential benefits of deeper integration. In ongoing and future efforts to foster peace, stability and resilience, the role of regional integration and cooperation will warrant careful attention. For example, the potential of regional integration in Western Asia and North Africa was emphasized for strengthening trust and dampening the geopolitical conflicts that drive today's violence and conflict. Whether and how regional cooperation provides an opening for greater stability and enhances performance of state functions in WANA remains to be seen.

3. Levels and functions of government: sub-national governance:
In many contexts, the issues of sub-national governance, decentralization, and federalism loom large. The potential of decentralization is often emphasized when discussing strategies for closing the gap between citizen expectations and the ability of the state to deliver. **Participants highlighted the cases of Zimbabwe and Cameroon as examples showcasing the importance of decentralization.** Rapid urbanization and the emergence of mega-cities have added urgency to the question of municipal governance and decentralization.

The question of decentralization can be too binary – in reality, neither centralization nor decentralization is the answer. In Latin America, for example, where a substantial proportion of revenue was directed to the sub-national level, problematic experiences ensued because form and function were not clearly defined and differentiated. A more relevant question, we find, is how to align state activities across levels – whether central, provincial, district or village – and across functions are critical. Which function of the state should or could be performed at which level, and how do levels relate to each other? These types of question lie at the heart of many peace processes, national dialogues and constitutional processes, including recently, Yemen, Nepal, Somalia, and Kenya.

The potential of working at municipal levels to support better governance, advance peace, and accelerate development was emphasized. When observing cases of government transformation, many of the most successful cases worked best on smaller scales, where leaders and local services can be more responsive to citizen needs. **The span of control over Medellin to make improvements, participants noted, was much more manageable than the span of control needed for all of Colombia.**

4. Public economic and financial management and paying for social inclusion:

Building credible and transparent systems for public financial management is critical to the success of overall reform and development processes as well as essential for managing all other functions of the state. At the national level, public financial management systems provide macro-economic stability to withstand global shocks. Internally, they balance social and economic disparities through development incentives. By making planning, expenditure and control more efficient and transparent, sound public finance management facilitates the national budget as the central instrument of policy coordination, which also provides essential means for preventing and tackling corruption.

In a constrained fiscal environment, redistributive struggles have emerged and raised the affordability of the social contract. Both aging societies and new countries with a growing youth bulge will confront questions about the distribution of resources across functional, generational, and spatial levels. There is a great need for creativity in crafting instruments of social policy and programming that can turn demands and promises for inclusion into reality.

5. Citizenship, civil society, and social movements:
There has been much focus on the rights of citizens, but far less on the responsibilities of citizenship. **Part of a new compact between citizen and state is to bring to the fore the responsibilities of citizens** – to the state and the body politic, to the environment, to each other – that accompany rights. Interestingly, the Universal Declaration of Human Rights puts this centrally, but as human rights doctrine evolved, rights, rather than responsibilities, loomed large.

More attention needs to be paid to the role of social movements and specifically, the role of civil society in supporting better governance and accountability. For far too long, civil society has been treated as an ad-hoc project by the international community, which tends to focus on NGOs in urban areas while often overlooking indigenous expressions of civil society. Today, many civil society groups tend to act as private contractors for service delivery, competing with one another and private enterprises for donor funds rather than assuming a more political and advocacy role. Even when civil society inclusion has been officially sanctioned in decision-making processes, representatives are either confined to parallel meetings or used to rubber-stamp predefined programs.

Further investigation into the changing role and functions of civil society – including citizenship, political participation and good governance, as well as the role of young people and women – is needed. Civil society plays a central role in generating demand-side accountability and ensuring governments and businesses adhere to collectively-agreed rules of the political and economic game through the monitoring of commitments and actions, as well as by building an enabling environment for the development of citizenship and popular participation in decision-making processes. In today's world, stability is premised on states that have legitimacy won and sustained by the trust of their own citizens in return for the rules and services they provide.

6. Market building:
Competitive markets depend on capable states for the creation of their enabling environments. In successful cases of transformation, the role of the state has been catalytic in market formation, facilitating and intervening where necessary to encourage growth, promote recovery, or to help the economy respond to longer-term challenges. How the state facilitates market formation is a human and institutional construct. The type of investments, rule sets and policies determine the shape of the function and incentives for firms and their activities. For example, serious attention to human capital in youth-heavy populations can spur growth and will have fundamental implications for the legitimacy and stability of state institutions, as well as larger global security.

The slow recovery from the 2008-9 financial crisis has also brought new pressures to bear on government's role in markets, as public trust has waned in the ability of the marketplace to deliver stability, combat economic inequities, and address re-distributional struggles. **Informality, illegality and criminality of the marketplace require urgent attention.** A political framework based on expanded participation in the fruits of the market is needed, both through regional integration and cooperation, and participation of the poor in the market. For emerging markets, the question of the role of the state vis-à-vis the market, and how to **create and sequence the enabling building blocks for market activity**, loom large – especially because the orthodoxies of the last decades do not provide solid ground.

Harnessing a more equitable and just globalization to make it a truly inclusive process could help provide an answer to addressing the rising populism and enormous discontent with some of the major re-distributional struggles we see in the wake of the failure of financial globalization and global institutions' reluctance to reform. In today's environment, an open question exists as to the nature of the global economy, and questions of who will be eligible to set the rules, interpret the rules, and change the rules are now at the forefront. How can leaders, citizens and businesses work together to innovate and design a system of rules that can both harness the benefits of economic globalization while also mitigating its most harmful consequences?

7. The importance of cultural heritage and national identity-building:
As one participant noted, 'state-building has produced distortions around the discourse of nation-building' where we focus simply on strengthening state administration without much consideration towards building an inclusive national identity. This is particularly problematic in countries where conflict and violence have significant destroyed social trust and capital, and war entrepreneurs have mobilized along sectarian and ethnic divides. A renewed focus on developing a shared overarching national identity and preserving cultural heritage alongside institution-building can provide

important, even if intangible, benefits towards promoting state legitimacy, social cohesion, and a larger sense of belonging.

8. Digital government:
The new reality of 24/7 communications has empowered citizens and enabled the rise of a global civil society. Advances in new technology and social media have changed the nature of politics, economics, and society. Political actors and systems are continuously being forced to respond and reform themselves to adapt to changing circumstances and pressures. Digital technologies are a transformational force, which, if harnessed effectively, can provide great opportunities for governments to improve governance and deliver better services to citizens. Emerging countries like Moldova have made digital government central to their strategies for countering corruption and improving performance in the public sector. While the benefits of digitalization can be great, there are also significant challenges to realizing them.

9. Leadership, statesmanship, vision and political will:
A convergence of forces has not only reshaped the global environment, but also created a new context for leadership. Today, leaders are operating in an environment where dynamics are more complex, the pace of change is quicker, and the flow of information that has to be managed is on an order of magnitude never before seen in human history. Rapid communications and feedback loops means that learning new modes of communication and working harder to craft clear, simple messages that reflect a vision (not just a position) can produce dividends by resonating across different stakeholders and satisfying people's legitimate demand for access. At the same time, effective internal communications within government and across institutions is necessary to credibly convey the state's vision to the public and enable institutions to work towards a common purpose.

Participants at the meeting agreed that we collectively do not know enough about how to develop, support and sustain courageous leadership. Those representing the private sector highlighted how leaders can learn more about change management from companies, which often face similar issues in adapting and managing the rapid pace of change in today's environment and have developed a set of universal principles, tools, and codifications for thinking about organizational change. Others suggested that change requires new types of collaboration with multiple stakeholders at different levels, and **proposed the term 'poly-lateral arrangements'** to describe how governments, the private sector, and civil society can work together to build better governance.

Advancing a reform agenda requires the ability to assemble coalitions for reform and a clear articulation of a national vision that captures the imagination of the population. An effective framework delineates broad contours, but also leaves flexibility, scope for more detailed mapping, and room for improvisation and adaptation to context.

In the developing country context, the relationship between development institutions and

reformers is also critical for success. That relationship should be collaborative and supportive of local political will to enact reform, recognizing that there is no one-size-fits-all approach. The rule sets for donor / partner engagement in fragile states clearly need re-negotiation, so that external engagement contributes to the advance of reform agendas, rather than fragmentation of rule of law.

V.   The Way Forward – ISE Priorities

While participants recognized that the crisis of leadership at the national and international levels – including across and within the UN system and the international financial institutions – has made it difficult to embrace change and admit that old models of strengthening states no longer work, they also emphasized that these crises have provided an entry point for ISE and the larger community to strategically engage and influence the conversation, especially in light of the upcoming U.S. presidential election, the appointment of a new UN Secretary General, and discussions for IDA Replenishment 18.

Although there have been enormous strides over the last decade, there is an awareness that the current policy agenda and set of instruments available are not adequate to the task, and both G20 countries and developing country leaders are hungry for new ideas. Further, many multi-laterals, including the UN, are focused more on their own effectiveness at solving a particular problem or addressing a particular public good – rather than enabling the ability of the state system as a whole – and the ability of each state to meet its own obligations and carry out its functions.

A real opportunity in catalyzing change can be found in supporting new actors and alliances, such as a network of reformers and the g7+, in changing the terms of the debate. **As one respondent in our "state of the state" consultations remarked, "The demand must come from the clients, since it will not happen with the multilaterals" in part due to shareholder resistance to change.** As an alliance, the g7+ group of countries can be a leading coalition for developing a shared vision for 'what' needs to be and 'how,' in order to support the principles and implementation of the New Deal.

Other opportunities lie in creating spaces for exchange, learning and advocacy among different stakeholders from the public and private sectors, civil society and academia, and strengthening these communities to advocate and impress upon the political leadership the need for a renewed agenda and focus on achieving more accountable, legitimate and effective states.

ISE Priorities

The 2016 ISE Partners Consortium Meeting not only served as a key milestone of our 'State of the State' process, it also provided an opportunity to hear from partners how we can best maximize our contributions to continued learning and practice in this field. ISE is immensely grateful to its partners for their support, feedback, and guidance, and we are committed to ensuring that our research and programs remain of utmost relevance to both the larger community of practice and to those tasked with leading and managing transformation.

After discussion with our partners, ISE has settled on some key priorities, including:

- **Creating platforms for consensus-building, collaboration, and policy advocacy to enhance effective states:** In addition to contributing advice to ongoing policy making and learning processes – such as the American Academy of Arts and Sciences process on civil wars and the U.S. Task Force on Fragile States, among others – ISE will also design and convene research/dialogue processes that bring together a confluence of private and public actors, civil society and academia:

    1. **The 'State of the State' process**: ISE will continue to lead and refine its 'State of the State' process, which will include additional consultations and deep dive studies by ISE and its partners. The process will also include a reformers group, regional consultations and a high-level forum in June 2017. Findings from our initial round of consultations will be presented in Fall 2016.

    2. **Platform for a new global compact around g7+:** Building on ISE's partnership with the g7+, we will support a process that can address the issues of aid fragmentation and problematic donor approaches in line with the New Deal. The platform will not only convene representatives of multilaterals and recipient states, it will also document some of the success stories of the g7+ to advance how locally driven processes of reform successfully addressed challenges.

       ISE intends to use this aggregated evidence and data to work with the g7+ to renegotiate the terms of aid with donors to minimize risks of country fragmentation and advance system building and progress towards reform and self-reliance.

    3. **Partnership-building with key constituencies,** including the human rights community, the infrastructure community, and the anti-corruption community.

    4. **Making ISE's expertise available to key leaders and organizations at key moments,** such as the incoming White House administration and new U.S. Congress, the appointment of the new UN Secretary-General, and World Bank during IDA replenishment.

- **Expanding country-level work in support of country turnarounds:** ISE will continue to apply its research and expand and mobilize teams to directly support leaders and managers in crafting strategies and policy agendas. A key element of this work is to 'disintermediate' access of high-level leaders to high quality advice and lower the transaction costs of this access. Our teams will focus on strengthening the core functions of the state and in doing so, we will create proofs of concept – real world examples that create impact and can inspire a spread of good practice. ISE intends to expand its proofs of concept for successful cases of transformation based on a clear set of principles.

  ISE will continue its work in and on Afghanistan, Nepal, Somalia, Syria, Timor L'Este, expand its engagement in new countries in Europe, Africa, and the Middle East, including in the near term, Iraq, Yemen and Zimbabwe, while also expanding the scope of work to including regions as entry points for institution building. In particular, we are designing a platform for regional dialogue and consensus-building in the MENA region, continuing to promote West Asia cooperation and integration, and exploring working more deeply with East Asia island states.

- **Advancing the knowledge base for bridging concepts with practice: 'Codifying Methods and What's Worked':** Another key priority that emerged at the 2016 Partners' Consortium meeting is for ISE to continue to build its knowledge framework on how to strengthen state effectiveness through field testing and codification. ISE will strengthen its continuous assessments of its own country- and regional-level work, but will also extend its analysis of case studies of country and regional transformations and look at specific policies and programs to deepen our analysis of patterns of success and drivers of performance. Rather than assuming multi-linear evolutions, we will seek to think intelligently about comparisons and identify categories of lessons that can be transferred and adapted across context in a meaningful way.

- **Developing and refining ISE tools and techniques:** ISE will continue to refine and identify new practices, tools, methods, and approaches that can support country transitions and transformation. We will update our principles and process for engaging in new countries, which currently involve rapid institutional assessment and critical stakeholder inquiries. We will also test our new Sovereignty Index – which measures the baseline and changes in a state's functionality – before its 2017 launch, while at the same time developing an alternative index of citizen participation. We aim to improve approaches to context-sensitive implementation by refining our tools, including Fiduciary and Development Risk Assessments, performance management coaching, and Asset Mapping.

- **Train leaders and managers:** ISE will also build on its past efforts to support the cadres and networks of reform-minded leaders and managers, and encourage others to do so. ISE has used its manuals and sourcebooks on the functions of the state as the basis of curricula and has piloted several courses and seminars. Potential future plans include a graduate-level training program for mid-level managers and specialized seminars to bring together reformist government ministers and senior managers. Other potential plans include creating a massive online open course (MOOC), translating curricula into key languages – including Arabic – and partnering with thought leaders in this area, including Hernando de Soto, to develop a network of training centers in fragile states.

- **Organization-building:** To meet current demands, ISE needs to increase its operational capacity through a small increase in permanent staff, together with development of a resource pool of state and market transformation experts and the introduction of additional program management and accountability systems and procedures. ISE currently operates with a small staff of core administrative, research, and program management personnel who curate global dialogues, produce ISE's research (comparative studies and manuals, and ISE's index), and commission others to produce research as needed. The core team is augmented with expertise from around the globe and ISE's own expansive network. As we grow, ISE will further refine the process of identifying a pool and pipeline of experts who can be deployed in the course of our work. As an intentionally lean organization that believes collective action is more impactful, ISE will continue to work in coalitions and collaborations that mobilize and leverage partnerships and networks of allies towards a targeted strategy.