



## **PKSOI Book Review**

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Review of FIXING FRAGILE STATES: A New Paradigm for Development

by Seth D. Kaplan

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Seth D. Kaplan, chairman of Alpha International Consulting, has rendered theorists and practitioners of development in conflict-ridden societies a service. He has given us a businessman's perspective on what should be done to fix fragile states. The next thirteen paragraphs—essentially the text of a presentation that Kaplan made at the Overseas Development Institute in London on April 23 of this year—distill the essence of his book. The event in London included a discussion of the book, and an excellent review of it is available at

<http://www.odi.org.uk/events/report.asp?id=491&title=fragile-states-really-need%3E>.

The concluding remarks of the author of this article, which reflect Kaplan's thinking as well, comprise the last three paragraphs of the article.

Kaplan has written the book to tell us what he believes states need to develop. He takes on the task from a practical perspective: As a businessman who has spent 15 years working in developing countries (<http://sethkaplan.org/author.html>). Admitting his biases up front, he says he is someone who has great faith in the capacity of a host country's populace to enhance their own lives, if only their states' officials could be partners with them; but someone with great skepticism of international efforts to impose stability and development on conflict-prone societies.

Kaplan has concluded from his work and residence abroad that the following conditions must be fulfilled if states are to develop. Social cohesion is necessary and security is a prerequisite for progress. State institutions must reflect the underlying sociopolitical, geographical, human resource, economic, and informal institutional reality. State structures must sustain local governance capacities and identities and vice versa. The business environment must sustain and support private investment, low-cost transactions, and low-cost property rights (and these depend on high levels of social capital).

Kaplan notes that development is a systemic process that transforms how the members of a society work together, although it usually equated with economic growth. A country's ability to advance is crucially tied to its citizens' ability to cooperate—both among themselves and in partnership with the state—in increasingly sophisticated ways. Development, he believes, is fundamentally about a society's capacity to nurture productive risk-taking, which in turn depends on an environment in which private assets are secure and private transactions inexpensive. It is a country's system of institutions—especially its system of informal institutions—that shapes its inhabitants' behavior and defines how its political, economic, and societal life evolve.

Social cohesion is an underappreciated prerequisite for building stable and prosperous states, especially in the absence of strong state institutions. Cohesive groups are far better at informally regulating the economic, political, and security relationships of group members than are divided societies. Shared informal institutions and built-up social capital significantly increase the level of interpersonal trust that exists in a society, and thus reduce the cost of transactions and of holding property, thereby greatly increasing the incentives for firms and individuals to invest in the future—especially in the absence of strong formal state governing bodies.

Inappropriate institutions are a major cause of state fragility. Fragile states are plagued by two structural problems—political identity fragmentation and weak national institutions—that preclude the formation of a robust governing system, and thus severely undermine the legitimacy of the state and lead to political structures that are highly unstable and hard to reform. The orthodox prescription for development—elections, economic reform, administrative training, and foreign aid—too often ignore these structural problems, which in themselves reflect inadequate appreciation of local societal conditions and capacities. In fact, aid has—as Dambiya Moyo reminds us in her *Dead Aid: Why Aid Is Not Working and How There Is a Better Way for Africa*—in many cases prolonged these countries' agony by preventing reorganization of the state to make it better suited to local conditions and more connected to its surrounding society.

Kaplan thus believes that the conventional strategy for shoring up fragile states is counter-productive. It focuses inadequately, he says, on the communal aspect of development; little or no effort is made to foster and leverage social cohesion. Insufficiently adapted to local circumstances, the strategy lends itself to an excessive focus on targets (aid, poverty reduction, macroeconomic reform, etc.); too much emphasis on national elections, national government, and humanitarian

crises; too little effort to build state capacity, especially local government capacity; too much dependence on non-governmental organizations; ideological aversion to private enterprise; and little effort to leverage local identities, institutions, and capacities.

In Kaplan's view, fragile states can develop only by fostering self-sustaining, locally driven governing systems that connect the state institutions to state's inhabitants. States cannot be made to work from the outsiders; at best, international donors can (and should) facilitate local processes, leverage local capacities, and complement local initiatives for the local populace to create governance systems appropriate to their surroundings. Countries must be built bottom-up; the top-down approach rarely works in the divisive environments of fragile states. Helping a country to develop should not be about propping up the state, but rather about connecting and making it accountable to the populace at large.

Kaplan believes that international development agencies often pursue narrow and inflexible agendas in fragile states. Broader, balanced agendas would yield better results. Agencies should empower cohesive communities while strengthening the state's central organs; this can be done by integrating local institutions into the state while modernizing the governance system. Such integration can be achieved by leveraging traditional social structures and networks while building open and transparent governing and economic systems, which will nurture cohesive communities in the course of pursuing economic and political reforms. At the same time, donor agencies should help build capacity at the bottom tier of government while using non-government organizations to deliver the appropriate services, and the aid organizations should energetically promote all kinds of private investment while trying to reduce poverty. Such action will help bridge ethnic and religious divides while introducing democracy, and will ensure security while promoting individual rights.

Kaplan says that the way to do the above is by building alliances of groups rather than unfettered political competition; by contracting with multinationals to manage security around mineral sites, to provide public services to local population, to build and manage infrastructure, and to construct and manage export-processing zones; by confederating states bottom up, such as Switzerland; by focusing efforts on urban- and regional-based development, especially in sprawling, weakly unified countries; by leveraging and increasing social capital that is often embedded in identity groups wherever possible; by using local languages extensively in education and official business; by having international agencies co-manage critical

institutions such as the higher level of the judicial system, government finances (as in Liberia), security (as in Sierra Leone), currency (as is the franc of *la Coopération financière africaine* or CFA), etc.; and by building regional governance institutes to develop local skills and self-help capacity, thereby reducing costs and making training more useful.

Kaplan's review of Somalia illustrates the inappropriateness of the top-down state building model (14 attempts and \$8 billion spent since 1991). A wiser approach, he asserts, would be to replicate Somaliland's experience by building a state horizontally, area by area, from the bottom up. He recommends establishing national governments whose action requires consensus among leading tribes, clans, and minority representatives and which has limited power (currency management, free trade). Traditional clan identities and institutions should be reflected in local and regional state bodies, and traditional conflict management mechanisms should be formalized. State builders should initiate this process in a few places, he says, and replicate it over time.

Kaplan's analysis of the Democratic Republic of Congo underscores its difficult political geography, weak government capacity, limited infrastructure, divided society, and unsecured natural resources. It is highly problematic that a single approach to fixing this failing state can succeed. Given its size, it would be better to focus on major cities or regions. Since elections exacerbate fractures, Kaplan thinks it better to seek ways to share power and resources, build alliances, and foster accountability through ways that do not engender conflict. Donors should help to document land and resource claims and have them equitably adjudicated locally: accountability systems are likely to be far more effective at the local level than national level. Keeping in mind the Congo's unique context, Kaplan recommends that the multinational corporations operating in the country secure its major mineral sites and provide public services near them since they are the only organizations that have the capacity and incentives to do so.

Bolivia, he notes, is divided ethnically, culturally, and geographically between the indigenous highland and westernized lowland. He recommends that Bolivia institute a more equitable distribution of petrochemical rents (based in lowland areas) in exchange for much greater decentralization, thus enabling the inhabitants of each region to manage their own affairs. The state should adopt some of the symbols of both groups, especially those of the long-disenfranchised indigenous groups. The highlanders' traditional concepts about land, adjudication of disputes, etc. should be an integral part of the relevant state institutions. Better use can be made of local

languages in education and state business. Richer lowlanders could cede some national power and a better proportion of rents to the majority highlanders if the lowlanders were assured the security of their assets and freedom to set economic and education policies.

Kaplan believes Syria has the potential for societal fractures similar to those in Iraq and Lebanon. Syria's government is facing a growing financial crisis from declining oil revenue, which is endangering the safety net that limits social frictions. He recommends that Syria establish a national security council along Turkish lines to institutionalize a partnership among major political groups, thereby ensuring unity of the state and consensus on major policy issues. Such action could limit activity that might inflame intergroup tensions. The government should buy off the recalcitrant in exchange for their acquiescence in slow but steady reform of the business climate, government bodies, and accountability mechanisms. Economic and political reforms would have to be introduced in ways that do not disrupt Syria's fragile social cohesion or provoke violence.

Kaplan concludes that fragile states are systemically disadvantaged because of their inappropriate formal institutions; only by reforming them can fragile states be helped. Development is fundamentally a group process; only by fostering socially cohesive communities aligned with matching state structures can development occur. People in Africa, the Middle East, South Asia, and Latin America have enormous reserves of social capital, institutional knowledge, and governance capacities, but many of their states are improperly structured to benefit from these assets. Private investment must be the driving force behind development, but the low social capital of their fractured societies now discourages investment in human capital and fixed assets. These countries badly need foreign assistance to progress, but the current international aid agenda overlooks the issues that need to be addressed if these states are to progress.

Kaplan's compelling argument that the major international aid donors must reorient their development strategy raises important national security issues. The time is right for the United States to reconsider its development strategy. Our engagements in Iraq and Afghanistan, our foreseeable need to augment our resources to deter Iranian and North Korean adventurism, and our likely inability before long to finance our domestic and foreign programs through borrowed funds at present level suggest that the United States will not be able to sustain our actual development effort beyond 2013.

Kaplan believes—and he is right—that what is needed is not more aid, but more effective assistance. Less money if combined with better strategies would yield better results. The overemphasis on conventional outcomes (such as aid targets, elections, and constitutions) too often precludes the more creative, customized programs that fragile states need to develop. What is needed is help building better institutions that take account of the interplay between politics, institutions, and incentives. Creative policies simply are not being tried because they do not fit into the paradigm of how to help develop failing states.

The United States could and should pursue state building in places like Somalia, the Congo, and Afghanistan differently than do the centralized, economically-driven World Bank and the United Nations. Such a change would necessitate revised strategic thinking about how to effectively shore up failing states. The U.S. military has considered this issue as a result of its experience in Iraq and knows that only a sustained campaign empowering indigenous tribal and communal economic and political forces in Afghanistan and Pakistan's Pashtun belt is likely to lead to victory.

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### **Authors Biography**

Mr. Gregoire joined the Governance Unit of PKSOI in July 2008. By then, he had 36 years in government service: 6 in intelligence analysis and 30 in diplomacy. He focused on African issues during 17 of those years, 15 of which while serving in eight African countries. He has also served in Belgium, Canada, Iraq, and Mexico. Abroad, he covered the gamut of issues—including humanitarian interventions and refugee resettlement—within conflict-affected countries, including as deputy chief of mission in Djibouti, economic counselor in Nigeria, and team leader of the Baghdad Provincial Reconstruction Team. Mr. Gregoire also served about ten years in the United States as Faculty Advisor at the Command and General Staff College at Fort Leavenworth, Zaire/Democratic Republic of Congo desk officer, and economic intelligence analyst.