



The Asia Foundation



[OCCASIONAL PAPER NO. 2, JULY 2010]

POLITICAL SETTLEMENTS:
Implications for International Development Policy and Practice

Thomas Parks, Regional Director for Governance and Conflict, The Asia Foundation

*William Cole, Senior Director, Governance, Law, and Civil Society Programs & Program Strategy and Development,
The Asia Foundation*



The Asia Foundation

[OCCASIONAL PAPER, NO. 2, JULY 2010]

**POLITICAL SETTLEMENTS:
Implications for International Development Policy and Practice**

Thomas Parks, Regional Director for Governance and Conflict, The Asia Foundation
William Cole, Senior Director, Governance, Law, and Civil Society Programs & Program Strategy and Development,
The Asia Foundation



The Asia Foundation

The Asia Foundation is a non-profit, non-governmental organization committed to the development of a peaceful, prosperous, just, and open Asia-Pacific region.

The Foundation Asian initiatives to improve governance, law, and civil society; women's empowerment; economic reform and development; sustainable development and the environment; and international relations. Drawing on nearly 60 years of experience in Asia, the Foundation collaborates with private and public partners to support leadership and institutional development, exchanges, and policy research.

Through Occasional Papers, The Asia Foundation presents a range of views on major political, economic, and security challenges facing the Asia-Pacific.

The views expressed in this occasional paper are those of the author(s) and do not necessarily represent those of The Asia Foundation.

www.asiafoundation.org

ACKNOWLEDGEMENTS

The authors would like to thank the following people for their invaluable advice, input, and support in the development of this paper: Steve Hogg, Adrian Leftwich, Adam Burke, Christina Landsberg, Jane Hobson, Mark Singleton, Tom Wingfield, Chris Pycroft, Maryam Teschke-Panah, Ben Oppenheim, Steven Rood, Robin Bush, Barnett Baron, Anthea Mulakala, and Rosita MacDonald.

TABLE OF CONTENTS

EXECUTIVE SUMMARY	viii
INTRODUCTION	1
CLARIFYING THE CONCEPTS	5
KEY ELEMENTS OF THE POLITICAL SETTLEMENTS FRAMEWORK.....	6
Political Settlements in Conflict-affected and Fragile Regions.....	10
How Political Settlements are Maintained.....	11
How Political Settlements Change	12
Historical Evolution of Political Settlements.....	16
Secondary Political Settlements	18
CHALLENGES FOR DONORS	21
Prioritizing among Conflicting Goals.....	21
Legitimate Roles for International Actors.....	25
OPERATIONAL IMPLICATIONS FOR DEVELOPMENT ASSISTANCE.....	27
Analysis: Political Settlement Mapping	28
Strategy Development: Alignment with Plausible Best-case Scenarios	31
Program Design: Six Practical Approaches for Influencing Political Settlements.....	35
CONCLUSION	43
REFERENCES	45

EXECUTIVE SUMMARY

The process of development is fundamentally shaped by powerful political, economic, and security actors in aid-recipient countries. These actors use their influence to proactively shape and control formal governance institutions, policies, and the distribution of development assistance to advance their interests. The political settlements framework is an important new approach for international development organizations to better understand and respond to this reality and the challenges that result from political dynamics in developing countries. This framework allows policy makers and development practitioners to understand how development is driven by competition among elite groups, as an alternative to development approaches that focus on capacity-building or technical assistance.

The term “political settlement” is commonly used to describe the informal power arrangements or “social order” in a country. The key elements of a political settlement are *actors*, *interests*, and *institutions*. In most cases, it is a coalition of powerful elite factions that make up the key actors in a political settlement. The critical element that holds a political settlement together is the alignment of interests within the dominant elite coalition, and the dynamic relationship between elite interests and the broader array of interests in the society. Institutions are viewed as malleable – as the product of ongoing conflict, negotiation, and compromise among powerful groups, with the ruling coalition shaping and controlling this process. In most cases, power relations are fluid and dynamic, and political settlements are constantly adapting and subject to renegotiation and contestation. As a result, political settlements should not be interpreted as one-time events, but rather as rolling agreements between powerful actors.

While the political settlements concept is relevant for all development assistance, the approach is particularly relevant for countries affected by protracted conflict or fragile conditions. Political settlements can often be the primary factor in determining the success or failure of statebuilding and peacebuilding efforts. It is also essential to understand political settlements at the subnational level, in order to explain the widespread problems of protracted subnational conflict, lagging regions, and center-periphery tensions.

The emerging focus on political settlements in the international development community raises some important questions about the appropriate role of international donors in seeking to influence these internal dynamics. Development practitioners are increasingly coming to the conclusion that political settlements directly affect the prospects for economic growth and poverty reduction, quality of services to the poor, and the level of violent conflict. In many contexts, donor assistance already has a significant influence on political settlements, at times strengthening and further entrenching settlements that can be highly exclusionary, destabilizing, or not conducive to development. For example, many of the political settlements in conflict-affected and fragile countries are directly dependent on international assistance for their continued existence. Based on these observations, it is legitimate for international actors to use the political settlements framework to realign efforts towards shared objectives of inclusiveness, stability and development. There is a critical need, however, to develop a set of parameters or limits on what is an acceptable level of influence by international actors in the political settlements of aid-recipient countries. Influencing political settlements does not mean manipulation of local politics, or instigation of regime change. But without clear definitions and limits, however, the line between legitimate levels of influence and sovereignty infringement can become blurred, and the conduct of international development actors will be called into question.

This paper helps to translate these concepts into principles, strategies, and guidelines for practical action by donors and other development assistance organizations. The first step is to improve analysis through political settlement mapping to improve understanding of the key elements of the political settlement. This type of mapping can draw on several commonly used analytical tools, such as political-economy analysis, actor mapping, and conflict audits, but will focus on some additional questions not addressed by these tools. The second step is to realign program or country strategy based on an analysis of key trade-offs and plausible best-case scenarios. While the long-term objective may be to support inclusive, stable and developmental political settlements, the path to this ideal may be necessarily circuitous. Development organizations should adapt their strategies to promote the best-case scenario in the short term, while investing in long-term programs that will promote inclusiveness, development, and stability. Finally, this paper presents a set of practical approaches for international development organizations to improve their positive influence on political settlements. These approaches illustrate the variety of ways in which development assistance can be designed or modified using the political settlements framework to improve development outcomes.

INTRODUCTION

There is growing recognition within the international development community that political settlements can be a significant factor in determining the success or failure of foreign aid. The interest of international donors in finding ways to better understand and influence political settlements represents an important shift in approach to development assistance, with potentially far reaching consequences. This new line of thinking builds on current models used by development organizations to analyze local political dynamics, such as political-economy analysis and drivers of change. There is an important distinction, however. Instead of accepting the political status quo as a given, *the political settlements framework implies that international actors recognize that they have a degree of influence in shaping the direction and balance of power in elite politics that in turn shapes development, security, and governance institutions*. While many current models have focused on reforming a single set of issues or sectors, the political settlements approach focuses on the central structure of power that determines the overall pace and direction of development and change in a country.

The purpose of this paper is to contribute to the emerging discussion on political settlements that is now taking place within the development community, by clarifying the key concepts and providing some preliminary ideas on how to operationalize these insights at the policy and program level. The primary challenge is to translate these concepts into principles, strategies, and guidelines for practical action by donors and other development assistance organizations.

Defining the Problem

For many international development professionals, busy with day-to-day work in program implementation, one consistent source of frustration is the detrimental impact of political dynamics on aid programs. It is common to hear of carefully conceived development programs with ample funding that have been undermined by powerful actors with competing agendas, leading to disappointing results. This same story is heard across the whole spectrum of development work. Extensive investments in programs that seek to mobilize civil society and grass roots community groups around pro-poor reforms fall short when faced with heavy resistance by powerful elite actors. Peace processes built on models that seemed to work elsewhere are derailed by powerful spoiler groups. In post-conflict environments, newly established state institutions that are designed to reflect state-of-the-art best practice, built with world class technical assistance and ample funding, do not function the way they were intended, having been captured or undermined by powerful special interests. Even when policy changes or institutional reforms appear successful at the end of a donor funded project, often a few years later the policies are unenforced, and the institutions have become dysfunctional or co-opted by powerful elites.

The international development community has been grappling with these problems for decades, but in searching for ways to improve aid effectiveness, we have often been looking in the wrong direction. In some cases, of course, these failures in development programs are the result of faulty design or poor implementation. That being the usual assumption, most aid effectiveness reforms over the years have been focused on improvements at an operational level, trying to improve management, evaluation, and project design for technical or capacity-building efforts. These solutions sometimes work, but they usually miss the underlying political dynamics that are preventing real change. The more fundamental problem that undermines aid effectiveness across a broad range of development work is the assumption that poor governance, dysfunctional institutions, conflict and fragile conditions can be fixed through the transfer of knowledge or technical assistance. The roles of powerful actors who are using their influence to prevent change are typically treated as external to assistance programs or are ignored altogether.

The Political Settlements Framework

The political settlements framework provides an alternative approach to understanding and influencing the factors that shape development, governance and security. This framework places the power and interests of key political, economic, and security actors *at the center* of the development process. These actors use their influence to proactively shape and adjust formal governance institutions and policies to help create and maintain conditions that advance their interests. From this perspective, state institutions are seen as malleable, even highly malleable, in earlier phases of development and in unstable and fragile environments.

This line of thinking has important implications for the design of development programs. Based on these concepts, it may be necessary to rethink some of the most common development approaches, including those that focus on transferring information, technical capacity, and best practice from elsewhere. The political settlements framework suggests that development organizations should focus instead on supporting the alliances between and among like-minded elites and non-elites, or realigning the interests of powerful actors to increase support for development, stability and reforms within the powerful circles. From this perspective, powerful actors and informal, patron-client networks are viewed, not as a problem to be externalized and overcome, but rather as *an integral part of the solution*. This approach also cautions development organizations that they may need to recalibrate expectations, by shifting from attempts to replicate technical best practice everywhere, to achieving what is politically possible and most useful in a specific time and place.

The concept of political settlements has emerged through convergence of thinking by a diverse group of theorists, researchers, and practitioners. First, some political economists have been trying to formulate a new theoretical basis for understanding the barriers to development in national contexts through a critique of new institutional economics.¹ Second, a small group of bilateral donors and international development agencies has been grappling with the problems of establishing a more durable foundation for peace and long-term development in the context of violent conflict and extremely weak government.² Third, a few international development organizations, driven by deep local knowledge and decades of on-the-ground experience, have generated new thinking and experimentation with relevant programmatic models.³

The political settlements framework is useful for rethinking development in nearly all developing country contexts, but it is particularly relevant for countries affected by protracted conflict or fragile conditions. According to the OECD Development Assistance Committee (DAC), inclusive and stable political settlements are considered a critical foundation for both statebuilding and peacebuilding, and ongoing fragility and violence are often directly associated with highly exclusionary, predatory, unstable, or entrenched political settlements. Recent discussions within development policy circles have focused on how statebuilding and peacebuilding can support the emergence of inclusive, robust, and ultimately sustainable political settlements in the aftermath of war. DFID's 2010 Practice Paper "Building Peaceful States and Societies" describes as its aim to "promote inclusive settlements that meet public expectations and address the underlying causes of conflict and fragility."⁴ In a recently released paper on statebuilding, the OECD DAC focused on political settlements (and political processes) as one of three pillars of state-society relations that are essential for building a resilient state. According to the DAC, "in some cases,

¹This paper will particularly draw on the work of Mushtaq Khan. See Khan, Mushtaq, "Political Settlements and the Governance of Growth-Enhancing Institutions," 2009.

²This paper draws on the recent publications by the OECD Development Assistance Committee, and Di John and Putzel. See OECD "Room Document 3: Framing Paper on Political Settlements in Peacebuilding and State Building" 2009. Di John, Jonathan, and James Putzel, "Political Settlements: Issues Paper", Governance and Social Development Resource Centre, University of Birmingham, June 2009.

³The Asia Foundation is one such organization, but there are many others.

⁴DFID, *Building Peaceful States and Societies: A DFID Practice Paper*, 2010, p. 24.

fragility is a reflection of the degree to which the political settlement is exclusionary, biased, and/or privileges certain groups and interests over others.”⁵ Other donors and international NGOs have also adopted the language of political settlements in recent publications and internal debates over new policy directions.

Translating Concepts into Practice

Despite the growing prominence of political settlements in emerging efforts to rethink aid policy, there is very limited experience in operationalizing these concepts, and little guidance available to donors and development organizations for program strategy and design. The critical next step is to translate the insights of political settlements thinking in ways that make them more accessible and actionable for country strategy development and programs design by donors and development organizations.⁶ To do this, however, the authors believe that three conceptual issues must be addressed.

First, some of the terminology and concepts in the current literature and donor policies need clarification. Much like the concept of “fragility,” there is no consensus definition for “political settlements.” As a result, there are unresolved questions with important implications for international actors working with a political settlements frame of reference, particularly in conflict-affected and fragile conditions. What can development actors realistically influence? What are donors trying to influence, and towards what end? For example, some recent literature has described political settlements as an event or one-time agreement, such as a negotiated peace agreement to end a conflict, as opposed to thinking of political settlements as evolving arrangements among powerful elites. Furthermore, the concept of *inclusive* political settlements is not well-defined and difficult to translate into practice. Considering that most political settlements in conflict-affected and fragile contexts are deeply exclusionary, especially in fragile conditions, the prospect of opening up a political settlement to include a broad range of excluded groups seems a distant goal that can be extremely difficult to translate into programs and aid strategy.

Second, another important gap in the current dialogue on political settlements is how they operate at the subnational level. Most of the recent work on political settlements focuses on the national level, and does not adequately address the role of elite politics and competition for power at the subnational level.⁷ In many cases, the state plays a defining role in the local balance of power, by supporting certain elite actors and excluding others. These dynamics very commonly lead to center-periphery tensions that are a major cause of long-running, violent conflicts, and undermine state legitimacy and capacity in these regions.

Third, the political settlements framework raises several difficult challenges regarding the appropriate mandate for international actors. How far should the international community legitimately go in seeking to influence political settlements? There are understandable concerns about the sovereignty of aid-recipient countries, and about the legitimacy and appropriateness of international efforts to influence local political dynamics. What limits should be set to prevent infringement on national sovereignty? These questions are hardly new, and have been the source of contentious debate for decades. Furthermore, in focusing on the nature of national leadership, there is some tension between the political settlements framework and the principles of *ownership* and *alignment* as defined in recent international aid policy

⁵ OECD, INCAF Task Team on Peacebuilding, Statebuilding and Security, “Room Document 4: Policy Guidance Note: Statebuilding in Fragile Situations”, October 2009, p. 13.

⁶ Probably the best example to date is: OECD, INCAF Task Team on Peacebuilding, Statebuilding and Security, “Room Document 3: Framing Paper on Political Settlements in Peacebuilding and Statebuilding,” prepared by Dr. Stephen Brown and Dr. Jorn Gravingholt, October 2009. There is also a growing body of literature on the concepts and policy implications. See Di John and Putzel 2009, and Khan 2010.

⁷ See OECD “Room Document 3: Framing Paper on Political Settlements in Peacebuilding and Statebuilding,” 2009; Di John and Putzel, “Political Settlements: Issues Paper”; DFID, “Building Peaceful States and Societies: A DFID Practice Paper”; and Khan, “Political Settlements and the Governance of Growth-Enhancing Institutions”.

commitments, including the Paris Declaration and Accra Agenda.⁸ If this framework is to become a useful guide for aid policy and practice, there is an urgent need for further reflection and clarification on all these issues.

⁸ In the Paris Declaration on Aid Effectiveness, *Ownership* entails that “developing countries set their own strategies for poverty reduction, improve their institutions and tackle corruption”. *Alignment* entails that “donor countries align behind these objectives and use local systems”. OECD DAC, “Paris Declaration on Aid Effectiveness”, Paris, France, March 2, 2005, http://www.oecd.org/document/18/0,3343,en_2649_3236398_35401554_1_1_1_1,00.html

CLARIFYING THE CONCEPTS

What is a Political Settlement?

The term *political settlement* as it is used in recent development literature emphasizes the importance of powerful actors and informal institutions, which are often outside the scope of most development assistance models today. Recent DFID literature provides a sound working definition of political settlement as an “expression of a common understanding, usually forged between elites, about how power is organized and exercised.”⁹ Other definitions have been used to capture aspects of political settlements, including “elite-enforced social orders,” “informal balance of power” and “informal rules of the game”.¹⁰

The fundamental insight of the political settlements framework is that governance, stability, and the quality and pace of development are viewed as the *outcome* of struggles and ensuing arrangements among powerful elites. These struggles largely involve informal processes of conflict, negotiation, and compromise. As elite factions seek to secure access and control over sources of wealth and power, or advance a particular ideology or national vision, they will often come into conflict with each other. “Political settlement” is a descriptive term that characterizes the nature of the arrangements among these elites to manage this conflict.

Development assistance can be more effective when these underlying political dynamics are fully understood and taken into account in the design of programs. Most development assistance today, however, does not explicitly address political dynamics. In most cases, development programs start with the construction of formal state institutions, based on assumptions that are largely drawn from Weberian models of the modern state. Accordingly, development occurs through technical processes, driven and directed by autonomous state actors, ostensibly pursuing the national interest. In other cases, development assistance supports the role of non-state actors to increase the accountability and responsiveness of government, primarily working through civil society or democratic processes.

The current excitement in some development circles over political economy analysis and political settlements has been driven by growing concerns over the limited impact of standard development approaches. There is a growing sense that aid effectiveness might be improved by systematically broadening our view to include a more nuanced understanding of the political dynamics that shape the state and state-society interactions. The success of most development efforts, including efforts to strengthen the state and build institutions of public accountability, rises or falls according to the degree to which these efforts are aligned with – or at least do not fundamentally threaten – the interests of powerful national and local actors who are in a position to thwart or co-opt those efforts.

The term “settlement” can be confusing, as it seems to connote a single, clearly articulated agreement (as in a “financial or legal settlement”). This leads to confusion in the current literature, where political settlements are sometimes assumed to be associated with a particular event, such as the signing of a peace agreement. According to the OECD DAC, political settlements have two separate dimensions, “the fixed outcome of a certain historical *event*, and a particular characteristic or *property* of a society, reflected in the conduct of political actors.”¹¹ We argue that this association with historical events does not reflect the conditions in most developing country contexts, especially in conflict-affected and fragile environments, where power relations are often fluid and dynamic, and where institutions are unable to enforce

⁹ DFID, *Building Peaceful States and Societies: A DFID Practice Paper*, 2010, p. 22.

¹⁰ See OECD “Room Document 3: Framing Paper on Political Settlements in Peacebuilding and Statebuilding” 2009, and Di John and Putzel 2009.

¹¹ OECD “Room Document 3: Framing Paper on Political Settlements in Peacebuilding and Statebuilding”, p. 1.

agreements. Instead, political settlements should be understood as rolling agreements among powerful actors that are constantly subject to renegotiation and contestation.

The political settlements that we observe today have evolved over time, sometimes as the product of many years of struggle, often violent, between contending elite groups. The evolution of political settlements in developing countries often resembles a game of musical chairs, as constantly shifting elite factions come in and out of power over time. In unstable or fragile regions, new political settlements may emerge every few years, as dominant elites seek to consolidate power by any means necessary, often leading to a *winner-take-all* political environment. As societies evolve, political elites are more likely to follow certain patterns of political competition and cooperation, leading to the establishment of more robust and durable political settlements.

Key Elements of the Political Settlements Framework

The key elements of a political settlement are powerful *actors*, operating in pursuit of their *interests*, leading to the establishment or reshaping of *institutions* to sustain the political settlement, including formal state institutions and informal arrangements.

Actors

In most cases, a coalition of elite groups¹² represents the main *actors* in a political settlement. In relatively stable developing countries there is usually one dominant coalition at any given time that has the ability to shape formal state institutions in ways that serve their interests, or the ability to establish informal arrangements that sidestep or undermine formal state institutions. Developing states are generally under the control of a core coalition of elite factions, who compete among themselves, jockeying for position or dominance. These groups also share a collective interest in sustaining the governance conditions that allow them to retain control *vis-à-vis* other actors in the society.

Case Study: The Philippines

The case of the Philippines provides a useful example of a political settlement. Most of the political decisions and economic activity in the Philippines are controlled by a relatively small group of elites – including families that have long held positions of influence, as well as relative newcomers who have amassed resources from positions in government or private sector elites with government connections. Such families have long been involved in politics at the local and national level either directly, or indirectly through supporting political candidates. As the Philippines economy grew, those with origins in the colonial land-holding classes became involved in the private sector to maintain their position, while a new group of elites emerged by using positions in government to secure privileged rights to resources or markets. Elite factions in government and the private sector exercise their influence through relatively tight informal networks that can quickly shift between alliance and rivalry. Many experts have argued that the influence of these networks has been the decisive factor in determining government policy, and the slow pace of reform. Since the fall of the authoritarian Marcos government in 1986, the political settlement has been relatively stable. While the elite actors in the dominant faction may rotate, the system of influence and informal political networks has remained mostly unchanged for the past 25 years. Elite networks have maintained the political settlement through control of local elections, robust patron-client networks, ownership of mass media outlets, the ability to influence national elections through delivery of voting blocks, and informal financial support to political candidates during and between elections. Other elite groups have unsuccessfully tried to challenge this political settlement. Many of the military coups of the late 1980s and 1990s, and the administration of Joseph Estrada are examples of challenges to the dominant political settlement, which were successfully beaten back.

¹² There has been some disagreement over the term “elites” in this debate. In this paper, the concept simply denotes those individuals and social groups with extraordinary influence on political and economic outcomes, and those who control violence. There is no implied value of the character of elites relative to the rest of the population. They are simply more powerful. Di John and Putzel provide a useful and more elaborate definition of “elites” as “a) those in possession of valued assets in agriculture, manufacturing, services (main capitalists); b) those who wield substantial power of adjudication over the distributions and allocation of property rights (traditional chiefs, landlords, regional political leaders); c) those who possess authority to bargain on behalf of rural communities or organized religious communities (traditional leaders, religious leaders); and d) those who lead political party organizations.” Di John and Putzel, p. 15

Table 1: Elements of a Political Settlement

Actors	Interests of Actors	Institutions
Dominant elite coalition that controls political and economic activity through informal power	Array of interests within elite circles that determine behavior and lead to the formation of coalitions	Set of arrangements that govern access to resources, control violence, and set the parameters for political competition
<ul style="list-style-type: none"> • Traditional elites • Leadership circles of political parties & factions • Prominent senior officials in state institutions (military, bureaucracy) that control policy and resource allocations • Powerful political leaders with an independent base of support (e. g., populist leaders) • Business elites with significant influence in political and economic competition and access to resources • Senior levels of the security establishment 	<ul style="list-style-type: none"> • Shared elite interest in durable system to maintain power • Interest in excluding other elites from power (i.e., winner-take-all environment) • Interests of business elites in access to markets and effective economic management • Interests of narrow elite coalition in gaining legitimacy among the population • Interest in maintaining opportunities for predatory behavior 	<ul style="list-style-type: none"> • Limits on violence • Informal dispute resolution • Limits on access to resources and privileges • Rules of the game for political competition and influence • Informal institutions (traditional norms, practices and organizations) • Formal state agencies (police, military, justice sector)

Power is a critical consideration. The classic political science definition of “power” is the ability of one actor to prevail in conflicts with other actors (or the acknowledged likelihood that they will prevail), and the ability, therefore, to induce submission to their will. Power is contextual, and may be derived from several sources, including traditional loyalties, control over the means of violence, or control over productive resources.¹³ The political settlements framework emphasizes the distribution of power and how it is used in pursuit of interests. In this regard, the focus of the framework is primarily on *powerful* actors—those with the ability to shape the behavior of others. Poor and other marginalized groups in society are marginalized precisely because they do not have the power to adjust institutions and policy in their favor. One of the weaknesses of development approaches that focus on building the capacity of civil society organizations to advocate for change is that these approaches often ignore or undervalue the broader distribution of power in that society. Without considering the interests of more powerful actors, civil society advocacy will often be ignored, parried, or co-opted by more powerful actors in ways that reduce the intended impact on development outcomes.

Elite actors, or factions, can be conceptually divided into two categories: those that are part of the *core coalition* that plays the main role in shaping national institutions, and those that are excluded from it. Core coalitions typically consist of elite factions that may be constantly jockeying for position within the coalition. When a political leader is removed from political office, for example, this does not necessarily mean expulsion from the core coalition that makes up the political settlement. For example, in

¹³ Khan suggests that the notion of *holding power* is particularly useful in this context. Holding power is the ability of an actor to maintain or hold out in conflicts against other actors or the state. Potential opponents may engage in some level of conflict when they are uncertain of the holding power of their opponent *vis-à-vis* their own, but will submit in a conflict or a potential conflict when it is clear that the other side has greater holding power.

Bangladesh, the two major parties compete bitterly in elections every few years, with results swinging back and forth between them. But the political elites on both sides maintain their primary sources of power and influence, even when they are out of government. The ruling coalition that lies at the center of the political settlement in this case should therefore be understood to include both political factions.

Excluded elites are powerful actors who have limited influence on, and may not benefit from, institutions established by the dominant coalition. Where excluded elites feel their fundamental interests are at stake, or where they believe they have enough power, they can pose a threat to the political settlement established and maintained by the core coalition. Resistance can come in many forms, but it can be particularly threatening when excluded elites join together into a competing coalition. Included elites often respond by seeking to reduce the power of excluded elites, or by co-opting or “buying off” members of the competing coalitions, enticing them to join the dominant political settlement.

In relatively politically stable countries, there is usually a single, more-or-less identifiable core coalition of powerful factions. When a new state emerges (as in Afghanistan or Timor-Leste), or where state institutions are extremely weak (as in Nepal) or collapsed altogether (as in Somalia), there may be intense competition among two or more powerful elite coalitions openly competing outside of any clear political settlement, increasing the risk of violence. This competition *may* lead to a new political settlement that will eventually shape state institutions, determine the parameters of political competition, and allocate privileges and access to resources.

Interests

The critical elements that hold a political settlement together are the alignment of *interests* of different factions within the dominant ruling coalition, and the relationship with the interests of other actors outside the ruling coalition. The central assumption in this framework is that powerful elites are rational actors, and their behavior is driven primarily by pursuit of an inter-related set of economic and power interests. These interests are often reinforced and articulated through shared beliefs, ideas, and values. The actors within the dominant elite coalition usually share a common interest in maintaining the political settlement and the state institutional structures and policies that help to sustain their dominant position. While key elite groups within the dominant coalition may have competing interests, they have a *common* interest within the broader alliance in shoring up their collective sources of power, in sustaining basic viability of the economy, and in reducing the level of violent competition within the coalition, and between that coalition and other elites.

Interests are the key to understanding and predicting the behavior of influential actors, and therefore to understanding stability and change in political settlements. The interests of various actors may change, and new actors may emerge, creating new dynamics that require adjustments in the political settlement, and therefore changes in governance and political behavior. For example, the promise of greater economic benefits through accelerating economic growth can lead some elite factions to perceive that their interests may be better served by expanding the economic pie, rather than simply fighting over portions of a small economic pie. This shift in elite interests was an important factor in the period of export-led growth in Indonesia under Suharto, and South Korea under Park Chung Hee. This may have a salutary effect on the quality of economic governance, and reduce predatory behavior and elite capture of markets. The important point is that changes in elite behavior are driven by changed perceptions of personal (or factional) interest, rather than ideology or national interest.

While both power *and* interests of key actors are important, the latter are particularly important in any efforts to influence political settlements and development outcomes. Current development assistance models tend to focus on limiting the power of elite actors through institutional means, like counter-corruption bodies, electoral processes, or formal legal and judicial institutions. These can be important,

but in too many cases, powerful elites are simply able to ignore or co-opt these institutions, often by making enforcement impossible. By shifting the focus from power to the interests of elite actors, identifying where the interests of certain elites might be served by advancing selected reform, and working to draw those elites into alliance and collective action with others, development assistance can be much more effective. Advancing reforms will still involve a struggle against powerful actors defending the status quo, but the chances of success are much greater when other powerful elites are included on the pro-reform side. In this regard, it is important to understand and map the interests of powerful elite groups, and identify scenarios where these elite groups have a similar or shared interest in advancing a set of particular governance reforms, increased stability, or other development outcome. The key is to find elites with a shared interest in change, and target programs around them.

Institutions

The role of institutions is to channel and constrain the behavior of social actors, establish rights to access and utilization of resources (e.g., land, water, minerals), control violence, and set the parameters for political competition. Institutions can be formal (i.e., laws, public rules and procedures) or informal (implicit norms of behavior, established by custom or agreements). The important point in the political settlements framework is that institutions are viewed as malleable – as the product of ongoing conflict, negotiation, and compromise among powerful groups, with the ruling coalition shaping and controlling this process. Unregulated elite competition can be highly destabilizing. Under some conditions, powerful elites may prefer to pursue a set of arrangements that can reduce conflict among them. These arrangements are often motivated by the prospect of greater economic gain, or the mitigation of a shared internal or external threat.

Formal institutions are effective only to the extent that they are enforceable. According to Khan, “a [durable] political settlement is a combination of power and institutions that are mutually compatible and also sustainable in terms of economic and political viability.” Khan argues that political settlements can be sustained only when equilibrium is reached between the interests of powerful actors and the institutions that govern the behavior of individual actors. “Institutions and the distribution of power have to be compatible, because if powerful groups are not getting an acceptable distribution of benefits from an institutional structure they will strive to change it.”¹⁴ In other words, those institutions will be difficult to enforce. Political settlements in conflict-affected and fragile environments tend to be highly unstable, and institutions are extremely weak, because of the difficulty of reaching an equilibrium that will prevent powerful actors from ignoring or undermining institutions and seeking to subvert the current settlement.

While institutions may be shaped by elite interests, they will often benefit a much wider spectrum of citizens, including the poor. First, state institutions typically adapt to address some of the needs of those segments of the population with links to factions of the ruling coalition, often through patronage networks or other informal institutions. Second, state policies that provide a modest level of benefit to the population, including those who remain largely outside of patronage networks (e.g., poor and marginalized groups) can strengthen the popular legitimacy of the state and its leadership. Third, pressures from the international community for governments to perform better can have some impact on the performance of the state. For this reason, even in states where the political settlement is highly predatory and exclusionary, government may still provide some basic services, community security, and some level of economic opportunity to avoid widespread opposition. For example, Cambodia’s political settlement has been strengthened over the past decade by generating economic development and improving security, despite indications that it has also become more exclusive and predatory.

¹⁴ Khan 2009, p. 4.

The political settlements framework is particularly useful in understanding the difference between the intended and actual functions of state institutions (i.e., the gap between *de jure* and *de facto* performance of the state). According to Khan, informal power networks are the key to understanding why formal state institutions modeled on western, Weberian concepts do not perform the way they are intended. “Without exception, developing countries have significant informal institutions and informality in the operation of formal institutions.”¹⁵ In developing countries, political settlements are usually clientelist, “characterized by the significant exercise of power based on informal organizations, typically patron-client organizations of different types.”¹⁶ In this context, formal institutions are rarely independent of the informal power relations that *de facto* govern the country. Even if they are independent, they usually do not have adequate means of enforcement to assert their authority on the elites.

Political Settlements in Conflict-affected and Fragile Regions

Political settlements are often the primary factor in the success or failure of statebuilding and peacebuilding. A stable, inclusive, and ultimately legitimate political settlement is a critical foundation for statebuilding and peacebuilding. However, in most cases, problems with the political settlement have become the main obstacle or stumbling block for long-term development and stability.

Post-conflict statebuilding efforts have been undermined by elite capture, corruption, and the failure of the state to build legitimacy. Over the past decade, there have been enormous investments in the establishment of formal institutions modeled on state-of-the-art western versions of a functioning and accountable state. After a few years, however, it becomes obvious that these new institutions are failing to deliver critical services, and have low credibility with the population despite previously high expectations. According to Di John and Putzel, recent evidence from the literature on statebuilding indicates that “the ‘design of institutions’ (the rules and norms that govern behavior), particularly formal state institutions, does not determine either political or economic outcomes... The argument emerging from the literature is that it is the underlying political settlement which determines political and developmental outcomes.”¹⁷ After a while, it becomes clear that newly formed state institutions are primarily serving elite interests, with minimal accountability and responsiveness to citizens. Even with an ample supply of foreign technical assistance, elite capture seems to be unavoidable.

Similarly, political settlements are a critical explanation for protracted conflict. In most cases, peacebuilding requires reforms or compromises that are opposed by elite factions in the political settlement. There are several examples of peace processes that have stalled or collapsed (or never started) due to resistance by powerful coalitions of elites. The drivers of conflict are often closely linked to protection and extension of elite interests – resource extraction, land confiscation, power concentration, marginalization of minority groups, manipulation of voting blocs, internal security policy, arms trading and illicit markets. Only with a critical mass of elite support can peace negotiations reach a successful outcome.

Political settlements in conflict-affected and fragile areas are almost always exclusionary, and are often unstable. According to North, et al., in such a situation the accepted order of society is shaped by the constant threat of violence between elite factions, and the creation of rents to reduce the likelihood of violence. “The state does not have a secure monopoly on violence, and society organizes itself to control violence among the elite factions,” leading the political elites to capture state institutions and consolidate

¹⁵ Khan 2009, p. 1

¹⁶ Khan 2009, p 4.

¹⁷ Di John and Putzel, p. 6.

their control of the economy.¹⁸ In this context, challenges to the political settlement often turn violent, as there is limited space for open political competition. Most of the population is concerned with survival and stability, and they may be willing to accept an exclusionary political settlement if it brings greater stability. As a result, international assistance for statebuilding and peacebuilding will often be affected by a political settlement that is either exclusionary, unstable or both.

How Political Settlements Are Maintained

There are several different ways that ruling coalitions typically establish, consolidate, or strengthen a political settlement. The most basic is *coercion*. The ultimate form of coercion is to amass the capacity to use, or threaten to use, physical force. This generally means securing control of the police and military forces. In extremely fragile conditions (e.g., a situation of state collapse), for an elite coalition to prevail, it must assemble enough military power to defend against (or defeat) competing coalitions. More generally, coercion includes actions by the ruling coalition to impose their interests on other groups, including excluded elites that might challenge it.

The second method for sustaining a political settlement is through *co-optation* of potential threats from powerful excluded elites. This is often done by allowing these elite groups a role in the political settlement, which then may be formalized in, for example, a new coalition government.

The third method to consolidate the position of a ruling coalition, and ultimately the most important for the long-term viability of a political settlement, is through building and maintaining the *legitimacy* of state institutions established and shaped through the political settlement.¹⁹ Alan Whaites notes that “even the most repressive states seek to stake a claim to some form of legitimacy, essentially a claim that state institutions have a moral right to continue to lead the statebuilding process.”²⁰ The more widely the claim to legitimacy is accepted, the greater the prospects for stability of the political settlement.

State legitimacy may be derived from any of several different sources, including traditional authority of leadership (Thailand), capability to defend against external enemies (South Korea), protection from violent internal threats (Sri Lanka), or electoral mandate (India and Indonesia). Perhaps most important is legitimacy based on the ability of the state to deliver economic growth and steady improvements in quality of life. While other forms of legitimacy remain important, “developmental legitimacy” is becoming increasingly important in Asia.²¹ This trend has important implications for the behavior of ruling coalitions and the durability of the political settlements on which they rest.

The fourth method through which political settlements are maintained is through the actions of the international community. International actors may exert a stabilizing influence through a wide range of mechanisms. One obvious method is through the presence of external security forces, which are able to extend or reinforce the capacity of the ruling coalition to keep potential competitors in check. Massive foreign assistance transfers may also strengthen a political settlement, especially insofar as the ruling coalition is able to capture most of the benefits. State-directed external assistance can be used to

¹⁸ North, Douglass, John Wallis, Steven Webb and Barry Weingast, “Limited Access Orders in the Developing World: A New Approach to the Problems of Development,” Policy Research Working Paper 4359, World Bank Independent Evaluation Group, September 2007, Abstract.

¹⁹ The classic treatment of this concept was Max Weber’s tripartite forms of legitimate authority—traditional, charismatic, and legal-rational. See Weber and Parsons “The Theory of Economic and Social Organization” 1964.

²⁰ Whaites, Alan, “States in Development: Understanding Statebuilding”, a DFID Working Paper, Governance and Social Development Group, Policy and Research Division, 2008, p. 5.

²¹ Legitimacy based on delivery of improved quality of life and development outcomes is discussed in Leftwich, “States of Development,” Policy Press, 2000.)

strengthen central control at the local level by allocating benefits to allies and withholding benefits from those groups resistant to central control. Political settlements can also be strengthened through official approval or recognition by the international community. For example, formal diplomatic recognition or endorsement of election results can be a powerful mechanism to strengthen the position of a ruling coalition.²²

How Political Settlements Change

Political settlements may be relatively stable over long periods, or they may evolve quickly as a result of conflict, economic growth, or societal transformation. Using DFID's definition, a change in the political settlement happens when there is a change in the common understanding of how power is to be organized and exercised. Changes in the political settlement are generally transformational or structural shifts in the accepted norms of political behavior, usually brought about by gradual changes in political dynamics or shifting interests of powerful actors.

Changes in the political settlement may not be apparent until there is a significant and public shift, such as a new elite coalition, sweeping reform, or a military coup. While changes in a political settlement may appear swift, they are often the result of gradually accumulating pressure over time. In some cases, events that led to sweeping changes in the political settlement may have been swift and violent, but they were preceded by the gradual emergence of powerful new elites and political realignment. For example, twenty years of rapid, export-driven industrialization in South Korea, which extended to regions outside the capital, underpinned the emergence of powerful provincially based elites. By favoring certain regions, however, the regime's policies generated opposition in the neglected regions. The provincial elites from these opposition regions, in alliance with the emerging middle class and labor movements, eventually challenged the military-backed ruling coalition.

Changes in a political settlement can take many forms. Major *institutional changes* are one of the most common indicators that significant changes are occurring in the political settlement. For example, major policy reforms, changes in the enforcement of corruption laws, changes in the level of tolerance for elite impunity, or new arrangements for regulating natural resources are often an outcome of intensive informal negotiations that reflect a change in alliances within elite circles. Furthermore, *changes in the assessment of their interests by powerful elite factions* can lead to major changes in the political settlement. For example, when internal conflict increases, previously competing elite factions may recognize that they have a new, shared interest in stability, sometimes involving inclusion of previously excluded groups. Economic growth and increased trade can often change the interests of influential

REGIME CHANGE OR POLITICAL SETTLEMENT CHANGE?

Changes in the political settlement do not necessarily result when new leadership emerges in a country. Changes in government leadership may simply mean that one elite faction within the dominant coalition has gained temporary ascendance over others. Furthermore, the replacement of one ruling elite coalition with another, or "regime change," does not necessarily mean a change in the political settlement. In many cases, there is a revolving set of elites in the dominant coalition, though the set of institutions and interests remains stable and mostly unchanged. For example, in Bangladesh, the Philippines and Pakistan, the patterns of elite competition and cooperation remain relatively consistent, though the actual coalition in power changes every few years. A stable political settlement is one with relatively predictable patterns of political behavior over time, even if there is frequent and even violent contestation between elites over the dominant position of power. However, the emergence of a new dominant coalition can lead to changes in the political settlement, especially if there is a significant re-allocation of power, a realignment of major political factions, or new political dynamics that change the interests of key actors.

²² See Ann Hironaka, *Neverending Wars: The International Community, Weak States, and the Perpetuation of Civil War*, Harvard, 2005.

actors, leading to changes in economic regulation and patterns of rent-seeking behavior among elites. Changes in the political settlement are also driven by *realignments in the relative power of political factions*. The emergence of powerful new elite factions, or the increased influence of broad-based coalitions of non-elites, are often important drivers of change for political settlements. In other cases, *changes in the dominant coalition*, or shifting coalitions of elites, can lead to changes in the political settlement. For example, consolidation of power by a narrow group of elites can signify a major change in the political settlement. Conversely, the inclusion of new elite factions can have significant implications for the political settlement.

As a society evolves, the political settlement must adapt to shifting patterns of influence and interest. Those political settlements that have remained stable for decades have usually managed to adapt in the face of enormous changes, often benefitting from pragmatic elites who have been adept at responding to new challenges and building broad-based legitimacy within the population.

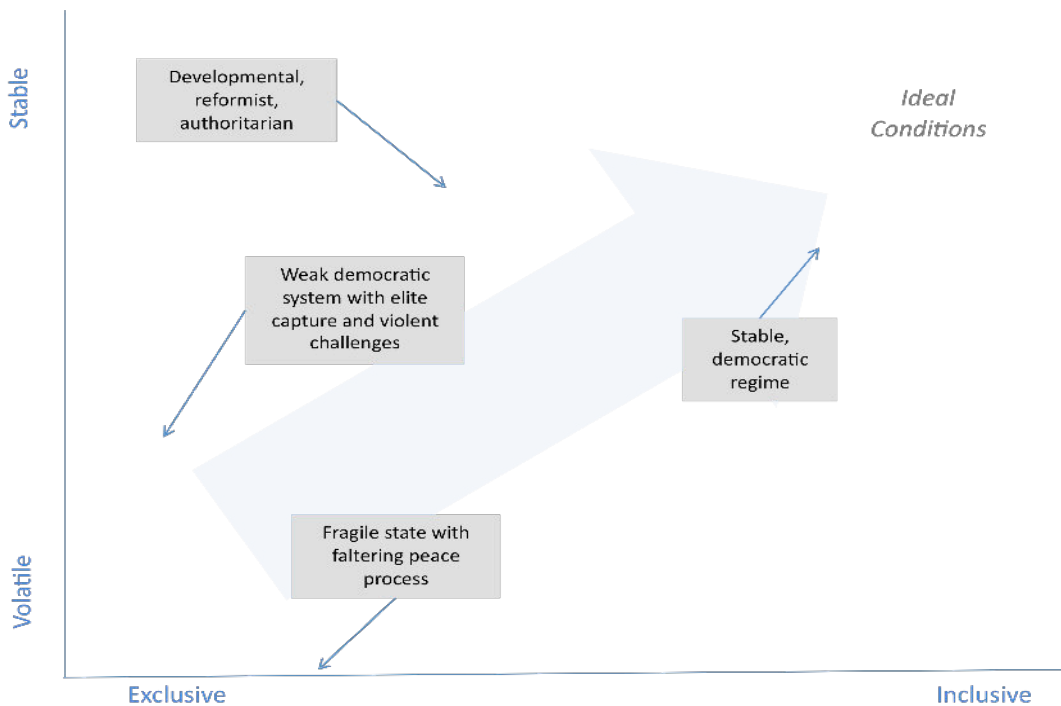
Using this framework, we can identify several common drivers of change in political settlements:

- 1) **A powerful, excluded elite faction “opts in” to the political settlement:** When a powerful elite group that formerly sought to destabilize existing arrangements joins the political settlement, the settlement becomes more durable. It may also make the settlement more inclusive, if the excluded group represents a significant portion of the population that was previously excluded. One possible scenario is when a ruling coalition brings new political factions or opposition parties into their government, making the political settlement stronger and more inclusive. In Thailand, for example, the building of the Thai Rak Thai political coalition during Thaksin Shinawatra’s first term (2001-05) included new alliances with several small political parties and elite factions, primarily from outside of Bangkok. These alliances transformed Thai politics by consolidating political power in a single party, after a decade of short-lived, unstable coalition governments.
- 2) **A new alliance is formed between excluded groups and an elite faction:** When an elite faction seeks alliance with the leadership of a discontented minority and champions that minority’s causes, this can generate pressure for major adjustments in the political settlement. Such alliances may be used by factions in the dominant coalition to strengthen their position in the current political settlement, or they may be used by excluded elites to press for inclusion in the settlement. In some cases, the impact may be greater inclusiveness, but also greater instability if other factions within the ruling coalition resist such change. In many cases, excluded elites will forge new alliances with the leadership of an emerging middle class, who have an interest in broadening access to power and curtailing elite privileges. For example, the “People Power” movement in the Philippines in 1986 saw traditionally elite political families, excluded from Marcos’s authoritarian rule, lead popular movements to challenge the political settlement established by Marcos. In 1986, the critical turning point came when key factions of the military joined forces with the popular movement led by Corazon Aquino. The settlement that emerged initially went through a period of significant instability, as elements of the old regime of Ferdinand Marcos and some disenchanting military factions challenged the new political settlement through a series of attempted military coups. Under the subsequent administration of Fidel Ramos, the settlement stabilized considerably, allowing for steady improvements in economic growth and development.

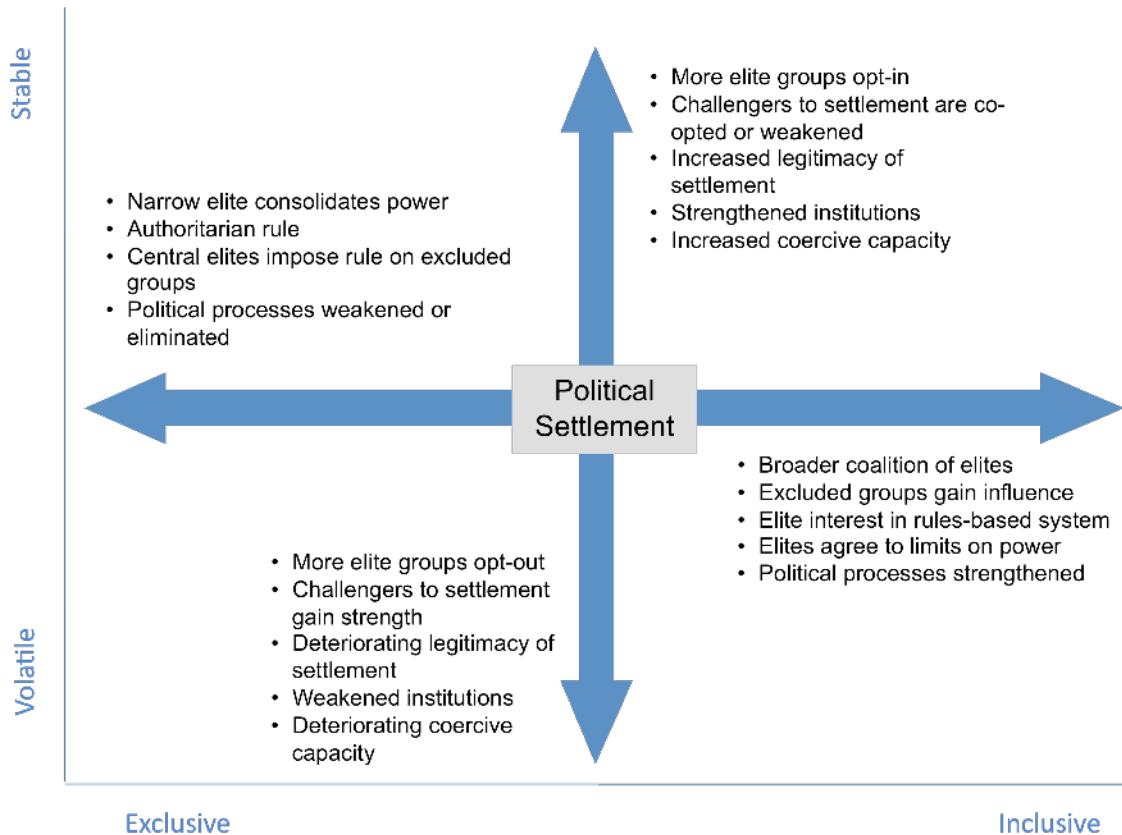
- 3) **An influential new group emerges:** The emergence of a new elite faction or a well-organized, influential middle class has been an important factor in the evolution of political settlements in Asia. In many cases, the emergence of an independent, organized entrepreneurial class, with access to significant resources, has led to changes in key institutions and the emergence of new elite coalitions. For example, the rise of the private sector in India since the early 1990s has created new pressures on the traditional ruling elites to further relax state control of the Indian economy. In most cases, this scenario can lead to improved development, as the new elites have an interest in sustained economic growth and constraints on the power of traditional elites. In Thailand, the rise of the Bangkok business elites and educated middle classes in the 1980s brought important pressure for greater civilian control of the government and economy. This scenario often leads to greater inclusiveness, as a result of greater diversity of elites and a broadening of the political settlement.

Diagram 1: Stability-Inclusiveness Spectra

For the purposes of measuring change in political settlements, we will use a tool to measure the relative stability and inclusiveness of political settlements over time, and compared to other settlements. The Stability-Inclusiveness Spectra allows us to plot the relative stability of a settlement along the vertical axis, from volatile at the bottom to stable at the top. Along the horizontal axis, we measure the inclusiveness of the political settlement from highly exclusionary (i.e., narrow, entrenched-elite dominated) to inclusive (widely representative coalition with a set of rules that allow open access to most citizens). Each box represents an illustrative political settlement at a particular point in time. The arrows represent the approximate direction and rate of change of the settlement. The ideal scenario is to move towards a stable and inclusive settlement (upper right corner).



- 4) **Non-elite groups mobilize around shared interests for reform:** There are occasions when non-elite groups can mobilize enough people to put substantial pressure on elite coalitions to modify the political settlement. Occasionally, the leadership of these movements comes from the non-elite level, though it may be in alliance with elite groups. For example, many of the political reforms in Indonesia after 1998 were made possible by the pressure generated by mass mobilization of students and other non-elite groups. Similarly, the political movement that led to the creation of Thailand's 1997 "People's Constitution" was primarily a product of efforts by civil society organizations, supported by the Bangkok middle class. In cases such as these, the result is the emergence of a significantly revised national political settlement that may be characterized by greater inclusiveness, but also by deteriorating stability in the short term.
- 5) **A state agency becomes powerful and independent of the settlement:** In many cases, the leadership of militaries and powerful ministries are political actors themselves, becoming the dominant faction in a coalition that reshapes the political settlement. A military coup is the most common example of this type of change in the political settlement. Military leadership has the ability to threaten and coerce, and therefore it may have the ability to impose a political settlement on other elite factions. It is not surprising, therefore, that where military leadership plays a central role in a ruling coalition, the political settlement tends to be fairly exclusionary. In some cases, the resulting political settlement may drive a more rapid development process, as in Thailand, Indonesia, Korea, and Taiwan in the 1970s and 1980s. In the post-Cold War era, imposed political settlements that emerge under these circumstances are generally not sustainable over the long term.
- 6) **Changes in legitimacy of the state or of its leadership:** Public perceptions of the legitimacy of the state and its leadership have important implications for the resilience of a political settlement. As legitimacy erodes, potential opponents of the ruling coalition, especially excluded factions or factions within the ruling coalition, may see opportunities for changing the settlement. As a result, there is a higher chance that excluded groups will organize to challenge the status quo. If the legitimacy of the state and its leadership increases, the ruling coalition may be able to strengthen its position vis-à-vis other competing elites. Winning elections has become a widely accepted source of legitimacy. In Indonesia, for example, the popular legitimacy of the Yudhoyono Government has helped to stabilize the political settlement since the 2004 election.
- 7) **Changes in coercive capacity under the control of the dominant elite coalition:** When the ruling coalition increases its coercive capacity, and the threat to use that capacity becomes more credible, potential competitors may be forced to accede to changes in the settlement that favor the dominant elite faction. Similarly, the political settlement can become more unstable if the coercive capacity of the ruling coalition (or its control of the police, military, or other armed forces) deteriorates – if, for example, a powerful militia joins a competing faction, or the military is no longer willing to be under the control of the current settlement.
- 8) **An alliance of excluded elites challenges the current ruling coalition and the settlement it has established:** When powerful excluded factions join forces to challenge the ruling coalition, this can lead to the collapse of the old settlement and the emergence of a new settlement. This has profound implications for stability, inclusiveness and development. One example is the 2006 agreement between the Communist Party of Nepal (Maoist) and the mainstream Nepali political parties to join forces in opposition to the narrow ruling coalition led by King Gyanendra and supported by the military. This agreement precipitated the end of the monarchy and the emergence of a new, unstable, but still enduring political settlement.

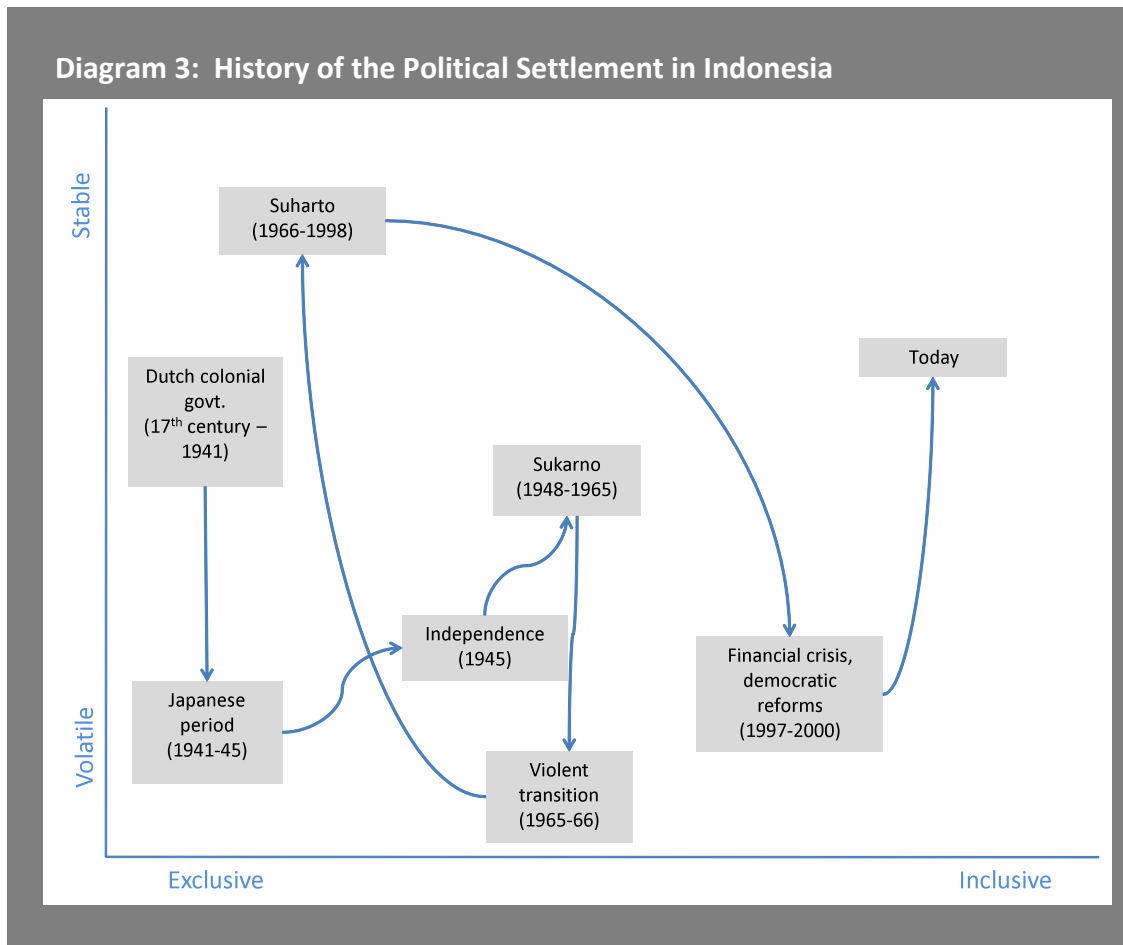
Diagram 2: Factors that change the political settlement

- 9) **An outside force intervenes:** When an outside power intervenes militarily against the ruling coalition, the current political settlement often collapses. The external force may then strengthen the hand of one or more elite factions, and broker a new settlement. For example, the 2001 military intervention in Afghanistan by the United States and NATO allies led to the collapse of the Taliban-led political settlement. However, the new political settlement that emerges from this type of event is often very unstable, especially when perceived to be a creation of the intervening power.

Historical Evolution of Political Settlements

The path to a stable, inclusive, and developmental settlement rarely takes a straight course. In most cases, countries that have reached stable, inclusive, developmental settlements have been through periods of extreme instability, or highly exclusionary settlements.

It is important to understand the historical evolution of contemporary political settlements. Nearly every country in Asia has been affected by dramatic changes in political settlements. While each country is unique, there are some commonalities across the region. In most of south and southeast Asia, the modern state was initially established by colonial powers, who favored certain factions over others. The colonial



powers were in a position to dictate the political settlements, though this was almost always done in alliance with key local elites. These political settlements were maintained by a combination of coercion and co-optation of local elites, backed up by the traditional legitimacy on which local elites based their own power. At independence, the political borders established by colonial powers were generally kept in place. The postcolonial ruling coalitions and the political settlements on which they rested were unstable, often lacking in legitimacy, or too dependent on coercion and marginalization of competing elites. In many cases, the state was quickly taken over by revolutionary leaders seeking to break the power of existing elites. The political settlements established under these conditions were typically unstable, and the state institutions that resulted were inherently weak.

In the first decades following the end of the colonial period, many emerging nations experienced periods of violent internal conflict and political instability as a result of violent contestation of the political settlement. In Burma, Indonesia and many other nations, new ruling coalitions, often led by or linked to the military, challenged the flagging post-independence civilian coalition. During this period, many of the struggles over the political settlement took on an ideological flavor, as competing elites looked for support from foreign powers to gain local advantage.

Over the past half century, and especially in the post-Cold War period, there has been an increasing diversification of elites in Asian countries, primarily resulting from economic growth. This growth has changed the core interests of elites, created new elites that demand changes to state policy and institutions, and led to the emergence of a diverse and educated middle class with less dependence on patronage links to powerful elites. Despite these changes, many of the same traditional elites remain at the center of contemporary political settlements. Though competitive elections are now held in nearly every

country of South and Southeast Asia, traditional political elites, many of whom have dominated national politics since the late colonial era, still manage to maintain their dominant positions.

It is important to recognize that political settlements may involve trade-offs between stability, development and inclusiveness in the short-to-medium term, in order to achieve ideal conditions in the long term. In some cases, stability may be preferable to inclusiveness in the short term, even for the majority of the population that is excluded. The case of Singapore illustrates that stable settlements can achieve high levels of popular legitimacy without necessarily becoming more inclusive, in large part because they have generated high rates of development. After periods of development and stability, the pressure for greater inclusiveness may increase, as elites become more diverse, and an educated middle class becomes more prominent.

Secondary Political Settlements

While the current literature on political settlements is useful for understanding the competition for state power, it does not adequately capture the political struggles in subnational regions. In any country, political competition is unfolding at multiple levels at any given time. Elite actors from the national to the village level are competing for dominance in their area of influence, and entering into political settlements. Political dynamics at the national and subnational levels interact in complex ways that depend heavily on local context. Within one country there may be regions that are highly autonomous from national politics, with local politics determined entirely by local elites, while in other regions central elites and state actors may have a significant influence in local politics.

To distinguish between the national and subnational contexts, we will refer to the informal configuration of power at the central state level as the *primary political settlement*, and the struggle for local control in subnational regions as *secondary political settlements*. The primary political settlement usually includes elites from the larger, dominant ethnic groups that have traditionally had access to national political power. This level of political settlement generally governs inter-elite competition for central authority and access to the central state (or national government).

Secondary political settlements can be defined as the arrangements among powerful local elites to control political competition and governance below the national level (i.e., province, state, district, city, village, etc.). The actors that control these secondary settlements often include traditional elites who have strong ties to local communities through informal institutions. Secondary political settlements become particularly complex where they include central state actors (or centrally appointed actors based in peripheral regions, such as governors or local military commanders), national elites with subnational interests, or other allies of the state in the peripheral region. Secondary settlements have major implications for the application of state power, distribution of state resources and privileges, security at the local level, and acceptance of, or resistance to central, state authority in the subnational region.

The relationship between primary and secondary settlements depends on local context and the nature of center-periphery power dynamics. Secondary political settlements can be grouped into the following categories:

- ***Central Penetration into Local Affairs*** – In some local contexts, central elites have enough power to shape and control elite arrangements at the local level, often forcing local elites to operate within a set of rules that may undermine local interests. This category tends to happen in highly centralized states, where the state and central elites have the ability to shape and control local politics. In these regions, power remains mostly centralized, and local elites accept the role of the state in local affairs, including local governance, education, cultural institutions, and the

local economy. These secondary settlements are usually highly stable and generally conducive to development, though they may also be exclusionary and predatory depending on the national context. For example, in highly centralized states such as Thailand or Sri Lanka, local politics are a microcosm of national politics, with some degree of local variation based on ethnicity and party affiliations.

- ***Local Elite Dominance of the Center*** – In some cases, the dominant coalition in national politics is mostly comprised of elites from subnational regions. In these cases, powerful local elites have tightly consolidated their secondary political settlements, often by developing effective systems of patronage or coercion. Local elites who also dominate national politics are able to use their influence on the central settlements to reinforce their hold over local politics, through access to state resources or privileges (and an influential role in their allocation and distribution), or control of state security forces in their area. The Philippines is a good example of this scenario, where economic and political elites in outlying areas have enormous influence on national politics.
- ***Contested State Presence*** – This category includes subnational areas in well functioning states where a significant portion of the local population does not view state authority as legitimate. In these cases, the state may have a heavy presence in the region, but this presence is contested through political or violent means. Secondary settlements tend to be highly exclusionary and entrenched in these cases, and often involve high levels of predatory behavior by central elites and their allies. Examples include southern Thailand, southern Philippines, Tamil regions of Sri Lanka, Aceh and West Papua.
- ***Decentralized/Autonomous Settlement*** – In these cases, local elites are powerful enough to exclude national elites from local affairs, maintaining high levels of local autonomy, and resisting integration into the national political system. Some subnational regions of Asia have high levels of autonomy from the center, as a result of national decentralization, negotiated special autonomy arrangements, or geographic isolation. In these cases, the secondary settlement is largely independent of state influence, and primarily determined by local conditions.
- ***State Absence/Withdrawal*** – This category includes subnational regions where the state has limited or no capacity, and where security and governance are mostly controlled by local non-state groups. In these regions, the secondary settlement is often highly unstable and predatory, though mostly as a result of local elites instead of central elites. Examples include some border regions along the Afghanistan-Pakistan border, the areas under Maoist control in Nepal during the conflict, and border regions of Burma.

Within ethnically diverse countries, there can be important differences between secondary settlements in different subnational regions of the country. In regions with historically autonomous populations, where the local elites challenge the authority of the state and its allies at the local level (i.e., Contested State Presence), the secondary settlement can be highly exclusionary and enforced through coercion. In other regions where local elites benefit from positive relations with the center, secondary settlements can be quite stable, inclusive, and conducive to development. For example, a comparison of the secondary settlements in the southern Philippines shows a dramatic difference between the majority Muslim regions of the Autonomous Region of Muslim Mindanao, and the majority Filipino Christian regions of Davao and Eastern Mindanao.

Primary and secondary political settlements in a country can look remarkably different. In most cases, primary political settlements are more dynamic than secondary settlements. For example, the primary political settlement in Thailand has been through frequent and often dramatic fluctuations over the past 50 years, as different elite and middle class factions have emerged and competed for influence in national

politics. However, the dynamics of secondary settlements in Thailand have remained relatively unchanged, and largely defined by central elites. Indonesia and India have stable and relatively inclusive political settlements at the central government level, but in some outlying regions, secondary settlements have been through significant upheavals over the past 25 years as a result of conflict and rapid social transformation.

The secondary settlement concept also helps us to better understand the problems of subnational conflict and fragility. In many subnational areas of Asia there are long-running, violent conflicts between the state – and, by association, the central elites that make up the political settlement – and local ethnic or religious minority groups, usually led by local elites. The struggle usually unfolds in the form of contested state presence, and bitter divisions in local politics between those allied with the state and those who oppose it. Over the past few decades, many of the conflict-affected subnational regions in Asia have experienced an influx of immigration, often with direct support of central governments. These migrant populations, who usually come from the central region of the country, often maintain a strong loyalty to the state, which is strengthened by the threats and animosity they experience from the local population. In many cases, the elites from the migrant population enter into alliance with the state and central elites, and are given special privileges and protection, while the local ethnic population is politically and economically marginalized. For example, during the mass internal migration from Luzon and the Visayas to Mindanao in the Philippines during the twentieth century, many of the “settler” groups benefitted from state resources and protection. A secondary settlement between Christian and Muslim politicians, which held during mid-century, began to break down due to increasing population density and political redistricting, so that the Moro population became increasingly marginalized and eventually outnumbered by the internal migrants. In this way, secondary settlements in these regions have become highly exclusionary, and deeply entrenched over time.

In subnational regions affected by armed insurgent groups, the secondary settlement is profoundly affected by the dynamics of the violent conflict. Central elites and government have traditionally had a much greater interest in using force and coercion, rather than negotiation. Concerned with possible unrest and resistance in other subnational regions of the country, central elites have a powerful interest in asserting authority and establishing the state’s monopoly on coercion. Negotiations and peace agreements with insurgent groups will move forward only when there is a realignment of interests within the dominant elite coalition. For example, the secondary settlement in Aceh changed dramatically after the influx of external assistance in the aftermath of the Indian Ocean tsunami and election of President Yudhoyono in 2004, creating political space for peace negotiations.

CHALLENGES FOR DONORS

Prioritizing among Conflicting Goals

The political settlements framework helps us to understand where change may be possible in some areas, and why it may be difficult in others. This framework also begins to point to where more concerted attention and greater investment of resources might help to drive positive change. But the framework does not prescribe the ends or goals toward which development actors should be working.

In determining a strategy for influencing political settlements, there are four outcomes or “goals:”

- Stability
- Conduciveness to development
- Inclusiveness
- Reducing the level of elite predation

These four donor goals are distinct, but they are interrelated in complex and sometimes contradictory ways. In many cases, there are trade-offs in the short-to-medium term that need to be better understood based on empirical evidence. For example, does increased inclusiveness always lead to greater stability? Do high levels of elite predation always slow the pace of development? What effect does accelerated development generally have on the long-term stability and inclusiveness of political settlements? In particular, there is a need for more analysis of the interrelationship between these four goals in conflict-affected and fragile state conditions, where movement toward any of these goals, at least in the short term, may come at the expense of movement towards another.²³

Stability (Durability of Political Settlements)

The outbreak of major conflict, especially violent conflict, between factions within the core ruling coalition is generally detrimental to economic activity and social welfare. For this reason, most international actors have generally sought to pursue a program of gradual and measured reform within the context of the existing political settlement. In some cases, however, there may be long-term benefit in short-term instability. Where there are prospects for a new political settlement to emerge that promises greater long-term stability, accelerated development, or a more inclusive social order, stability may not be the primary goal.²⁴

In conflict-affected and fragile contexts, however, the most crucial characteristic of a political settlement *is* its impact on stability. At a very basic level, political settlements are usually formed specifically to address security problems, and they must maintain a basic level of stability to be sustainable. The threat of instability and violence has profound implications on the willingness of the population to accept imperfect political arrangements, including high levels of predatory behavior by elites and deeply exclusionary settlements. In many cases, citizens may be willing to accept elite capture of the state and the corresponding high levels of corruption and poor governance in the short term, if this appears necessary to avoid a return to violence. As conditions improve, societal expectations will change, and the population may come to expect more benefits from the state. In this improving context, public perceptions of the legitimacy and “fairness” of the political settlement become more important, especially as potential challengers to the political settlement are able to tap into, and capitalize on, public frustration.

²³ There is much debate within development research and practitioner circles over the relative importance of each of these goals, and it is beyond the scope of this paper to examine them in detail here. However, there is a need for more clarity on the relative importance of these goals in different contexts, and how they relate to one another.

²⁴ This is a topic that deserves more in-depth discussion than is possible here, though we take up an important aspect of this issue in the section that focuses on Legitimate Roles for International Actors.

In fragile or unstable environments, powerful elite groups hold the key to stability. If they are a party to the political settlement, they will defend the social order and be a force for stability. If they contest the political settlement, or are excluded from it, they can destabilize the fragile peace. As a result, there must be a compelling reason for powerful elites to be a part of the system. Douglass North, John Wallis and Barry Weingast argue in *Violence and Social Orders* that elite privilege, or “rent-creation,” is the most effective way of luring powerful elites into joining the social order.²⁵ “Systematic rent-creation through limited access in a natural state is not simply a method of lining the pockets of the dominant coalition; it is the essential means of controlling violence.”²⁶ These authors suggest that the most common social orders in conflict-affected and fragile conditions are *limited access orders*, where the dominant coalition of elites controls access to resources through the creation of a system of rents that provides incentives for powerful elites to join (rather than challenge) the social order.

Conduciveness to Development

The second goal is to enhance prospects for accelerated economic and social development. Many national political settlements, especially at early stages of development, have a coalition of interests that have not been conducive to rapid economic growth and social/political transformation. In the worst cases, such as Burma, national leadership has had little or no real interest in reforming governance institutions in ways that would facilitate or drive development forward. Substantial development assistance in those cases makes very little difference, and in fact may simply reinforce the existing political settlement. This has been the case over the past few decades in many least-developed countries such as Burma, Papua New Guinea, and many parts of Africa.

In other cases, a political settlement has emerged where the interests of the ruling coalition may be aligned in ways that support a moderate pace of economic activity as long as it does not risk the core political settlement. Such regimes tend to be inherently conservative, and donor investments can be useful for achieving a moderate rate of development, but on the whole, assistance tends to reinforce the existing political settlement. This is the case, for example, in countries like Bangladesh and Pakistan.

Finally, there are political settlements in which the interests of the ruling coalition have become aligned with conditions of rapid growth and development transformation. In countries where this condition prevails for a sustained period (usually referred to as “developmental regimes”), the ruling coalition ensures that state institutions continually adapt to emerging constraints on rapid development, and do so in a proactive and relatively efficient manner. This was the case with Japan, Korea, Taiwan, and Singapore after World War II. The experience of the past forty years points to the role of elite coalitions in pro-market reforms in these countries, and the establishment of formal regulatory institutions that led to spectacular growth and a significant reduction in poverty.²⁷ Importantly, in most of these cases, stability was guaranteed, not through democracy, but through a combination of strong security institutions and strong popular legitimacy. This legitimacy endured partly because the ruling coalition was relatively *responsive* to the interests of secondary national and local elites and to ordinary citizens.

The political settlements framework can provide donors with important insights into how it may be possible, under favorable circumstances, to help create conditions that realign the interests of powerful

²⁵ North, Douglass, John Wallis, Barry Weingast, *Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History*. New York, Cambridge University Press, 2009.

²⁶ North et al. 2009, p. 17.

²⁷ The formation and evolution of pro-development coalitions is an important question for international development organizations. AusAID is currently leading a multi-stakeholder initiative to better understand the formation of developmental elite coalitions, and the implications for development assistance. See The Leadership Program: Developmental Leaders, Elites and Coalitions (LPDLEC), www.lpdlec.org, 2010.

actors. Whether intended or not, development assistance creates new conditions and new incentives on the ground, which can affect the calculations of powerful actors regarding their interests. From this perspective, development strategy should concentrate resources on creating the conditions on the ground that encourage powerful actors, in their own self-interest, to expend political capital to shape institutions and policies that can improve governance in ways that accelerate growth and development. Recent literature provides some useful models for understanding the evolution of political settlements to become more pro-development. For example, Khan proposes a typology of political settlements that distinguishes between those with growth-supporting institutions, and those without.²⁸ North, et al., propose a path of evolution for limited access orders, from fragile to basic to mature, as elites incrementally accept greater limits on their power in order to create space for growth-enhancing institutions.

Inclusiveness

The concept of *inclusiveness* is a major theme in the current donor discourse on political settlements. In part, the desire to make political settlements more inclusive through various interventions reflects normative values of donor nations. For this reason, development organizations may seek to enhance the inclusiveness of a political settlement as a matter of principle, as an end in itself. However, efforts to broaden participation in political settlements are often also justified on pragmatic grounds. In most recent literature, and in donor policy on political settlements, there has been an assumption that the more inclusive political settlements are, the more stable and conducive to development they will be. In fragile conditions, there is an assumption that when all actors participate, outcomes will be seen as more legitimate by those actors, and will be more likely to be embraced. Moreover, it is often believed that broadening inclusiveness limits the capacity for predation by core elites, creating conditions for more rapid developmental growth.

In fact, however, in the developing world, where state institutions and formal accountability mechanisms are weak, there are few real prospects for non-elite groups to be directly involved in the processes of conflict, negotiation and compromise that shape the political settlement. Even where democratic institutions (elections, parties, and parliaments) exist, these are almost always captured by powerful elites. These institutions of public accountability are difficult to reform *precisely because they are shaped by and adjusted to serve the interests of the ruling coalition*. While this is the case with all early stage developing countries, it is even more so in conflict-affected and fragile contexts. In these places, inclusiveness and stability are not necessarily compatible in the short to medium term.

However, the absence of effective formal institutions of representation and accountability does not mean that non-elites have no say at all. Even in the most hierarchical societies, non-elites are a foundation of the informal political networks that determine the shape of the political settlement. Elites and non-elites interact primarily through informal, personalized patron-client relationships that may be based on ethnic, sectarian, or communal loyalties. Where large segments of the population are tied through patron-client networks to elite groups, these non-elite groups benefit from and support the political settlement. Even where democratic institutions are dysfunctional, political parties are often a means for linking a wide array of non-elite networks to the core actors in the political settlement. In political science this is referred to as *clientelism*. In clientelist systems, elites gain legitimacy in part through the extent to which they represent, or at least are seen as representing, the interests of segments of the population to which they are tied.

²⁸ Khan 2009, p 47-59.

Do Elections Make a Political Settlement More Inclusive?

Not necessarily. In areas affected by conflict and fragility, elections have rarely led to more inclusive political settlements. There are many examples of places with contested elections where power has continued to be vested in a narrow elite circle. The common causes include control of political parties by narrow elite interests, elite influence or control over non-elite votes through patronage or coercion, and manipulation of electoral systems by the dominant elite coalition. In fact, there is some evidence that elections can make political settlements more exclusive and unstable. Elections have often been used by elite factions to legitimize an illegitimate regime. Furthermore, recent analysis by Paul Collier reveals a clear correlation between elections and violence in poor countries (Collier, Wars, Guns, and Votes: Democracy in Dangerous Places, 2009.)

What matters for stability is that citizens accept the political settlement and the governance outcomes that it generates as legitimate. In many contexts, *inclusiveness*, in the sense of participation in decision-making, may not be as important as the *perception* that governance outcomes are relatively responsive to the needs of groups who might otherwise have the interest and power to undermine the political settlement or state institutions. In other words, *direct* participation – even the idea of direct participation – may often be far less important than *indirect* participation, as long as the outcomes are reasonably acceptable to non-elites. In an important sense, as long as there is a degree of responsiveness to non-elite interests, the political settlement is in some sense *inclusive*.

Reducing Elite Predation

Elite predation may come in many different forms – for example, land- or other natural resource-grabbing, regulatory capture, and other forms of corruption – all of which may involve or accompany a range of human rights abuses. In developing countries, elites or government

officials, often working in collusion, typically enjoy a high degree of impunity. One of the core insights of the political settlements framework is that, because the institutions and policies are shaped by, and in part serve the interests of, a core coalition of powerful actors, most developing countries have some degree of elite predation. In early stages of development in clientelist states, elite predation is generally much higher, and declines only later with economic transformation, as the productive elements of society are able to resist predation by non-productive actors. In part, following the points made in the previous section on stability, the problem of heavy elite predation is worse in early stages of development and fragile conditions, because a large section of society is willing to acquiesce to higher levels of predation to avoid a return to violence.

In conflict-affected and fragile contexts, nearly all political settlements will have some degree of predatory behavior by elites. This may include some of the same conditions prevalent under stable national political settlements – grand (as opposed to petty) corruption, resource capture, regulatory capture and control of economic activity, marginalization of segments of the population, tightly controlled political space, and suppression of political opponents and dissent. In many cases, the institutional arrangements established by the political settlement are meant to protect or legitimize patterns of predatory elite behavior.

The international development community generally views elite predation as both morally repugnant and toxic to development and good governance. But it is important to ask whether such predation *always* undermines the pursuit of stability and development goals. Some scholars have argued that there may be evidence that some elite predation is necessary to create a degree of stability that allows development to take place by getting “buy in” from powerful elite factions who would otherwise seek to destabilize the state and development. Mushtaq Khan argues that the particular nature of elite predation will determine how it affects economic activity and social welfare. North, et al., suggest that we must adapt our assessment of predatory behavior in conflict-affected or fragile environments when keeping potentially

threatening actors “within the tent” provides significant gains for stability. Recent experiences in conflict-affected countries like Bosnia Herzegovina and Afghanistan have stimulated debate within the international community over the balance between elite predation, regime legitimacy, and stability.

Legitimate Roles for International Actors

The discussion on political settlements is likely to raise some concerns among aid-recipient countries and segments of the international community that development organizations may go too far with this framework. Can it be used to justify interference in the political affairs of sovereign nations? On what basis does the international community have a legitimate role for influencing political settlements?

Our contention is that there is already a degree of justification for international actors to design aid programs that proactively influence political settlements in aid-recipient countries. Experience has shown that aid has been influencing political settlements for decades. In too many cases, donors have inadvertently strengthened the position of powerful elites operating under highly exclusionary, unstable and fragile settlements that actually undermine prospects for accelerated development. Using political settlements as a framework for program design and donor coordination is simply recognizing the international development community’s influence, and realigning international efforts to improve development, security and governance outcomes. This is particularly relevant in contexts where political settlements are a direct cause of violent conflict and fragility. In fact, most of the political settlements in conflict-affected and fragile countries are directly dependent on international assistance for their survival.

Influencing political settlements is not the equivalent of instigating regime change. No single program or donor will transform the political balance of power in a country. Political change is usually a slow, long-term process that is primarily driven by endogenous forces. In too many cases, international development assistance has slowed the process of change by strengthening the actors and institutions that have a vested interest in the status quo. The political settlements framework holds the potential to facilitate more politically informed and targeted aid capable of exerting pressure on the political settlement to evolve in a more desirable way.

The argument that development assistance can and should work to positively affect political settlements in developing country contexts rests on four key assumptions. While these assumptions are based on decades of development experience, there is a need to test these assumptions through empirical research.

All aid programs influence the political settlement: International development assistance invariably influences the political settlements of aid-recipient countries. While the influence of a single program or donor may be small, *the cumulative impact of foreign aid can be decisive in determining the trajectory of a political settlement.* Development programs usually benefit a limited subset of the population (as opposed to the entire population), and the selection of beneficiaries is a political decision. For example, if aid is channeled through institutions that are controlled by the political settlement, these resources will usually be distributed according to the interests of the elites included in the political settlements, i.e., allocated to their client populations, or used to strengthen the legitimacy of the political settlement. If aid is channeled to excluded groups through channels that are not controlled by the political settlement, the impact may be to strengthen excluded groups and increase pressure on the political settlement to become more inclusive, possibly leading to greater instability. The challenge is to understand the influence of specific aid programs and donor strategies, and to develop strategies that combine measureable development outcomes with positive pressure on the political settlement.

International donors are influential, but often work at cross-purposes: The international development field is having a significant impact on political settlements, but often at cross-purposes. Despite a near universal commitment to support the interests of the poor and marginalized, we contend that *development assistance too often unintentionally strengthens the status quo political settlement*. Many international actors are at an early stage of understanding their influence on the political settlement, and very few have systematically evaluated their impact. This problem is compounded by the challenges of measuring impact on the political settlement, and the pressure on international development donors to demonstrate quantifiable progress towards development outcomes (e.g., Millennium Development Goals).

Principles for Influencing Political Settlements

It is important that the international community address the concerns of aid-recipient countries that foreign development organizations should not be intervening in their sovereign affairs. Parameters or limits on what is an acceptable level of influence by international actors need to be established. Influencing political settlements does not mean manipulation of local politics, or instigation of regime change. Without clear definitions and limits, however, the line between sovereignty infringement and acceptable and legitimate levels of influence becomes blurred, and the conduct of international actors will be strongly questioned. The following statements provide a starting point for debate on a set of principles to guide international development actors' influence on political settlements:

1. Influence should be used to encourage positive evolution of the political settlement (greater inclusion, development and stability, and reduced elite predation), and *not* to remove or undermine the current settlement.
2. The long-term objective should be an inclusive, stable, and pro-development political settlement (recognizing that there may be trade-offs in the short term).
3. Reasonable efforts should be made to avoid entrenching narrow, exclusionary political settlements that rely on predatory behavior for sustenance.
4. Influence should be exerted through legal and transparent means, such as development assistance.

Furthermore, some donors are primarily interested in using aid to improve relations with the elites that comprise the political settlement, and not necessarily interested in more inclusive or stable political settlements. When foreign policy objectives of donor governments are the most significant determinant of their aid agenda, this may create powerful incentives for development donors to strengthen the current political settlement.

There is a legitimate role for international actors to influence political settlements through development assistance: International actors already influence political settlements in aid-recipient countries, though most of this influence serves, often unintentionally, to strengthen the status quo settlement. The political settlements framework allows international actors to better understand their potential for influence, and adapt programs and country strategies to maximize positive influence. When there is evidence that a political settlement is a direct cause of conflict and fragility, or that it is posing a significant block to development and governance improvement, there is a clear justification for international actors to design aid programs that positively influence political settlements in aid-recipient countries.

OPERATIONAL IMPLICATIONS FOR DEVELOPMENT ASSISTANCE

The emerging discourse on political settlements has led many development organizations to ask what can realistically be done in this area. In some cases, there is a great deal of skepticism among international development professionals about the ability of aid providers to influence political settlements in recipient countries. There are also concerns that accusations of foreign interference might damage bilateral relations with recipient governments. In light of this skepticism and concern, there is a critical need to identify practical approaches that will allow us to have some positive influence on political settlements, while maintaining a constructive relationship with recipient governments and the dominant elite coalitions.

There are several factors that can improve the prospects for positive influence. As elite coalitions diversify and evolve, there are more openings for influence. Most political settlements involve a diverse set of actors with competing interests who are often in competition with each other. In this context, there may be opportunities to support a like-minded faction within the dominant coalition – for example, to influence the direction of the political settlement and encourage greater support for reforms or inclusiveness. In many cases, this type of influence has been welcomed by powerful elite factions who recognize common interests with actors in the international development community. In Thailand, for example, international assistance for civil society efforts to mobilize support for the 1997 “People’s Constitution” was welcomed by influential groups in the emerging Thai middle class, academic elite, and some segments of the Bangkok business elites. By supporting a multi-year process of consultation, advocacy, and constitutional development, the international community helped to influence the evolution of the political settlement in Thailand to be more inclusive, stable and conducive to development.

There are moments when the influence of international actors grows considerably. During periods of transition, such as the aftermath of negotiated peace agreements, or after the fall of a long-standing regime, the international community can play a highly influential role in helping to shape the new political settlement that emerges. For example, in the aftermath of the Comprehensive Peace Agreement in Nepal in 2006, the international development community has played a significant role in helping to encourage a more inclusive and pro-development political settlement by supporting constitutional development and encouraging participation and input from long-excluded ethnic groups. In the period after the fall of Suharto in Indonesia, international donors played an influential role in the transition by supporting pro-reform movements in civil society and mass-based religious institutions.

However, development actors must also be modest with their objectives, and recognize that the potential for a single donor or program to influence the political settlement is limited. No one project will be transformative, but the potential for influence improves significantly if there are coordinated efforts among multiple donors over longer periods of time. The cumulative impact of aid can be substantial, even in the short term, if there is more effective coordination and alignment among the key international actors.

International development organizations need to better understand the influence of current aid programs on political settlements. Are we slowing or accelerating the pace of change? Are we precipitating reforms, or entrenching the status quo? Does development assistance make the situation worse, by strengthening exclusive political settlements or destabilizing fragile settlements?

Translating this framework into workable operational guidelines is complicated by the lack of clarity and consensus on the definition and key elements of political settlements. The OECD DAC recognizes that “a certain definitional ambiguity” leads to difficulties in empirically analyzing the characteristics of political settlements. In many ways, the existing guidance on political settlements relies heavily on the programming models developed for other related areas of development assistance, in particular statebuilding and peacebuilding. For example, there is a recurring focus on supporting peace agreements,

constitutional development, elections, and political processes in post-conflict conditions, with the implicit assumption that these types of donor interventions are directly relevant to influencing political settlements. The broader definition of political settlements that includes discrete “events,” such as negotiated peace settlements or development of a new constitution, implies that donors can influence political settlements by broadening participation and strengthening political processes at key moments during the negotiation of a new settlement. Furthermore, after the “event” occurs, donors can strengthen the new settlement by supporting its implementation and holding government accountable to the new rules established. While these strategies are critical in a post-conflict setting, their influence on political settlements (as defined in this paper) is unclear and indirect.

We argue that current analytical models and intervention strategies need to be adapted. If we adopt the definition of political settlements used in this paper – focusing on elite actors, their interests, and the institutions established to sustain the political settlement – then there is a need to change the way we design aid programs. Working on political settlements requires a significantly greater level of flexibility and political acumen by international development actors, as well as more sophisticated approaches to local partnerships and risk management.

This section will provide some preliminary ideas for new ways of thinking and working to influence political settlements. These suggestions are merely a starting point, however. There is a clear need to develop more robust methodologies and tools for donors and international actors in this area.

Analysis: Political Settlement Mapping

Development organizations should start with a baseline analysis, or *political settlement mapping*, to identify the key elements (actors, interests, institutions) of the current political settlement. This mapping can draw on several commonly used analytical tools, such as political-economy analysis, actor mapping, and conflict audits, but will focus on some additional questions not addressed by these tools. The key questions for a mapping exercise would include:

Actors: Who are the primary actors that hold power? What is their basis for influence and legitimacy? Who benefits from the status quo distribution of power? Who is excluded and how do they respond? Are there alternatives to the dominant elite coalition?

Interests: What are the primary interests of the elites in the dominant coalition? Are there competing interests? Where are the openings for forming alliances, based on shared interests, between the dominant elites and excluded groups?

Institutions: What factors or mechanisms help to sustain the current political settlement? What are the accepted rules that apply to political competition and economic activity? To what extent are these rules shaped by the dominant coalition? What limits are there on elite behavior? What are the motivations of the dominant elite coalition for establishing and complying with the institutions? How are challengers to the political settlement addressed? How robust is the current settlement?

A mapping exercise should contain the following areas of analysis:

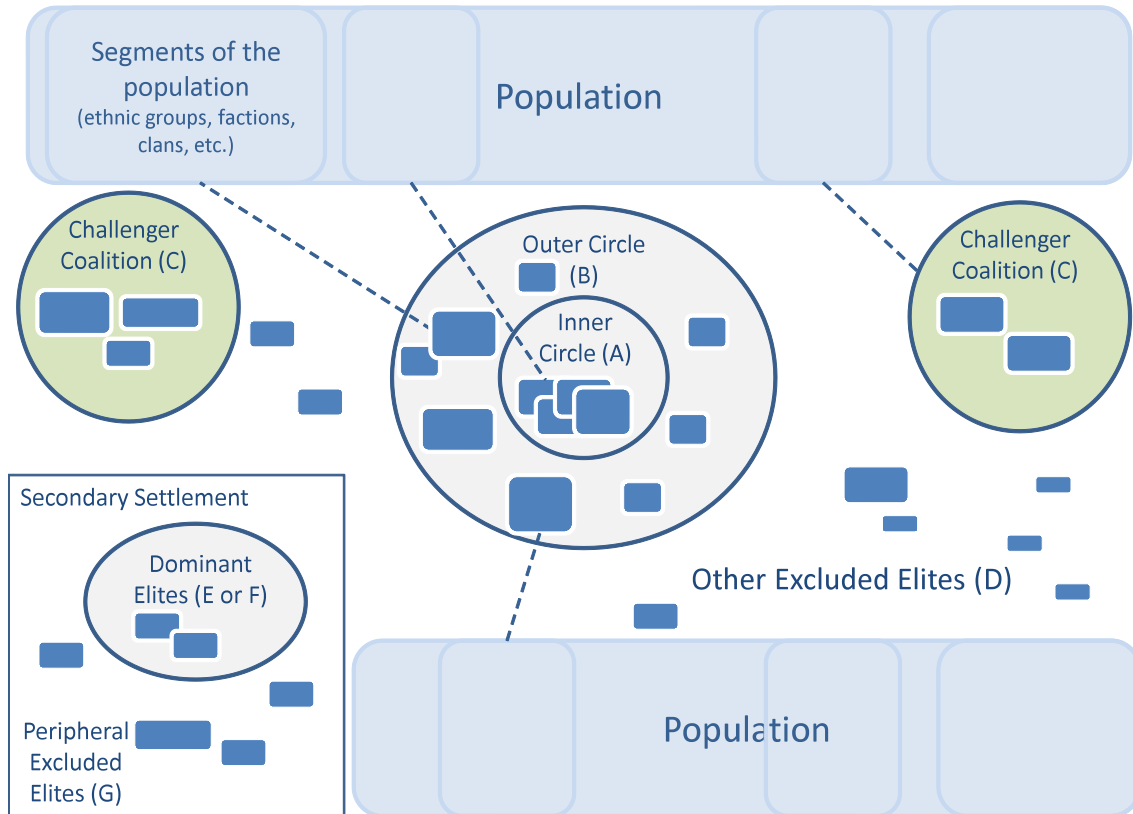
Identify elite groups – The first step is to determine the list of key political actors, beginning with elite groups. Elite groups are defined as those individuals and social groups with extraordinary influence on political and economic outcomes. Examples include powerful political leaders and families, political party leaders, private interest groups (e.g., business, landowners), religious leaders or institutions, monarchy or

other inherited positions, informal coalitions, ethnic or minority group leaders, leadership of powerful state institutions (e.g., military, police, judiciary), insurgent groups, and organized criminal networks. In some cases, individuals may be included in several elite groups, and some groups may have considerable overlap with others. Elite groups, therefore, are not necessarily based on membership, but rather on the interests they represent.

Plot the political constellation of elite groups – The next step is to develop a map that illustrates the position of each elite group. Diagram 4 presents an illustrative mapping. The primary political settlement is in the center, surrounded by excluded elite groups (including challenger coalitions) and the broader population. The bottom left corner illustrates a secondary settlement. As a general guide, elite groups will usually be found in one of the following categories:

- ***Inner circle (Group A)*** – Core leadership of the dominant coalition that makes up the political settlement.
- ***Outer circle (Group B)*** – Elite groups that are included in the political settlement, but not influential in key decisions. Many of these groups are brought into the settlement to prevent them from joining a competing settlement.
- ***Challenger coalitions (Group C)*** – Powerful excluded groups that are a threat to the dominant coalition. These can include opposition parties, insurgencies, or contending elite coalitions whose objective is to become the dominant coalition. There may be more than one challenger coalition for each political settlement.
- ***Other excluded elites (Group D)*** – Other elite groups that are excluded from the political settlement, and do not have enough influence or power to pose a threat to the dominant coalition.
- ***Dominant independent elites in peripheral area (Group E)*** – Elites based in a peripheral region of the country that form the dominant coalition in secondary settlements that are not aligned with the state.
- ***Dominant peripheral state-aligned elites (Group F)*** – Elites that form the dominant coalition in a secondary settlement that are allied with the dominant elite coalition (or the state) at the center.
- ***Peripheral excluded elites (Group G)*** – Elites that represent minority groups living in a peripheral region of the country. These groups are key actors in secondary settlements, and often include ethnic-based insurgent groups.

For each elite group, it may also be useful to identify their base of support in the population. Are there specific, definable segments of the population that support the elite group, and benefit from their success and patronage? Diagram 4 illustrates these connections through dotted lines that connect population groups to elite groups.

Diagram 4: Political Settlement Mapping

Identify the interests of key actors – The next step is to identify the interests of key actors. Generally, elite interests must be determined based on assumptions and second-hand information. In some cases, it is important to go beyond the stated interests, to look for clues to the deeper interests of elite actors. This analysis should focus on:

- Dominant elite shared interests;
- Divisions within the dominant elite coalition over competing interests;
- Interests of excluded population groups, including excluded elites;
- Mapping of shared interests to find opportunities to establish alliances among excluded groups, or between excluded groups and factions within the dominant elite coalition.

Institutional analysis – The next step is to determine the level of resilience (or weakness) of the current political settlement, based on the existing institutions. The four key factors that make a settlement more robust include a) coercive capacity, b) ability to co-opt, c) legitimacy with the population, and d) support of the international community. In most cases, the political settlement will be supported by a combination of all four factors; however, some factors will be more important than others.

- *Coercive capacity* – Does the dominant coalition control the armed forces or other armed elements? Is the threat of armed force a serious deterrent that limits challenges to the political settlement?
- *Ability to co-opt* – Does the dominant coalition have the ability to attract excluded elites into the political settlement by offering “rents” or access to resources and privileges? Does the dominant

coalition have adequate access to, and control over, resources to ensure that included elites do not opt out or defect to a competing coalition?

- *Legitimacy with the population*—Is the political settlement perceived as having a legitimate claim to power? What is the basis for this legitimacy – popular/democratic mandate, hereditary position (caste, monarchy), traditional norms or institutional status, religious legitimacy, delivery of benefits to the population, provision of security to the population?
- *Support of the international community*— Does the dominant coalition benefit from international recognition as the sovereign authority of the country or territory? Does the dominant coalition receive resources or material benefit from the international community on the basis of international recognition? Does the dominant coalition receive security assistance on the basis of international recognition or strategic importance?

For each factor, the analysis should include some indication of future resilience. Is the source of robustness likely to increase or decrease? What will be the net impact on the resilience of the dominant coalition? In some cases, it might also make sense to compare the sources of resilience between the dominant political settlement and spoiler coalitions.

Strategy Development: Alignment with Plausible Best-case Scenarios

Strategies for influencing political settlements must start with a realistic analysis of the country context and a clear prioritization of short and longer term goals based on that analysis. This can, in part, be achieved through an analysis of plausible scenarios for change in the political settlement. Within the range of plausible scenarios, international actors must determine the best-case scenario in both the short and medium term in order to develop an effective strategy for influence. In some cases, the favored scenario may require some increase in exclusiveness, instability or predation in the short term, in order to allow progress in other more critical areas. Scenario planning should be guided by the following key questions:

- What is the core challenge being addressed in this case (e.g., basic stability, exclusion, predation, or accelerated development)?
- What are the best-case scenarios for the short-term and long-term?
- Is it necessary to accept a trade-off among objectives in the short-term?
- Are there scenarios we are trying to prevent?
- What are the plausible paths towards stability, inclusiveness, reduced predation, and development in the long term?

One critical challenge in strategy formulation is to navigate the trade-offs between contradictory development objectives in the short term. In many developing countries, we face difficult trade-offs between competing goals in efforts to influence the political settlement. While the four goals discussed earlier are interrelated and sometimes mutually reinforcing, they are often contradictory in the short term. Too often, international development organizations fail to recognize these trade-offs. For example, statebuilding programs in fragile, post-conflict contexts often invest enormous resources in reducing elite predation and increasing inclusiveness in the political settlement, when the real problem may be ensuring that a country does not fall back into civil war. In many cases, however, countries must go through periods of stability, followed by development, before showing improvements in greater inclusiveness and reduced elite predation in the long term.

While the long-term objective may be to support inclusive, stable, non-predatory, and developmental political settlements, the path to this ideal may be necessarily long and circuitous. As the example of Indonesia illustrates, there are sometimes unavoidable short-term trade-offs between stability and inclusiveness.

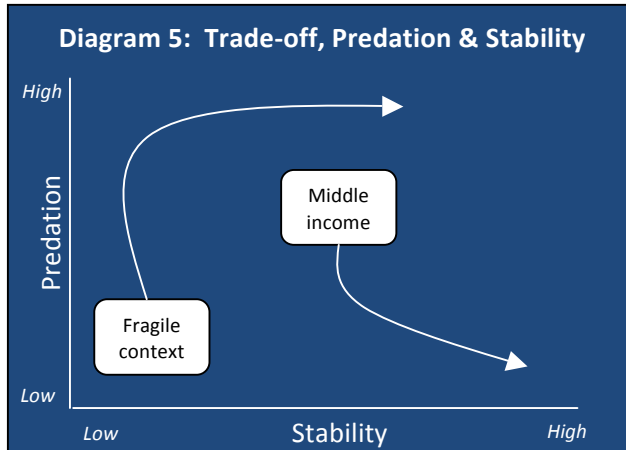


Diagram 5 describes an illustrative trade-off, comparing the level of elite predation and stability. If the most urgent concern is to improve stability, particularly in the early stages of development or in fragile conditions, then there may be a need to accept higher levels of elite predation in the short-to-medium term. In some cases, temporary increases in predation have helped to minimize violence during a post-war transition period, allowing for progress in other key areas such as development and stability. In Afghanistan, for example, non-Taliban local leaders with powerful militias were left in place after the new government was established in

2002, with few checks on their behavior. Land-grabbing and other human rights violations continued, and in the borderlands these factions “taxed” critical imports into the country, severely cutting into state revenues. The result, however, was that none of these factions took up arms against the Kabul government, allowing the critical initial steps in state building, including both constitutional development and elections to take place. For middle-income countries, however, there seems to be a negative correlation between stability and predatory elites. If the level of predatory behavior goes down, there is likely to be an increase in stability. As countries reach middle-income status, increasingly influential non-elites and middle classes will have less tolerance for predatory behavior, and will pressure elites to accept limits in return for stability and compliance with key institutions.

The first step is to evaluate the current political settlement, based on the level of predation, inclusiveness, stability, and conduciveness to development. This assessment will form the basis for developing strategies based on plausible scenarios. These four criteria can serve as a reference point, though there may be others that are useful.

It is important to conduct separate evaluations of primary and secondary political settlements. In many cases, secondary political settlements may be significantly different from the primary settlements, with important implications for development organizations. In countries with relatively stable and inclusive political settlements at the center, there may be deeply flawed secondary political settlements that deserve greater attention from the international community.

The following tables set some benchmarks for evaluating primary and secondary political settlements based on the above criteria.

Table 2: Evaluating Primary Political Settlements

Criteria	Indicators ²⁹	Poor assessment	Positive assessment
Inclusiveness	Diversity of elites included in settlement (<i>ethnic, geographic, clan/tribal, political faction</i>)	<ul style="list-style-type: none"> ▪ Narrow elite coalition ▪ No influence by excluded groups or non-elites ▪ Discrimination and marginalization of excluded groups ▪ Widespread perceptions of illegitimacy 	<ul style="list-style-type: none"> ▪ Diverse elite coalition ▪ Influence by non-elite groups ▪ Political space for dissent and debate ▪ Political settlement widely perceived as legitimate
Stability	Level of violent contestation of political power	<ul style="list-style-type: none"> ▪ Frequent violent challenges to political settlement ▪ Presence of armed non-state actors that do not accept authority of political settlement ▪ Risk of political settlement collapse, and emergence of new elite coalition 	<ul style="list-style-type: none"> ▪ Non-violent political competition ▪ State monopoly on coercive force ▪ Strong incentives for elites to accept the political settlement
Elite predation	Frequency and scale of predatory elite behavior	<ul style="list-style-type: none"> ▪ Overt signs of elite resource capture ▪ Elite monopolization of economic activity ▪ Tight limits on political space, including suppression of opponents and dissent 	<ul style="list-style-type: none"> ▪ Limits on elite power ▪ Institutions have adequate power of enforcement to reduce predatory behavior
Conduciveness to Development	<p>Rates of economic growth, income, and investment</p> <p>Institutional capacity and independence</p>	<ul style="list-style-type: none"> ▪ High rates of poverty ▪ Excessive concentration of wealth in narrow elite circle ▪ Limited opportunities for entrepreneurs outside of political settlement ▪ Low levels of external investment 	<ul style="list-style-type: none"> ▪ High rates of economic growth and income growth ▪ Presence of independent regulatory institutions with substantial power of enforcement ▪ Positive governance indicators

²⁹ The indicators in this table are very broad in scope, and difficult to measure. An important follow-up effort would be to define more specific, measurable indicators that can serve as a guide for evaluating political settlements.

Table 3: Evaluating Secondary Political Settlements

Criteria	Indicators	Poor assessment	Positive assessment
Inclusiveness	<p>Political autonomy of local politics and governance at the subnational level</p> <p>Exclusion of local minority leaders from subnational governance and political competition</p>	<ul style="list-style-type: none"> ▪ High level of central/state manipulation of local politics ▪ Local minority leaders excluded from political settlement and local governance ▪ Discrimination and marginalization of local minority groups ▪ Widespread perceptions of illegitimacy by local minority group 	<ul style="list-style-type: none"> ▪ High levels of political autonomy at subnational level ▪ High levels of influence in local politics by local minority leaders and traditional elite groups ▪ Political arrangements with the center/state are widely accepted and respected ▪ Political settlement widely perceived as legitimate by local minority population
Stability	Level of violent contestation of state presence in subnational area	<ul style="list-style-type: none"> ▪ Frequent violent challenges to state presence and central control ▪ Presence of armed non-state actors that challenge state authority 	<ul style="list-style-type: none"> ▪ Disputes with state are handled through non-violent mechanisms ▪ State monopoly on coercive force in subnational area ▪ Security arrangements in subnational area that cede security responsibility to local non-state forces
Elite predation	Extent of predatory behavior in subnational areas by central elites and their allies at the local level	<ul style="list-style-type: none"> ▪ Overt signs of resource extraction by the center ▪ Economic marginalization of subnational minority community ▪ Suppression of political dissent by minority groups 	<ul style="list-style-type: none"> ▪ Local resources and economic activity primarily governed by local political arrangements ▪ State role in economic regulation accepted by local minority population
Conduciveness to Development	Rates of economic growth, income, and investment in subnational region, by minority groups	<ul style="list-style-type: none"> ▪ High rates of poverty in minority ethnic group ▪ Excessive centralization of wealth ▪ Limited opportunities for entrepreneurs in minority groups ▪ Low levels of external investment in subnational area 	<ul style="list-style-type: none"> ▪ High rates of economic growth, income growth, and investment in subnational area ▪ Benefits of growth shared by local minority groups ▪ Positive governance indicators at local level

It is also useful to analyze the interests of elite actors to gauge the prospects for a more stable, inclusive and developmental political settlement to emerge. Will powerful groups that benefit from the current environment be better or worse off with greater pro-market reforms, empowerment of new regulatory institutions, and greater economic competition? Within the dominant elite coalition, what is the relative balance of power between pro-reform groups and status quo supporters? There may be scenarios where the political settlement may become more pro-development without reducing elite predation (rents and resource extraction) in the short term.

As demonstrated by these scenarios, development organizations should seek to adapt their strategies to promote the best-case scenario in the short term, while investing in long-term programs that will promote inclusiveness, development, reduced predation, and stability. Recognizing the trade-offs, international actors may need to consciously tolerate some deterioration of conditions in the short term, if the scenario seems justified.

Program Design: Six Practical Approaches for Influencing Political Settlements

This section includes a set of practical approaches that illustrate the variety of ways in which development assistance can be designed or modified to improve its influence on political settlements. The approaches are not mutually exclusive, and in practice, development organizations could utilize elements of several approaches in the same program.

For some of these approaches, the central objective is to directly influence the political settlement by focusing program interventions on those actors that can influence the settlement in the short term. For these programs, the most successful interventions are usually channeled through existing local political actors, such as pro-reform elites, civil society movements, and informal institutions with high levels of local legitimacy and influence. An effective strategy must identify the local political actors where there are shared interests, and deploy resources to these areas in a timely and effective manner. In many cases, the selection of local channels can be challenging for international donors, because the most strategic groups are often non-traditional aid partners. Working through the standard partners of development agencies – government ministries, political leadership, established NGOs or universities – is often not the most strategic mechanism for influencing the political settlement. In many cases, the ideal partners for channeling assistance may be business associations, informal elite networks, traditional institutions, religious networks, or small groups of powerful individuals. Donors must find creative and flexible means for working with these types of actors.

In other cases, the suggested strategy is simply to modify the design of more traditional development programs, without a significant change in their core objectives or activities. These approaches are relevant for any country context, including the most restrictive and high-risk environments. These approaches are focused on long-term change.

The six approaches include:

- Incrementalist
- Supporting emergence of developmental elite coalitions
- Transition moment
- Improving center-periphery relations
- Mobilization of excluded groups
- Strengthening fragile political settlement

Incrementalist Approach	
Overview of Approach	<p>Almost any kind of economic or human development program can be designed to influence the political settlement over the long term, through an <i>incrementalist</i> approach. The Incrementalist approach entails 1) shifting the benefits of economic or human development programs to excluded groups (including elites), and 2) reducing political benefits to the dominant elite coalition that come from control of aid resources.</p> <p>The key is to carefully select programs that target excluded groups as the primary beneficiaries of the program, and insulate the funding and program decisions from the dominant elite coalition. In most cases, when government or national elites control project design and the selection of beneficiaries for large-scale programs in economic or human development, the allocation will reflect their political interests. For example, there may be an emphasis on benefitting the constituencies of key elites, and resistance to channeling benefits to excluded groups. In other cases, the program activities and management arrangements will be designed to create rent extraction opportunities. Over time, this approach should lead to higher levels of economic and social development within excluded groups, and eventually more political influence at the local and national level. By reducing opportunities for patronage and rent creation by the dominant political elite, this would encourage a broadening of the political settlement over time, and make it more difficult for a narrow elite to maintain its tight control.</p>
Conditions	<p>This approach can be used under almost any conditions, including the most challenging operational environments. In places where politically oriented aid programs are not tolerated by government, this approach will allow international actors to influence the political settlement over the long term with modest changes to their current aid strategies, while minimizing the level of risk.</p>
Theory of Change	<p>If the benefits of aid are concentrated in excluded groups over the long term, these groups will experience more accelerated development that will lead to increased opportunities to influence the political settlement.</p>
Risks	<p>There may be a risk that this approach can backfire if the government or majority population accuses donors of favoritism. This scenario can be used against the minority population in domestic politics, allocation of national budget, or continued discriminatory policies towards the region.</p> <p>The cost-effectiveness of this approach can be quite low, if measured in terms of influence on the political settlement. In most cases, impact will depend on large-scale, long-term investments. Impact can only be seen over the long term, making it difficult to determine the effectiveness of programs in the course of implementation. There are many other political, social and economic factors that can offset the intended impact of this approach. For example, social discrimination or regulatory capture by the dominant elites can thwart the upward mobility of excluded groups, and prevent excluded elites from obtaining enough influence and resources to challenge the dominant elites.</p>

- Illustrative Programs
- 1) Primary and secondary education programs that focus on minority or conflict-affected regions;
 - 2) Rural development programs that target regions affected by subnational conflict, focusing on groups that are not aligned with the dominant elite coalition;
 - 3) Small business development schemes that encourage private sector growth among excluded groups or focus on areas of subnational conflict.

In all of these programs, program management would not be left to the discretion of implementing government agencies. International actors would maintain control over program design, including fiduciary oversight and selection of beneficiaries.

Supporting Emergence of Developmental Elite Coalitions	
Overview of Approach	Development assistance can be designed to support the emergence of a developmental elite coalition, which can influence the direction and composition of the political settlement over the medium to long term. There are many cases in Asia where an emerging, pro-development elite group – usually an educated middle class or entrepreneurial class – has transformed the political settlement. The key for international actors is to determine how these pro-development elite groups are formed, and to support those that are already starting to emerge to become more influential.
Conditions	This approach is best used in conditions where there is an emerging, pro-development elite class, with increasing economic influence and resources, that remains generally excluded from the dominant political settlement. The approach can be used in authoritarian settings, with narrow elite coalitions dominating the political settlement, but only if they have a shared interest in broader economic growth.
Theory of Change	If pro-development elite factions become more powerful and better organized, they are more likely to be brought into the political settlement and influence the direction of development and governance.
Risk	There is a risk that this approach may be perceived as threatening to the ruling elite coalition, leading to difficulties with the government and key powerful actors. In other cases, there may be a risk that pro-reform elites will change their behavior once they have joined the political settlement, as their interests shift towards support for the status quo.
Illustrative Programs	<ol style="list-style-type: none"> 1) Support influential institutions (e.g., universities, think tanks, civil society, business associations) that serve as focal points for pro-development elites to generate new thinking and organize coalitions for change; 2) Support analysis or research conducted by pro-development elites that can help them to increase their influence in policy debates, and persuade powerful elite actors to enter into alliance; 3) Strengthen economic regulatory agencies or other technocratic government agencies that have significant influence over economic governance, and the political

space to perform their functions without pressure for rent-seeking and patronage;

4) Support the development of business associations that bring together key leaders from an emerging independent entrepreneurial class.

For this approach, program funds could be used to support government or civil society initiatives. The critical issue in program design will be to identify the institutions or organizations that are influential and linked to the emerging developmental elite coalition.

Transition Moment	
Overview of Approach	During a period of political transition, development assistance can be particularly influential in helping to shape the emerging political settlement. During the transition period, international assistance can influence the political settlement by a) supporting those local actors, including excluded groups, that are seeking to broaden the settlement to be more inclusive, b) strengthening the emerging political settlement by supporting the implementation of a peace agreement, election, or new government, and c) encouraging a more pro-development settlement by creating incentives for the new elite coalition to introduce key reforms and expand development. Also during this period, foreign governments can help to stabilize the political settlement through diplomatic support for the new regime or peace agreement, and security assistance.
Conditions	This approach is applicable to periods of significant political transition, including the aftermath of a negotiated peace agreement to end a violent conflict, the fall of an authoritarian regime, or a political revolution that installs a new regime. In most of these scenarios, there will be a new political settlement, dramatically different from the old one, that is likely to be unstable in the early stages. This environment is particularly conducive to international influence in the early stages of transition, but this window of possibility will usually close as the new political settlement stabilizes.
Theory of Change	<p>If international resources, incentives, and diplomatic pressure are applied to encourage greater inclusion of previously excluded groups during a political transition, the emerging political settlement is likely to be more inclusive.</p> <p>If there are development resources, diplomatic support, and security assistance available to shore up an emerging political settlement during a transition period, the settlement will stabilize more quickly.</p> <p>If an emerging political settlement has the opportunity to bolster its legitimacy through delivery of development and improved services in the aftermath of a transition, the political settlement is likely to be more conducive to development over the long term.</p>
Risk	Transition moments can be highly volatile and unpredictable. As a result, there is a risk that international actors will be criticized by domestic political actors for openly supporting a transition process that runs counter to the interests of powerful factions. For example, when a peace process (or peace agreement) collapses after a few years, despite international support, the international community may be accused of interference or bias by powerful actors or political factions opposed to the peace process.

<p>Illustrative Programs</p>	<p>1) Support to implement a peace agreement, including ceasefire monitoring; demobilization, disarmament, and reintegration (DDR); security assistance, including peacekeeping forces; reconstruction of conflict-affected areas;</p> <p>2) Support for emerging elite groups to influence the new political settlement, through support for pro-reform coalitions, civil society, and business networks;</p> <p>3) Constitutional development during transitional periods;</p> <p>4) Support for independent media during transitional periods to strengthen support for pro-reform movements.</p> <p>For this approach, program funds would ideally be used to support a combination of government-led efforts, formal processes, civil society, media, and citizen groups.</p>
------------------------------	--

Improving Center-Periphery Relations	
<p>Overview of Approach</p>	<p>In regions affected by subnational conflicts, development assistance can be used to address the main drivers of the conflict, including discriminatory policies and political marginalization of the conflict-affected population. Development assistance can be used to a) reduce the threat to local identity, b) support devolution or decentralization, and c) improve services, governance and development for conflict-affected minority groups. This approach is relevant for subnational conflicts where a minority population in the conflict-affected area feels that their identity (language, customs, religion) is under threat from the government and/or in-migration by the majority population. In many cases, armed insurgent groups have used a threat to national, ethnic or religious identity to mobilize sympathy and followers. One of the major causes of separatist conflicts is the perception among a minority group that they would be better off governing themselves independently of the state in which they reside. To address this problem without actual separation, it is often necessary to increase the level of self-governance in the conflict-affected area through some form of autonomy, devolution, decentralization or power sharing. Subnational conflicts are often sustained by deep disaffection within minority communities as a result of unresponsive governance in their area. Common problems include perceived unfairness in resource management, disrespect for local values, corruption and impunity of state officials, and the inability to seek redress through non-violent official channels.</p>
<p>Conditions</p>	<p>This approach is applicable to areas affected by subnational conflicts where there is extensive marginalization and discrimination against the conflict-affected minority group.</p>
<p>Theory of Change</p>	<p>If a minority population believes that they can preserve their local identity while remaining loyal citizens of the state, then they will not support violent resistance against the state.</p> <p>If governance is responsive to the concerns and interests of a minority population, then they will seek to address their grievances through non-violent official channels instead of armed resistance.</p>

	<p>If a minority population has greater control over governance in their region, then they will be less likely to pursue separation from the state through armed violence.</p>
Risk	<p>In most cases, governments consider subnational conflicts to be internal matters. International efforts to address the grievances of the conflict-affected population are a highly sensitive matter in most contexts. There is a risk that this approach can lead to tense or confrontational relations with the central government or powerful elite factions.</p>
Illustrative Programs	<ol style="list-style-type: none"> 1) Supporting advocacy programs for reform of policies or governance practices that threaten local minority identity; 2) Cultural programs that promote and support ethnic diversity and pluralism; 3) Facilitating opportunities for inter-group dialogue and community participation; 4) Programs to stimulate local business development and addressing barriers to private sector growth in the conflict affected areas; 5) Support for policy advocacy for devolution of power and decentralization of authority; 6) Support for peace negotiations exploring options for autonomy or power-sharing; 7) Support for increased use of local languages/dialects for public services, local governance, and judicial proceedings; 8) Addressing corruption and impunity in local government and security forces; 9) Support for quality government services in subnational regions, increasing representation by minorities in key public and private sectors. <p>For this approach, it is essential to be able to support organizations that are closely associated with the subnational area minority population, including autonomous local government units. It is also important to work with government and civil society organizations from outside of the subnational region, especially with those influential groups that support improved center-periphery relations.</p>

Mobilization of Excluded Groups

Overview of Approach	<p>Changes to political settlements are often the result of new coalitions of actors that use their collective influence to pressure the dominant elites for change. In most cases, excluded groups (elites and non-elites) are fragmented and unorganized. Under some circumstances, however, excluded groups can organize themselves and develop alliances with more powerful actors to advocate for particular reforms or to change the political settlement. The key is to find shared interests that are sufficiently compelling to bring together a set of previously fragmented groups. Civil society organizations can be a catalyst for this type of mobilization; however, they are rarely the decisive partners in a coalition for change. In most cases, successful efforts</p>
----------------------	---

	require an alliance between powerful elite factions (including those in the dominant elite coalition) and a collection of non-elite groups, based on shared interests.
Conditions	This approach is applicable to nearly any context, though it is usually more effective in contexts with a diverse set of elite factions.
Theory of Change	If excluded groups can organize themselves and develop alliances based on shared interests with more powerful actors, they will be more likely to muster the influence necessary to change the political settlement to be more inclusive or more developmental.
Risk	There is a risk that this approach may be perceived as threatening to the ruling elite coalition, leading to difficulties with the government and key powerful actors.
Illustrative Programs	<p>1) Support to coalitions of groups with shared reform agendas, including business associations, civil society, traditional and religious institutions, universities and think tanks;</p> <p>2) Facilitation by local consultants or influential leaders to form pro-development coalitions;</p> <p>3) Support to influential institutions (e.g., universities, think tanks, civil society, business associations) that serve as a focal point for reform-oriented factions and coalitions to generate new thinking and advocate for change;</p> <p>4) Support for analysis or research conducted by coalitions of excluded group that can help them to increase their influence in policy debates, and persuade powerful elite actors to enter into alliance.</p> <p>In most cases, this approach should primarily be implemented by non-governmental actors, or an alliance of government and non-governmental leaders. International actors should maintain control over program design, including fiduciary oversight and selection of beneficiaries, or delegate these functions to appropriate non-governmental organizations.</p>

Strengthening Fragile Political Settlements

Overview of Approach	In highly fragile environments, the most critical short-term objective may be to re-establish some degree of stability. One approach for stabilizing a volatile environment is to bolster the capacity and legitimacy of the political settlement to help improve the ability of elites to manage that environment. This approach has commonly been used by the international community in post-conflict environments, such as Timor-Leste in 2000 or Afghanistan in 2002. In the most volatile conditions, international assistance can be used to improve security, through aid to local security forces or direct intervention of foreign forces. Development assistance can be used to bolster the legitimacy of the political settlement in the short term by channeling resources through the government to improve services or infrastructure, or deliver humanitarian assistance. In some cases, foreign assistance has been used during a post-conflict transition to support local political processes that stabilize and
----------------------	---

	legitimize a political settlement. One example is the international support for the Afghanistan Emergency Loya Jirga in 2002 that brought together thousands of local Afghan leaders to decide on an interim political agreement during the immediate post-war environment.
Conditions	This approach is relevant for highly unstable conditions, including post-conflict environments, and places where armed conflict is still unfolding.
Theory of Change	If a fragile political settlement is supported by international actors through diplomatic recognition, security assistance, and development assistance, the settlement will become more stable in the short term.
Risk	There is a risk that international support may be used to strengthen an illegitimate regime to achieve short-term stability. Another line of criticism is that these types of interventions are only effective in the short term. If the political settlement remains weak and unpopular despite international assistance, then the net impact of continued aid will be marginal and potentially counter-productive. There are also important debates about the effectiveness of holding elections in the context of a post-conflict, fragile political settlement. If the gains for improved stability are to be sustainable, the focus in this context must quickly shift from short-term security to the legitimacy of the ruling coalition,
Illustrative Programs	<ol style="list-style-type: none"> 1) Development support channeled through government; 2) Support for political processes to facilitate an interim political agreement during a post-conflict period; 3) Strengthening the capacity of government to deliver services and improve infrastructure, especially in conflict-affected regions; 4) Providing incentives for challenger coalitions (i.e., elite coalitions that are challenging the current political settlement) to support the government and political settlement. <p>For this approach, development assistance funding should be primarily channeled through governments.</p>

CONCLUSION

The political settlements framework has the potential to help the international development community improve the effectiveness of development assistance programs in places where it is most urgently needed. This approach can also help to fill in the gaps in our understanding of the constraints on development across a wide range of countries and conditions.

It can be particularly useful in understanding the dynamics and vulnerabilities in volatile places where state institutions are weak or illegitimate. There is a growing consensus that aid to conflict-affected and fragile regions needs a new frame of reference. The worsening conditions in Afghanistan have had a sobering effect on the international community, particularly development donors and organizations. If the slide back to conflict and continued poverty for Afghanistan's war-weary population cannot be prevented, despite huge investments and commitments, then there must be flaws in our core assumptions about development. The recently released "Dili Declaration" from the Development Partners Meeting in April, 2010, includes a call for "inclusive political settlements and processes" and improved government responsiveness to citizens, or "state-society relations."³⁰

As donors increasingly adopt this approach, the most likely outcome is more politically informed and better targeted selection of aid beneficiaries, and more diversified channels for delivery of aid. For example, DFID's new Practice Paper identifies "state-society relations" as a critical component of statebuilding and peacebuilding. Political settlements analysis implies that international actors must regard the "society" as the primary partner for development, including excluded groups, and that our role is to seek better stability and development that improve the lives of all citizens. The political settlements framework helps us to think more clearly about how to achieve those ends, but in most cases the task of influencing settlements in any fundamental way remains extremely difficult.

The challenge now is to translate this new thinking and policy direction into practice. The political settlements framework is still in the early stages of development, and there are many open questions that need to be addressed within the international development community. To do this will require more dialogue and consensus on what the international community is trying to achieve by influencing political settlements. Up to this point, the focus has primarily been on more inclusive politics as the ultimate objective. While inclusiveness is a worthy objective, it is not necessarily the only worthwhile goal for international assistance. Experience tells us that inclusiveness may be destabilizing in the short term, or may work against development in some cases. We need to better understand the dilemmas and trade-offs between types of political settlements, in order to determine the best-case scenario for the evolution of political settlements.

Our understanding of how donor assistance influences political settlements is at a very early stage. There is an urgent need for more analysis of the impact of foreign assistance in this regard. Without an empirical basis, it will be very difficult to determine whether the influence of international development actors is having the desired effect. The challenge is that political settlements are inherently difficult to evaluate and monitor. They are based on informal relationships and rules that are rarely written down, and are often opaque to most international actors. Many of the critical factors are inherently complex and difficult to measure, such as perceptions and drivers of legitimacy, or the interest calculations of powerful elite actors.

At present, many international development organizations are not adequately equipped to work effectively on these issues. For example, influencing political settlements requires deep country

³⁰ OECD DAC, "Dili Declaration", Dili International Dialogue on Statebuilding and Peacebuilding, Dili, Timor-Leste, April 9-10, 2010, <http://www.oecd.org/dataoecd/12/30/44927821.pdf>

knowledge and networks well beyond the current capacity of most organizations. Analysis of political settlements requires a thorough understanding of the array of local actors and institutions, and the history of power struggles in the country, as a foundation for evaluating the current environment. In addition to country expertise, development organizations must draw on other disciplines such as political science and social anthropology. The vast pool of technical knowledge in the international development community is of limited value in this context.

Influencing political settlements also requires higher levels of entrepreneurial programming, flexibility in design and implementation of projects, and the ability to work through non-traditional aid partners. Political settlements are constantly evolving, especially in conflict-affected and fragile environments, and programs must be flexible enough to respond and adapt. Most of the current aid modalities available to donors and development organizations do not allow for this level of entrepreneurial flexibility, or for funding through alternative partners. There is a need to develop new aid modalities that will allow us to work more effectively on these issues.

This new approach is pushing donors and development organizations to be much more political in their thinking and programs. Development assistance programs can create winners and losers in political terms, and the allocation of aid benefits can be heavily influenced by the political interests of those in power. By ignoring these problems, we may be contributing to corruption, impunity, and weak government legitimacy, and slowing down the process of change.

REFERENCES

Boege, Volker et al., “On Hybrid Political Orders and Emerging States: What is Failing – States in the Global South or Research and Politics in the West?” *Berghof Handbook for Conflict Transformation*, online version, Berghof Research Center, October 2008.

Call, Charles, and Vanessa Wyeth, *Building States to Build Peace*. Boulder, Colorado: Lynne Rienner, 2008.

Clunan, Anne L. and Harold Trinkunas, “Ungoverned Spaces? Alternatives to State Authority in an Era of Softened Sovereignty.” Paper delivered at the International Studies Association meeting, San Francisco, March 26-30, 2008.

Debiel, Tobias, et al., “Between Ignorance and Intervention: Strategies and Dilemmas of External Actors in Fragile States.” Policy Paper 23, Stiftung Entwicklung Und Frieden (Development and Peace Foundation), Bonn, Germany, 2005.

Di John, Jonathan and James Putzel, “Political Settlements: Issues Paper,” Governance and Social Development Resource Centre, University of Birmingham, June 2009.

DFID, “DFID Engagement in Fragile Situations: A Portfolio Review.” Synthesis Report. Prepared by Marcus Cox and Nigel Thornton, January 2009.

DFID, White Paper, “Building Our Common Future,” London, 2009.

DFID, “Building Peaceful States and Societies: A DFID Practice Paper,” London, March 2010.

“Fixing a Broken World,” *The Economist*, January 29, 2009.

Ghani, Ashraf, and Clare Lockhart, *Fixing Failed States: A Framework for Rebuilding a Fractured World*. New York, Oxford University Press, 2008.

Hironaka, Ann, *Neverending Wars: The International Community, Weak States, and the Perpetuation of Civil Wars*. Cambridge, MA: Harvard University Press, 2005.

Heiberg, Marianne, Brendan O’Leary, and John Tirman (eds.), *Terror, Insurgency, and the State: Ending Protracted Conflicts*. Philadelphia: Pennsylvania University Press, 2007.

Khan, Mushtaq, “Political Settlements and the Governance of Growth-Enhancing Institutions,” 2009.

Khan, Mushtaq, “State Failure in Weak States: A Critique of New Institutional Explanations,” *New Institutional Economics and Third World Development*, Harriss, J., Hunter, J., and Lewis, C., eds., London: Routledge, 1995.

The Leadership Program: Developmental Leaders, Elites and Coalitions (LPDLEC), www.lpdlec.org, 2010.

Leftwich, Adrian, "Bringing Agency Back In: Politics and Human Agency in Building Institutions and States." *The Leadership Program: Developmental Leaders, Elites and Coalitions (LPDLEC)*, www.lpdlec.org, 2010.

Leftwich, Adrian, "State of Development: On the Primacy of Politics in Development." Polity Press, London.

Minorities at Risk Project (2008). "Minorities at Risk Organizational Behavior Dataset." College Park, MD: Center for International Development and Conflict Management. Retrieved from <http://www.cidcm.umd.edu/mar> on January 15, 2010.

North, Douglass, John Wallis, Barry Weingast, *Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History*, New York, Cambridge University Press, 2009.

North, Douglass, John Wallis, Steven Webb and Barry Weingast, "Limited Access Orders in the Developing World: A New Approach to the Problems of Development," Policy Research Working Paper 4359, World Bank Independent Evaluation Group, September 2007.

ODI, "Statebuilding for Peace: Navigating an Arena of Contradictions." London, Briefing Paper, August 2009.

OECD DAC, *Armed Violence Reduction: Enabling Development*, Paris, OECD, 2009.

OECD DAC, "Concepts and Dilemmas of State Building in Fragile Situations: From Fragility to Resilience." Paris, 2008, <http://www.oecd.org/dataoecd/59/51/41100930.pdf>

OECD DAC, "Dili Declaration," Dili International Dialogue on Statebuilding and Peacebuilding, Dili, Timor-Leste, April 9-10, 2010, <http://www.oecd.org/dataoecd/12/30/44927821.pdf>

OECD DAC, "Framing Paper on Political Settlements in Peacebuilding and State Building." Prepared by Stephen Brown and Jorn Gravingholt, Room Document 3, October 2009.

OECD DAC, "Paris Declaration on Aid Effectiveness," Paris, France, March 2, 2005, http://www.oecd.org/document/18/0,3343,en_2649_3236398_35401554_1_1_1_1,00.html

OECD DAC, "Principles for Good International Engagement in Fragile States and Situations." Paris, 2007 <http://www.oecd.org/dataoecd/61/45/38368714.pdf>

OECD DAC, "Room Document 4: Policy Guidance Note: State-building in Fragile Situations," INCAF Task Team on Peacebuilding, Statebuilding and Security, October 2009.

Przeworski, A. *Democracy and the Market*, Cambridge: Cambridge University Press, 1991.

Rabasa, Angel et al. (ed.), *Ungoverned Territories: Understanding and Reducing Terrorism Risks*. RAND Corporation, Project Air Force. Santa Monica, CA, 2007.

Rotberg, Robert (ed.), *When States Fail: Causes and Consequences*. Princeton: Princeton University Press, 2004.

Slocum-Bradley, Nikki (ed.), *Promoting Conflict or Peace through Identity*. Hampshire, UK: Ashgate, 2008.

Uppsala Conflict Data Program, "Armed Conflict Dataset," Uppsala, Sweden: Centre for the Study of Civil Wars, International Peace Research Institute. Retrieved from <http://www.pcr.uu.se/gpdatabase/search.php> on January 15, 2010.

Whaites, Alan, "States in Development: Understanding State-Building," a DFID Working Paper, Governance and Social Development Group, Policy and Research Division, 2008.

Weber, Max, *The Theory of Social and Economic Organization*, The Free Press, Macmillan, New York, 1964, "Fundamental Concepts of Sociology," pp. 124-157.

World Bank, World Development Report 2011 website, "Conflict, Development and Security," retrieved from <http://www.worldbank.org/wdr2011> on January 15, 2010.