A systems perspective on institutional change

- With an eye on Afghanistan -

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March 2011

I.   Introduction

This paper aims at applying some of the concepts of systems thinking and complexity theory in the realm of institutional change in fragile states. The author has spent a considerable number of years in Afghanistan, and has witnessed the international attempts at building an effective state from nearby. It always seemed to her that the basic premise underlying these efforts was somehow false, somehow disconnected from reality. It was only when she discovered the research done in complex adaptive systems that she found a conceptual framework that could really explain the weaknesses of the current efforts in Afghanistan. This paper is an attempt at sharing these insights with a broader public, with the aim of advancing an alternative, more realistic and more humble way of looking at the challenges faced by fragile states.

II.   The challenge of institutional change

"And it should be considered that nothing is more difficult to handle, more doubtful of success, nor more dangerous to manage, than to put oneself at the head of introducing new orders. For the introducer has all those that benefit from the old order as enemies, and has lukewarm defenders in all those who might benefit from the new orders. This lukewarmness arises partly from fear of adversaries who have the laws on their side and partly from the incredulity of men, who do not truly believe in new things unless they come to have a firm experience of them."

Source: (Machiavelli)

Well functioning institutions are hard to achieve

In development thinking in the recent decade the state has started to take center stage again. The consensus is that well-functioning institutions are the foundation for stability, economic growth and poverty reduction. Good governance is presumed to be an essential, though perhaps not sufficient, condition for development. As a consequence the large international development institutions have invested heavily in promoting good governance, with conditionality and technical assistance in their portfolio of tools. The results however proven quite elusive, as the 2010 'Governance Matters' report shows:

Overall, the world continues to underperform on governance. Over the past decade, dozens of countries have improved significantly on such dimensions of governance such as rule of law and voice and accountability. But a similar number of countries have experienced marked deteriorations, while others have seen short-lived improvements that are later reversed, and scores of countries have not seen significant trends one way or the other. (Kaufmann, 2010)

Recent research has shown that realistic time frames for sustainable improvements in governance go beyond the time horizon of most development programs. Pritchett estimated that at the average rate of improvement in bureaucratic quality a typical fragile state would take 116 years just to get to the level of a country like Kenya. Even assuming the rate of the country with the fastest pace of improvement it would still take an average country 12 years to reach that level (Pritchett & de Weijer, 2010). Our expectations for institutional change are clearly quite far off.

It is against this backdrop we do have to ask ourselves the questions what 'good governance' really means. Does good governance have the same form in every context? Or may different models also be acceptable even if they are not primarily grounded in the liberal democratic agenda? China in the late 20th century is a powerful

example for how there may be alternative paths to economic growth and poverty reduction. It did not follow any of the advice that the multilateral finance institutions would have provided, and remained outside of emerging global regulatory regimes for as substantive period of time (Rodrik, 2007). Still it achieved remarkable growth, although it's political and human rights performance remains far below western standards. Perhaps not everything has to be fully reformed in order for positive effects to take place (Rodrik, 2000). No-one would argue that Brazil is not a clientalistic or patronage-based system, but it still grows at impressive rates.

Such examples have started to raise eyebrows on the wisdom of the good governance agenda, or at least on the way this is conceptualized in development policy circles. Grindle coined the term 'good-enough governance agenda' as an alternative way of looking at institutional reform, with stronger emphasis on better sequencing and prioritizing of reforms (Grindle, 2004). As some discussion is taking place on what 'good' or 'good-enough governance' is, there is less debate on how to get there. How do we then transform a system of bad governance to a system of good or good-enough governance? How can we get a country to jump from the 13th century to the 21st century? How fast can we get from A to B? And what is the road map that we will use?

These are some of the questions that the international development community has not yet been able to answer satisfactorily. We do not know which institutional models will work in which context, or how to get there. Considering the high degree of implementation failure in development[1], an additional problem is one of attribution. Was the policy solution not fitting the context or did it fail in implementation? Various narratives may be told, with the main intention of providing evidence for an ideological perspective. In our analysis we often seem driven more by ideology than by critical analysis (Rodrik, 2007) (Chang, 2003).

In spite of the rhetoric about home-grown and contextualized solutions, most of development practice continues to impose western notions of 'proper' institutional models on developing countries, and in particular in fragile states where institutional models are often weak and little consolidated. Evans speaks of the current dominant method as *'institutional monocropping'*; imposing uniform institutional blueprints on the countries of the global south (Evans, 2004).

Fragile states are most vulnerable to the imposition of institutional models due to their weak institutional landscape, and its negative effects have been voiced by the fragile states themselves:

> *"All member countries recognize the limited scope and capacities of international actors to influence processes that are mainly endogenous and non-technical in nature, and that interrelate to complex dynamics of legitimacy and accountability"* (International Dialogue on Peacebuilding and Statebuilding, 2010).

Current mental model – Institutional monocropping

In the recent decade, there has been an increased recognition that context matters and that the imposition of prescriptive solutions often leads to disappointing results. This growing insight has not yet reshaped existing mental and institutional models, which remain based on the assumption that the correct solution and institutional form can be known ex-ante. The developing country on the surgeon's table is still perceived as a blank slate and although its specific history and socio-economic and cultural patterns may be known in theory, their influence over the way institutions have developed is disregarded. Existing institutions are perceived as weak, in flux and easy to replace by new ones, often imported from the donor countries or based on solutions that worked elsewhere.

The imposition of such institutional models is based on the assumption that *form follows function*[2]; if a bureaucracy is created as a bureaucracy it will function as a bureaucracy, described by Pritchett and Woolcock as '*skipping straight to Weber*' (Pritchett & Woolcock, 2004). It assumes that if country A does A, then country B will start to function as B if only it adopts A. This leads to the belief that development can be managed through grand design, and that change is linear and predictable. This way of conceptualizing development

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[1] View Pritchett, Andrews and Woolcock on the mechanisms of persistent implementation failure (Pritchett, Woolcock, & Andrews, 2010)
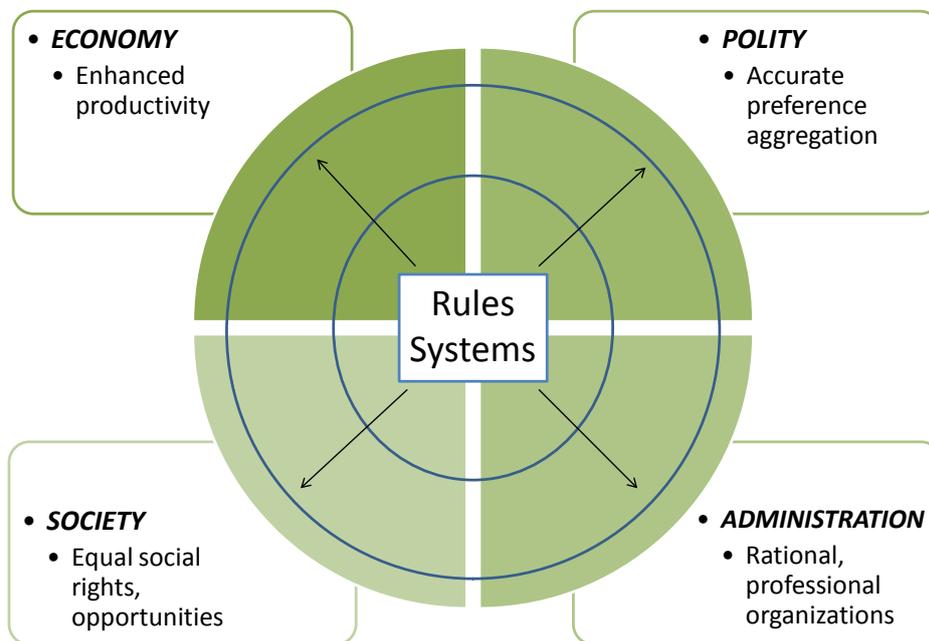[2] Refer also to (Pritchett & de Weijer, 2010) and (Pritchett, Woolcock, & Andrews, 2010)

over-estimates external actors ability to influence and control complex systems from the outside, and diminishes the role of endogenous change dynamics. It does not acknowledge the reality that organizations, institutions and ways of doing things are in fact an outcome of complicated social processes. *Institutions are outputs not inputs.*

An alternative mental model - Development as transformation in the rules systems

Development has been defined as a four-fold historical process of economic, political, administrative and organizational, and social transformations. The essence of the transformation is a shift in the overall "rules systems"—the established patterns, norms of behavior, and expectations—in which individuals as agents are embedded. (Pritchett, 2009)

Figure 1: Development as a four-fold modernization process

- *ECONOMY*
  - Enhanced productivity
- *POLITY*
  - Accurate preference aggregation
- *SOCIETY*
  - Equal social rights, opportunities
- *ADMINISTRATION*
  - Rational, professional organizations

Rules Systems

Source: **(Pritchett, 2009)**

Institutional change therefore necessarily implies a change in rules, norms and behaviors, and the transition from one system of rules to another. A rules system can best be understood as the few simple values that people live by and that shape social interaction; what range of behavior is deemed socially acceptable and what is not. During these transitional periods individuals will be traveling through multiple, potentially conflicting rules systems, which create stresses and losses in society and can easily lead to sub-optimal outcomes[3].

An example of a rule system associated with modernization is the strong promotion of individual rights and self-determination. This can easily lead to tensions in a society where social structures are strongly based on support to the collective and the well-being of the group as a whole. Girls in conservative Muslim countries that receive an education often find themselves struggling with their newfound sense of self and the role expectations placed upon them by their families. Two value systems are competing for legitimacy, and the outcomes cannot easily be known beforehand.

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[3] Refer also to (Rodrik, 2008)on 'second-best institutions'.

Pushing for fast paced and deep reforms will increase the rubbing of these rules systems against each other, with highly unpredictable outcomes. An example where a rapid transition from one rules system to another clearly failed is the 'shock therapy' applied to the former Soviet republics, whereby the policy of privatization that was meant to increased competition led to increased cronyism and monopoly. The rules systems at play among the powerful actors had not changed, so the new institutions became 'contaminated' by the old way of doing things, and the outcome was the exact opposite of what was intended.

As much as important lessons have been learned from failures such as these, the mental models underlying these policy decisions has yet to change. The field international development is still based on the presumption that institutional change can be planned, directed and managed according to a predetermined plan. By contrast, scientists from fields as diverse of physics, evolutionary biology, meteorology, organizational behavior and many others have started to recognize the inherent unpredictable and non-linear attributes of change in complex systems. It is this inherent uncertainty and unpredictability that the international development and foreign policy strategists still have to come to terms with.

This more humble perspective on institutional change leads to us to realize that the nature of the social system and the way change permeates through a system needs to be understood much more clearly.

III.   The nature of the social system

In recent decades human social systems have started to become understood as being Complex Adaptive Systems[4]. This conceptualization of human social systems is rooted in complexity theory, and some of the elements of complexity theory and systems thinking may help to give us new ways at looking at the problems faced in institutional change. It may provide tools to deepen our understanding of the dynamics of change. These theories are based on the premise that a system cannot be understood by first dividing it into component parts, explaining the behavior of its parts, and aggregating these partial explanations into an understanding of the whole. A system can only be understood by analyzing the system as a whole, as the whole cannot be understood through the sum of its parts.

Complex Adaptive Systems (CAS) are a subset of complex systems, distinguished by the fact that they are composed of adaptive, purposeful agents. They have the following characteristics:
-   A large number of elements interact in a dynamic way with much exchange of information.
-   These interactions are rich, non-linear, and there is no over-arching framework that controls the flow of information.
-   Complex systems are open systems with feedback loops, either enhancing and stimulating (positive) or detracting and inhibiting (negative). Both kinds are necessary.
-   Complex adaptive systems operate under conditions far from equilibrium, which means there is continual change and response to the constant flow of energy into the system. 'Equilibrium is another word for death'.
-   Complex systems are embedded in the context of their own histories, and no single element or agent can know, comprehend, or predict actions and effects that are operating within the system as a whole.
-   Complexity in the system is a result of the patterns of interaction between the elements. (Cilliers, 1998)

All complex adaptive systems, including human societies, are unique and have their own peculiar characteristics. Understanding and describing them provides some insight into the dynamics of change in such systems.

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[4]   View for instance (Holling, 2001) (Cilliers, 1998) and (Holden, 2005).

Potential states and the stability landscape

Complex adaptive systems, and human social systems among them, are in a state of continuous change and are never fully at equilibrium, but this change is random. A system tends to self-organize itself into a particular state and will continue to be attracted to this state. A system can be described as having a finite number of potential states, and moving from one state to another requires overcoming some the barriers between the two (Ramalingam, Jones, Reba, & Young, 2008).

Figure 1: Basins of attraction (Walker, Holling, Carpenter, & Kinzig, 2004)

In the ecological literature these potential states are called 'basins of attraction'. How easy it is to move out of the attractor basin depends on its depth, the steepness of its sides and where in the basin the system is currently located (Walker, Holling, Carpenter, & Kinzig, 2004).
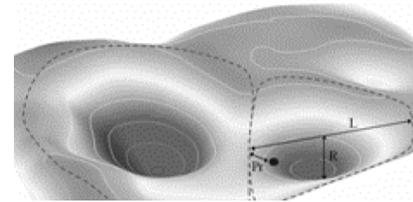
The increasingly popular term 'edge of chaos' refers to the edge of the basin where potential for change and innovation is maximized, whereas deep down in the basin inertia rules (Walker, Holling, Carpenter, & Kinzig, 2004). At this point, there may be tipping points and abrupt, discontinuous shifts in the policy domain when the changes in the fundamentals reach a tipping point and the system moves instantly to the alternative potential state (Brock, 2006).

The shape of the landscape, including the number of basins and the characteristics of these basins is being referred to as the stability landscape (Walker, Holling, Carpenter, & Kinzig, 2004) . The notion of a country as a blank slate, so prevalent in our current mental model of thinking about development, assumes the stability landscape to be flat, where change can take place in any direction without too much resistance. It denies a role to history and the institutional and normative path dependency that has shaped the stability landscape the social system finds itself in.

Systems have different characteristics in different dimensions. In some dimensions the landscape can be relatively flat and change from one space to the other can be gradual and does not require overcoming too much system inertia. In other dimensions of the society deep societal traps may exist that are difficult to escape from. The tendency towards equilibrium in a particular state can be quite persistent and dampen effects of positive change. It becomes very difficult for individual actors to influence the characteristics of the system as a whole, as there are powerful forces holding change back. The level of corruption in a society may serve as an example.

Persistence of Corruption.

Historically, many societies have endured long periods of widespread corruption. Many contemporary societies are still beset with similar problems. Take India as an example. In the early 1960s, the Government of India viewed corruption as a top priority and appointed a high-powered committee to look into corruption. But the anticorruption measures over the last decades have not met with any real success and corruption has only grown.

There are various ways to approach this issue of persistence. Some scholars argue that corruption persists because of its functional characteristics; it fulfills several latent functions. One could also argue that corruption persists because of inadequate initiatives and proper incentives. It was generally believed that greater competition in the form of privatization and deregulation would lead to substantially lower levels of corruption. But the recent experience of many countries (including some of the transition countries) shows that this may not quite be the case.

The authors of this article 'Persistence of Corruption: Some Theoretical Perspectives' are game theorists, and show an alternative interpretation. First they show that the pervasiveness of corruption itself contributes to its persistence in a significant way. When there are many corrupt individuals in the society, it becomes optimal to be corrupt in spite of the presence of anti-corruption policies and incentives. This way corrupt behavior becomes the equilibrium and the social norm. In many of the corrupt societies, those who comply with the law or social standards often become victims of harassment, extortion, and alleged corrupt behavior. This means that the incentive to remain compliant declines leading to a rise in the level of non-compliance. The authors use evolutionary game theory approaches to show that corrupt behavior can be self-sustaining and stable against other forms of behavior. This implies *that in the long run only corrupt people would survive in a population of corrupt and honest people*. The direction of adaptive change therefore seems to be *towards the high-corruption equilibrium*.

These findings suggest that rather than asking the question 'why do we see so much corruption?' we should ask 'why don't we see more corrupt behavior?'. Our amazement should come from the fact that some countries actually have managed to escape this trap.

Source: (Mishtra, 2006)

Resistance to change

Human systems are nested systems, where units are connected to other units which are connected to even larger units. Nested units form sub-systems, which form part of larger systems and it is the interaction between those behaviors lead to emergent behavior of the system. Units tend to behave on the basis of relatively simple local rules, and can be weakly or strongly connected to other systems. In the ecological literature, these simple rules have been called 'the rule of the hand' (Walker, Gunderson, Kinzig, Folke, Carpenter, & Schulz, 2006).

These local rules can be relatively persistent, and policy changes at a higher hierarchical level do not necessarily affect them. When the old pattern of rules is very powerful, no significant change is likely, because the organization ends up trying to do new things in old ways (Ramalingam, Jones, Reba, & Young, 2008).

Public sector reform often suffers from such a dynamic. The change from a patronage-based clientelistic system to a rule-based, meritocratic system requires more than the adoption of new procedures and the installation of a new software program, it requires the changes in values, attitudes, expectations and behaviors of the actors, and these are influenced not just by the organizational culture itself but also by the society in which it is embedded. Another example from Afghanistan shows this pattern:

Adaptive change in social systems

System inertia and the tendency of the system to remain centered on a particular state may be strong, but it does not fully preclude change. So how and when does this change come about?

As stated before, adaptive agents act according to their perception of the system and are simultaneously influenced by the system, in a process of co-evolution. The system landscape may change, with barriers lowering or sides becoming less steep, or the system's positioning within the basin may change. A system perched on the edge of the basin is more likely to undergo rapid change than a system sitting at the bottom of the basin.

Change processes in adaptive systems tend to go through predictable pattern, called an adaptive cycle. *Release*[5] refers to the disruption of existing pattern of self-organization, followed by a process of *reorganization* in which new configurations get formed, which entails a competition for resources, space and dominance. This phase is followed by a phase of *exploitation*, in which the system invests in the new configurations, which then consolidates into a stage of *conservation*, where maturity and inertia sets in again. (Walker, Holling, Carpenter, & Kinzig, 2004) (Gunderson & Holling, 2002)

Crises can be seen as spontaneous, episodic moment of release in which a complex system can move from one possible state to another (Walker, Holling, Carpenter, & Kinzig, 2004) (Ramalingam, Jones, Reba, & Young, 2008) Many leaders have made use of crises to foster a new set of norms and guiding principles for society (Singapore, Rwanda). A crisis is a disruption of existing patterns, and a society will reorganize itself afresh, for better or for worse.

It needs to be remembered however, that a system consists of sub-systems and units that all have their own characteristics and change dynamics. Adaptive cycles take place at different levels, with the lower, more localized levels often undergoing change that is more rapid and the larger scales changing at a slower pace. An innovation that occurs at one level can remain isolated or it can permeate through the system. The scales are connected[6], but these connections between these different scales may differ in strength and intensity.

Whether a change that occurs at one level manages to move upward and permeate the larger system depends on the number and strength of the connections between the levels, as well as on the congruence of the adaptive cycles. When an innovation occurs and there is a strong connection with the scale above it AND the scale above it is in its phase of reorganization and is therefore open to new ideas rapid change can occur. If

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[5] Release is similar to the Schumpeterian notion of 'creative destruction' (Schumpeter, 1976).
[6] This non-intentional, non-rigid hierarchy has been described as 'panarchy' by Gunderson and Holling in their book *Panarchy: Understanding Transformations in Systems of Humans and Nature* (Gunderson & Holling, 2002)

these conditions are not met, it is very likely that the innovation will either die out or remain very localized (Holling, 2001).

Connections between the units

These connections between the scales are important features of a system, and play a major role in determining the adaptive capacity of the system. A system that is more able to innovate, test out a variety of strategies and select those that increase its performance, while maintaining a sufficient degree of variety to be harnessed against unexpected shocks has a higher adaptive capacity and is more resilient.

Systems that are rigid and very tightly coupled tend to have lower variety and less opportunity to experiment, since ripple effects of negative outcomes will penetrate for and may cause full system collapse. These systems tend to inertia and resistance to change. By contrast, systems that are very loosely coupled have more opportunity for autonomy, experimentation and innovation but these innovations do not permeate through the wider system. Axelrod refers to the trade-off between exploitation and exploration, with the goal to achieve the optimal balance between these. It is this optimum that has been dubbed '*the edge of chaos'* in management literature.

What we often see in development is that innovative changes in a small unit of the system will not lead to overall systems' change. This is why many of the bottom-up, participatory and sometimes innovative approaches to development often do not lead to lasting change; the feedback loops are not present or insufficiently utilized, and the resulting system inertia does not allow the innovation to scale or to impact the system more broadly. Pritchett has referred to this as effervescence[7]. William Easterly's seekers[8] are highly adaptive and innovative actors, but they rarely lead to genuine institutional change.

In extreme cases the sub-units of the system can become even more severely disconnected from each other, a phenomenon of **decoupling**. In every society there is certain disconnect between policy and practice. Policy prescribes - on a rather abstract basis - the actions to undertake in a particular state of the world. The practitioners translate this policy, sometimes quite liberally, to real actions on the ground. There is a differential gear here, or perhaps the grease between the wheels, that gets the work done. However, in many developing countries this may have gone too far. The problem occurs when the sub-system of policy gets too disconnected from the sub-system of implementation.

This situation occurs for instance in high-corruption equilibrium countries, where the policies and recommendations of high-level corruption commissions and their laws have little effect on the local rules that guide the actual behavior. Neither the principal nor the agent necessarily abides by these official rules, as their behavior is guided by the local rules pertaining to their sub-systems, not by the formal rules espoused by the formal institutions. A system can increasingly consolidate around a norm of non-endorsement of the formal rules. Ghani and Lockhart paint a dim picture when they state that *"distrust in the enforcement of formal rules increasingly leads to a universe of parallel rules that constitute the actual norms of society. Tax avoidance becomes the norm, public land and property are expropriated by officials, the state becomes predatory, rules perceive themselves above the law, and violence becomes the key mechanism for change"* (Ghani & Lockhart, 2008)*.* These are deep societal traps that are difficult to escape from.

Developing countries, and fragile states in particular, are often defined by a high proliferation of sub-systems all centered on different rules. Formal and informal institutions co-exist and often compete for legitimacy and resources. Social systems such as these that are more fragmented and where there is higher incongruence between different rule systems may be more vulnerable to these risks of decoupling which may lead to stagnation or decay.

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[7] A term coined by Lant Pritchett, referring to innovations that come up and disappear again, without having had any effect on the system as a whole (Pritchett & de Weijer, 2010).
[8] William Easterly: "The White Man's Burden" (Easterly, 2006)

'As long as the transfer from one level to the other is maintained, the interactions within the levels themselves can be transformed, or the variables changed, without the whole system losing its integrity. As a consequence, this structure allows wide latitude for experimentation within levels, thereby greatly increasing the speed of evolution'. (Holling, 2001)

Systems' adaptive capacity

Certain systems have a higher adaptive capability than others, and this will affect their response to internal problems, as well as their resilience to changes in the external environment. It becomes the task of the collective leadership of a system to increase its adaptive capacity, and hence its ability to solve complex problems. Many developing countries suffer from a stability landscape that is rugged, and fragmented connections between the different scales of the system.

With this I refer to a high level of fragmentation, the degree of incongruence among rule systems in sub-systems, and connections between the scales that are often too tight (strict authoritarian regimes, bureaucratic rigidity, and tight ethnic of class factions within society) - or too loose – (weak cross-factional linkages, evidence of decoupling, collapse of formal institutional structures).

No comprehensive understanding has yet emerged, as far as I am aware, of the system characteristic that make a social system more or less adaptive[9]. Some of the factors that have been suggested are the importance of horizontal and vertical societal linkages, diversity in the perspectives that are being voiced, the presence and balanced tightness of connections between the different levels of the system, and a mechanism to organize release and the disruption of existing patterns. It has been argued that one of the strengths of democracy is that it serves as a way to diffuse large episodes of creative destruction by deliberately creating smaller cycles of renewal and change through periodic elections (Holling, 2001)[10].

In the context of Afghanistan, the presence of different sub-systems and the weak connections between these can be interpreted as having both advantages and disadvantages. Its disadvantage is that institutional change imposed from above is likely to behave very unpredictably when it reaches the level of the sub-systems. Policy reforms designed in Kabul may provoke unpredictable reactions on the ground, when they start to rub against the norms and rules prevalent there. Many a ruler in Afghanistan discovered this effect, and had to quickly roll back some of its desired reforms or face revolt. The long years of war have increased the tendency of communities to withdraw within their own circles and view this community as the one to be protected. A fragmentation of the sense of public good into small collectives. On the other hand, it is exactly the strength of these social institutions that is the source of Afghanistan's resilience today. After thirty years the society has not crumbled into a state of social disorder and organization at grassroots level remained strong.

Effecting systems change from the outside

First and foremost, we have to be much more humble about our ability to influence complex systems from the outside, and equally aware that our actions may have strong unintended consequences. But this should not throw us into a state or paralysis; it should give us new eyes to look at the challenges of effecting institutional change.

Seen in the concepts discussed above, institutional change can come about through moving from one state into another, from one dominant rules system into another. North, Wallis and Weingast's description of the Natural State and Open Access Order can be viewed as a transformation from one potential state to another (North, Wallis, & Weingast, 2009).

Looking at systems and their capacity to solve complex problems through this lens considerably changes the types of questions that policy makers need to ask. These are much broader then the problems itself, and include questions on the overall characteristics of the system. How can human agency influence change in the

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[9] A good attempt is made by Jared Diamond in 'Collapse' (Diamond, 2005).
[10] Also refer to Dani Rodrik for his analysis of democratic societies' resilience to exogenous shocks (Rodrik, 2000)

system? How can it reshape the basins or change the face of the landscape? How can deep traps be leveled? How can a transition from one state to another be fostered? What is the role of policy making or institutional design if system behavior is guided mostly by local rules? How can we increase the adaptive capacity of a system?

This is where the concept of **adaptive leadership** starts to take center stage (Heifetz R. , 1994). Leadership can take on an active role to induce positive change, not in a pre-planned central-command way, but rather through fostering the conditions in which new behaviors start to emerge. Managing processes of change becomes an art, not a science. Are there ways in which we can identify the basic rules of sub-systems that function well, and create the conditions for their spread throughout the system? Or can we find a space in the system where we can introduce new rules without them being immediately neutralized by the old ways? Are there ways to protect new ways of doing things, allowing them to grow in fertile soil and ultimately use them to fertilize the soil in other parts of the system? Can we encourage osmosis of the rules of one sub-system to another? What role does information infrastructure play in strengthening the connections between the sub-systems?

Complexity and complex adaptive systems thinking does not necessarily provide the answers, but does shed a very different light on what questions should be asked.

IV.   Implications for state building in fragile states

If imposing institutional models from the outside is likely to have unpredictable effects, and if we need to view institutions as an output of a long process of social struggle, then what does this mean for building state capability in fragile states? How does this affect the 'good governance agenda' and what are the implications for the way we do capacity building?

Before looking at some of these implications we have to look at our notion of state building. Our view of state building takes a rather narrow focus on the state institutions itself, e.g. building the capacity of the state administrative apparatus to perform its functions. Instead state capability should be re-conceptualized as system capability; the capacity of the entire system to perform. It should focus on strengthening the ability of the system to adapt its rules and internal institutional infrastructure to changing circumstances and opportunities in such a way that it leads to a positive transformation in the four realms of society; economic, political, societal and administrative capability.

Implications for good governance

A characteristic shared by most fragile state governments is the absence of a strong power of enforcement, either as an inherent attribute of a weak state or because of the restrictions placed by international conventions on the use of coercion. In practice this means that for a government to successfully instate reforms they need to be supported by a sufficiently strong coalition. Such a coalition can only be built if the proposed institutional reforms have a certain degree of buy-in in the society; if they connect with a sufficiently dominant sub-set of existing rules systems that can give it the necessary momentum.

For a government to intervene in people's lives and impose its norms and rules, it must be perceived as legitimate by the citizens for the state to do so. Does the state have the legitimacy to conduct house raids? This sense of legitimacy is of course closely linked to the ability of the government apparatus to embody these norms itself. Take Afghanistan as an example. Does the state have the perceived legitimacy to station a police force in rural villages if the police force is known to be corrupt? Is the idea of advocating for a strong national police force still such a good idea, if we feel that these last two questions may be answered in the negative, at least in large swathes of the country? Or do we need to rethink what we can realistically expect a government to do and build it up more slowly?

Modern-day expectations on what the state must be able to deliver are high and growing, and these expectations are carried over to fragile states via the 'good governance' agenda of donor agencies. However, as much as the importance of strong institutions cannot be overstated, the road map to get there could be subject to a lot more debate. Such a road map needs to be guided by a strong analysis of the likelihood that the government will be able to perform these functions, rather than merely stating that it should. We need to move past ideological debates on size and scope of government, and think pragmatically about what government functions are most pressing, and what can realistically be achieved, in which order, timeframe, and at what pace[11]. Small steps may need to be used more strategically to gain credibility, legitimacy and trust for the government, as well as to build up a robust implementation capability to move onto the next, perhaps more contentious, step on the ladder of state penetration. Perhaps only when the police is seen as actually improving the security of the people should it be given broader powers?

Implications for capacity building

Government capacity thus needs to be viewed as a scarce resource, while expanding it requires a strategic approach. Overloading a government that is not yet sufficiently well equipped to meet these demands on state capability is likely to lead to a risk of premature overload and the emergence of capability traps, a phenomenon explained below.

Countries under pressure of reform tend to have a few 'reform champions', often policy makers or politicians that have been educated in the West. Their vision, priorities and strategies are relatively well aligned with those of donors, which leads to a natural coalition. Since obtaining resources from external donors is conditioned on buying into the donor's perspective of legitimacy (good governance, strong institutions, pro-poor policy frameworks, etc), this combination of external legitimacy, resources and some local ownership suffices to get certain reforms pushed through.

However, this often leads to a situation where the external and internal sources of legitimacy vary widely. External legitimacy is based on international best practice, whereas internal legitimacy may be based on totally different principles. External legitimacy tends to be process based (election, policy and strategy formulation processes) whereas internal legitimacy is more outcome-based (actual results achieved on the ground). Internal legitimacy is further compounded by other motivating factors, such as ensuring that benefits go to one's own group, using the vehicles of patronage for bestowing favors on political allies, not-in-my-backyard-dynamics, or simply giving the citizens what they need practically today rather than adhering to long-term strategic plans. This incongruence of conceptions of legitimacy in different levels of the social system can lead to a process of decoupling, as described earlier.

In practice the result of this incongruence often is that the reforms continue to exist on paper only and do not filter through to the lower sub-systems. The real risk, in addition to simply not achieving any real impact on the ground, is that it may lead to a reduced real capability of the system, which Pritchett and de Weijer have earlier labeled as the '*capability trap*' (Pritchett & de Weijer, 2010)*.

Since an organization needs legitimacy (and the associated financial resources) for its survival it will pretend that it performs according to the standards placed upon it. It will adopt a strategy of *isomorphic mimicry*; e.g. it will create the illusion of being a capable organization through adopting the outward forms of a capable organization, without little regard for the actual functionality of the organization. An educational institute where graduating students barely meet basic learning outcomes – unfortunately a highly ubiquitous situation in many developing countries - is just one example. The *de facto* functionality of an organization or system is often not measured, and the *de jure* existence of the form of the institution or policy reform is taken as sufficient. In fact it is good to remember in this context that it is only in very recent years that results-based performance measurement has gained ground in the West. It is also important to note that this dynamic takes

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11 This line of thinking is building on work by (Grindle, 2004) on 'good enough governance' and (Levy & Fukuyama, 2010) on 'just enough governance'.

place in a context with external aid and without it. Many developing countries have adopted wholesale the notion of bureaucratic institutions performing a range of state functions, with little regard for the actual functionality it achieves. In a situation with development aid one would assume that these performance measures have been put in place, but reality proves differently. Real outcomes are hard to measure, and donor agencies therefore limit themselves to measures of outputs; strategic planning workshops facilitated, policy recommendations written, and public consultations held. Whether any of these activities had any genuine effect on the functioning of the system is much harder to measure. As a consequence, there is no real drive for the organization to improve its performance in real terms, as functionality increasing innovations and structural changes are not valued and its external legitimacy shelters it from competition. (Pritchett & de Weijer, 2010)

Isomorphism need not necessarily be a bad thing; it may well perform a function (setting an example and creating exposure to a different way of doing things). Moreover, even in the most effective organizations there is a difference between espoused values and values-in-use, which serves as the grease in the wheels[12]. However, in many developing countries, and fragile states in particular, this phenomenon is taken to an extreme. It will then lead to *a loss of institutional integrity*, whereby the outward *de jure* performance is no longer connected with the *de facto* performance. Two parallel universes come to co-exist that have become decoupled from each other. The gap between the *de jure* and the *de facto* widens, and policy changes made on paper no longer have any bearing on the implementation on the ground, which continues to play by its own rules. The real effect of policy changes – changes in the rules of the game – cannot be determined as it doesn't play out on the ground as it was intended by the policy makers. This leads to a pattern of consistent implementation failure.

The perfect storm of these dynamics of premature overload, isomorphic mimicry and loss of institutional integrity leads to a capability trap; the organization gets stuck in low-performance equilibrium with external and internal pressures conspiring to maintain the status quo. These perverse incentives create outwardly strong but internally dysfunctional organizations with little robustness.

Unfortunately, the actions of the international development actors only feed into these dynamics rather than addressing them, and may therefore end up undermining state capability rather than strengthening it. The real culprit here is the linear change models, that are little adaptive to real conditions on the ground, work on the basis of best practice solutions (policy solutions that have been proven elsewhere), and measure performance on the basis of predetermined *de jure* outputs, rather than *de facto* capability.

V.   Enabling institutional change

So with all this rather dispiriting news, what *can* external actors do to affect the direction and pace of change in complex adaptive systems? First and foremost both external actors and domestic players must display a healthy sense of realism about the pace of change, and their ability to affect change. They would be better off recognizing that their actions are nothing more than today's best guess and they will need to continually adjust along the way. But with sustained focus and commitment, change will happen.

Domestic players are at a clear advantage in understanding the system from within, as the rules of the game are more intuitively known to them. External actors hold the advantage of occupying an external vantage point, which makes certain matters easier to see and others more obscure. Such actors will therefore need to rely more strongly on an ex-ante system analysis, with the purpose of gaining some initial insight into the system's landscape, where resistance and inertia is more or less likely to arise and where opportunities for change may be found. Understanding a system, as it is and as it evolves, is a highly complex task and is never fully completed. Gaining understanding is continuous and should reach increasing levels of depth. Dean

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[12] If procedures and rules were followed to the letter the work would actually slow down, a principle utilized in work-to-rule actions.

Williams writes *"wisdom is a deeper form of insight into why the system works the way that it does"* (Williams, 2005).

In the context of state building assistance to fragile states, a shared conceptual framework between the partners on the dynamics of institutional change is a necessary requirement. Domestic players and external partners need not necessarily agree on all aspects, but must be able to engage in a constructive and symmetrical discussion. External actors must come to understand the constraints posed on the leaders by the systemic forces, and jointly search for opportunities to overcome these. While working with the leaders, care must be taken to maintain a perspective on the entire system, and not narrow the field of observation to formal institutions or the state apparatus alone. In order to generate a higher adaptive capacity of a system, energy may need to flow into the periphery and not the center.

In order for change to occur there has to be space for change. System in a state of deep inertia may not be so easy to disrupt, and the old system will continue to prevail in spite of policy changes. Where does the space for change exist? There is no recipe for which types of action may best serve institutional change, one needs to creatively search for opportunities. Nonetheless, from a system's perspective a number of broad strategic choices can be looked at, that can be combined in innovative ways. These include working on the basis of what already works, nudging existing mechanism in a desired direction, identifying the space where conditions for change seem present or hindering conditions relatively absent, creating such space in innovative ways, or simply facing the resistance head-on.

Working on the basis of what already works

Working on the basis of what already works means tapping into formal or informal arrangements that appear to create public value for the actors involved. Certain informal institutions may not meet the global standards of best practice, but for the circumstances under which they are operating they may serve the purpose rather well. This means assessing the value of certain informal mechanisms on the basis of the function they serve, rather than the form they take. The high degree of participatory, consensus-based decision making at local level in Afghanistan is something that can be built upon. The customary system to manage flows of water and maintenance of irrigation channels, the *mirab* system, is a specific example where informal arrangements functioned well. To the credit of the Ministry of Agriculture, the new Water Law is indeed based upon this informal system.

One real danger that needs to be considered is the risk of contaminating a system that works with one that is more dysfunctional. This is a risk that has been stressed by a number of legal experts, who fear the delegitimization of the informal system that may arise when it becomes formally recognized by the state. They would argue for a formal recognition of the customary systems, but would warn against a co-optation of the informal systems by the state.

It may also be possible to uncover small-scale solutions that function well in certain small parts of the system, but have not managed to perpetrate more widely. The work by Pascale, Sternin and Sternin on positive deviants provides examples of household level solutions that had not even been adopted by other households in the community. They give a powerful example in their book of a community in Vietnam where a number of families had discovered an innovative solution to malnutrition based on locally available ingredients (Pascale, Milleman, & Gioja, 2000). If such pockets of positive change are discovered they can be promoted through positive feedback channels throughout the society. Devising institutional structures that allow for the adoption and subsequent adaptation of such solutions may prove beneficial to solving the particular problem at hand, while the continued presence of such feedback channels may also strengthen the problem-solving capacity of the society as a whole.

From the perspective of the stability landscape this is a case of increasing resilience, not through changing the landscape itself but merely through strengthening the connections within it. It is a matter of recognizing the value in the existing landscape, and focus on strengthening their relative weight in the system.

Nudging the system

The next set of questions that could then be asked is if these existing systems are in line with the values we are espousing. Are they inclusive? Would there be ways of making it more inclusive? In other words, are there ways to nudge the existing system? These are the types of questions that deserve to be asked, and if answered positively would lead to the second strategy; nudging the system. From a system's perspective, this strategy can be described as slowly reducing the steepness of the basins.

A very interesting example in this regard is the National Solidarity Program in Afghanistan.

National Solidarity Program – nudging the system

The flagship of the Afghan government, this program set out with the objective of reducing rural poverty through community-driven development. To this aim, communities elected inclusive community development councils (CDCs) that prioritize and plan projects, for which they obtain block grants.

The program built on an existing strength of the Afghan society; the ability of local communities to reach decisions by consensus. In a way, rural Afghanistan is very 'democratic', though perhaps in the ancient Greek way (no women, only certain men). The NSP built on this societal feature, but aimed to nudge it in the direction of greater inclusiveness of women and the poor. The outcomes of this process are interesting and revealing.

The program was implemented by Facilitating Partners, NGOs with considerable experience in the field and often with pre-existing relationships with the communities they were meant to serve. The NSP Manual was relatively prescriptive in its operational guidelines, but there was variety among the Facilitating Partners in terms of how these guidelines were implemented on the ground. In addition, contextual factors such as pre-existing levels of community organization, overall government presence and the prevailing security environment varied greatly across the country. As a result the Community Development Councils (CDCs) established across the country show a high degree of divergence. In some areas they produced the ideal-type CDC with full participation of the women and the poor; other have no or very limited participation of women; whereas again others have created separate women councils with varying degrees of influence. And perhaps most interestingly, some CDCs hold no power in the community at all, and seemed to have been established for purely isomorphic reasons, whereas anecdotal evidence shows that in other areas the CDCs have really changed the balance of power in the communities.

(Boesen, 2004) (Brick, 20098) (Barakat, 2006)

The big question is, and the jury is still out, whether the new community development councils really have had a transformative effect on local power relations. This variety of institutions may be viewed as intermediate stages on a path of social change, but the incidences of isomorphism can also point to a deepening of resistance. In any case, the answer to this question is not a singular one, and the more interesting question to ask would be what factors contribute to the different trajectories of social change that communities seem to be willing to accept.

Identify a space with less resistance

A third strategy would be to identify the space where resistance seems lower, or where hindering conditions are less prevalent. It may be possible to find niches in a society or an organization where it is easier than elsewhere to introduce a new way of doing things. One can scan the landscape and identify the basin with the least steep slopes.

Framing of issues is essential for how they are being perceived, and how much space for solution seeking one may gain. An example from Afghanistan would be the, as yet mostly untested, opportunity to approach land tenure conflicts from an agricultural perspective, rather than from a conflict management perspective. It is also possible to view the success of the National Solidarity Program (NSP) in Afghanistan in this light.

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National Solidarity Program – identifying space for change

The flagship of the Afghan government, this program set out with the objective of reducing rural poverty through community-driven development. To this aim, communities elected inclusive community development councils (CDCs) that prioritize and plan projects, for which they obtain block grants.

The program aimed at eventually becoming a foundation for local governance and local empowerment, but it did not use the normal channels of governance reform. Governance reform towards local empowerment would have caused resistance among the higher and mid-level governance actors, both in the executive and the legislative. The creation of Community Development Councils with the initial primary task of prioritizing and managing small-scale rural development projects was perceived as non-threatening, especially as it was approached from a non-political, technocratic ministry that had the mandate of social protection.

In addition, the program built on an existing strength of the Afghan society, the ability of local communities to reach decisions by consensus. In a way, rural Afghanistan is very 'democratic', though perhaps in the ancient Greek way (no women, only certain men). The NSP built on this societal feature, but nudged it in the direction of greater inclusiveness of women and the poor.

The high popularity, coupled with the high amounts of resources being poured into this program, the Community Development Councils gained a credibility and legitimacy which then gained the attention of the Ministry of Interior, who started to question the legitimacy of these community bodies. A long battle over the legal status of these Community Development Councils ensued, but the door was already ajar.

The combination of approaching the issue of local governance from a non-political perspective, and targeting a level of the society where the commitment to the collective good is relatively high, led to a situation of local empowerment without too strong a backlash. Local empowerment via the backdoor?

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The NSP identified the grassroots level as the area where change was most likely to occur, as it was relatively shielded from the more coercive power dynamics playing out at higher levels of political representation and governance as well as from the strongly Weberian notions of administration present in the executive branches of government.

Institutional islands

A fourth strategy is to create a new niche with different rules. From a system's perspective this would mean creating a different basin and attempt to change the stability landscape by attracting actors into this basin.

An analogy with China's strategy for reducing the dominance of state-owned enterprises and allowing private sector activity may be useful. The Communist Party in China realized very well that increasing competition in the economy had become necessary, but they also realized the backlash that this may trigger. Their solution was a dual-track approach, where they created Special Economic Zones, where different rules apply than in the rest of the country. They used a similar approach for the farmers in the country-side, where they had to meet their government quota for production first and were allowed to sell the surplus to the market. This allowed for a gradual change to a more market-based economy (Lau, Qian, & Roland, 2000). This is also the idea behind Paul Romer's charter cities; to create a space where different rules apply[13].

In a situation with deep societal traps, this may be one of the only ways forward but it carries the real danger of non-absorption. In order for such an 'institutional island' to become an instigator of real change depends on its ability to absorb actors on an on-going basis, or create spill-over effects into other parts of society.

Confrontational approach

A fifth strategy is to disrupt existing patterns head-on. When there seem to be no opportunities for gradual change, for building on existing positive patterns or creating a space for change, the only remaining solution may be to consciously disrupt existing patterns. This is the most prevalent strategy in current development

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[13] See http://www.chartercities.org

practice. However, it is also the most risky strategy. Firstly, the system may fall into the trap of isomorphic mimicry. It will pretend to follow the new rules, but in effect it will continue to function as it did before. Secondly, if the disruption actually does manage to succeed in disrupting existing patterns, it is at risk of disintegrating and system collapse. It may succumb to full chaos, with highly unpredictable effects. Some development practitioners in Afghanistan have already expressed concern with the way the social fabric seems to be crumbling with the sudden exposure to values of liberty and freedom (in the Afghan mind often translated as promiscuity, prostitution and disrespect to the societal values of cohesion, compassion and loyalty).

VI.   Implications for development policy

Create space for endogenous change

How much policy space does a country really have to find its own solutions and to carve out its own path to development? Donors tend to restrict policy options by making a specific policy agenda their starting point (DFID, 2003) (Ellerman, 2002). China probably could not have developed the way it did, if it had been in a partnership with OECD donor countries.

The issue of policy space for recipient countries is emerging as an increasingly important concept in the discourse on state building and development. The Paris declaration and the Accra Agenda for Action place strong emphasis on a constructive partnership, more local ownership and mutual accountability, and an overall harmonization of donor approaches. As much as this is strongly welcomed and necessary, there is a risk involved with bundling the force of all donors as it will make them emerge as one very powerful agent. This may further reduce the policy space of governments to carve out their own path to development.

The tight coupling between donors and reformers, in the form of conditionality or isomorphic mimicry, reduces the real operating space for leadership and thus for managing change in a more effective way. Individuals in a leading role in a ministry have different constituencies to placate simultaneously; the donors with their policy recommendations and international best practice, their civil servants with their own ideas about what the role of the ministry should have, and the citizens who want immediate results. It becomes very hard for the leadership to maneuver in this tight space.

Of course, the reasons for this tight relationship between donors and recipient governments are obvious; the donors need to know how their money is being spent and what it is spent on. The donor community brings money as well as its own values to the table. Undeniably, the donors have the right to set norms and standards for how their taxpayers' money is being used.

However, there is a trade-off between these donor needs and the policy space and operating space required by the recipient country to determine its own path to development. The asymmetric power dynamics often do not allow the space for the more open-ended change that is proposed in this paper. Donor countries may have reflect hard on how to set minimum critical standards, that provides sufficient operating space for recipient countries while maintaining the integrity of the core values of the donor country's society. These minimum critical standards must however be genuine minimal standards, not extrapolated best practices.

The question of values then becomes a very important one, and does not currently receive sufficient attention in development discourse. The divergence in cultural values and practices between societies raises important questions about cultural relativism and universal values. Who is right and who decides what is right? But even at a more basic level, this question becomes more poignant when we start to seriously acknowledge that the timeframe for institutional change may be longer than we anticipated. If we recognize that the path from A to B may take at least 30 years, we also have to recognize that we may not like the state of the country in five or fifteen years. Are we willing to support countries on the road to transition, if that means supporting values the

West is at odds with? These questions require political and public debate and will start rising to the fore more with time.

Focus on function not form

Grand designs for new institutional structures - meant to introduce new relationships and rules to the system - are not guaranteed to lead to the desired new way of doing things. The inertia in the system is likely to create a situation where the old way of doing things is simply continuing in the new setting. True change of the local rules that guides the behavior of the actors is much more difficult to achieve.

The current paradigm tries to make us believe that function follows form. It is based on the assumption that when the architecture is put in place, e.g. the right model is instated, this will automatically lead to a change in the way things are done. Unfortunately it often does not, as this thinking confuses inputs with outcome and means with ends. It treats institutions as inputs rather than outputs.

This conflation of form with function leads to the adoption of policies that are ill-suited to the context, and do not really advance the goal they were aiming to achieve. A discussion of the performance of decentralization schemes may make this point more clear.

Decentralization

Decentralization has been touted as a means to increasing citizen participation and accountability between citizens and state. The evidence on its success are mixed, and some of the main problems mentioned by experts are elite capture; inability to raise sufficient funds; maintenance of central control through regulations; unpopularity among civil servants; limited capacity at sub-national level; exclusion of poor and disadvantaged (Kauzya, 2007) (Blunt & Turner, 2007) Four conditions for successful decentralization are named; the government must have the political will to share power and authority, the civil service must be willing to facilitate this process, and the society at grass-roots level must be willing and capable to receive the power and use it responsibly (Kauzya, 2007).

In other words, one needs redressed power relations beforehand as a basic foundation for accountability as a precondition. But wasn't redressed power relations exactly what decentralization was supposed to achieve? Ends and means have become conflated. As it turns out, decentralization is an outcome, not an input. It is an emerging property, not a chip that can be implanted and will carry out its function as designed.

So how do we get to this end point of increased accountability and citizen participation when these enabling conditions are not yet met? How can we start thinking about changing the local rules of the game? Is instating the full institutional infrastructure associated with decentralization still a useful thing to do, or will we simply set ourselves up for failure?

Looking through a systems' lens a policy maker would ask the question of what function we are trying to achieve, in this case increased accountability to the citizenry. We would then look at instating the full institutional infrastructure of decentralized governance as only one way of attempting to achieve this, by tackling the problem head on. However, we can expect this to lead to high resistance, system inertia and implementation failure. We would then also look for alternatives. We may want to assess whether the desired function is already happening in any way. Are citizens' voices already being heard, through any formal or informal mechanisms? Is this system effective?

Integrity Watch Afghanistan provides an interesting way of strengthening local accountability without full-on institutional design changes. It uses the forces of social pressure at the local level to ensure responsiveness of the local service providers and sub-national government representatives.

> **Community based monitoring in Afghanistan**
>
> Integrity Watch Afghanistan was founded in May 2006 with the mission to increase transparency, integrity, and accountability in Afghanistan. It developed an approach for community-based monitoring of reconstruction projects and quality of public service delivery. Community monitors generate information locally, on the basis of simple indicators of outputs and outcomes, and this information is disseminated locally. The perceived legitimacy of the system and the evidence it creates provides an instrument of influence and can serve to hold local officials accountable. In monthly monitoring meetings with elected representatives, civil servants of line ministries, project implementation staff and /or service providers. Forces of social pressure compel those responsible to improve service delivery. At a higher level, IWA aggregates and analyzes the date and aims to create feedback loops into donor agencies and policy makers, in order to address failures in implementation and influence policy making.
>
> Source: personal communication Lorenzo Delesgues, and www.iwaweb.org

Enable conditions for new leadership for emerge

As stated before, fragile states are often defined by a high proliferation of sub-systems based on divergent and conflicting rules systems. These divergent rules systems create centrifugal forces in the society and maintaining stability – let alone making progress – is a matter of managing these forces. The task of a leader in such in environment is to create a 'holding environment' that can contain these forces, set a direction for change at a pace the system can stand. Not an easy task to achieve in any society, but in particular in a society with highly divergent rules systems.

We can view the authority figure sitting at the head of the system as a barometer of the strength of the forces within system. (Heifetz & Linsky, 2002). Without meaning to be an apologist for his weak leadership, President Karzai does present a beautiful example of an authority figure being pulled in different direction by his many constituencies, domestic and international. The many different faces he has shown the world in recent years is an almost perfect metaphor for the system. And the current political institutions, meant to create a legitimate government, have in fact ended up legitimizing the strength of those leaders that emerged as the 'winners of war'. Many of these embody these very centrifugal forces they are meant to contain, and make the already difficult task nearly insurmountable.

Many stories of states that have managed to fundamentally transform themselves, with the obvious example always being Singapore, emphasize the role of the head of state in managing this change. This high-level commitment is no doubt of extreme importance, but we must not allow ourselves to fall into the trap of over-estimating the freedom to act of the authority figure in light of the systemic pressures. Afghanistan is not Singapore, and the forces at play in Afghanistan may be a lot stronger than those in Singapore or even Rwanda.

In such case, it may be that the leaders in the periphery have a much better change of instigating genuine institutional change. They operate at a level where change is more rapid, and relatively isolated from the larger forces at play. They may be able to find a niche in which they can create an alternative rules system, and aim to slowly expand this until it catches on more widely. Such leaders bring with them a different way of doing things, lead by example, and develop a small institutional island around them. Those potential leaders in the periphery are of pivotal importance, because they gain a local following through which they expand their vision of the rules of the game. On their way up they build coalitions, and disseminate these rules systems deeper into the system. This way institutional change gets developed from within, at a pace the system can absorb.

Unfortunately, these future leaders have little opportunity to emerge in Afghanistan. Elections are heavily manipulated and marred with fraught, NGOs have been turned into implementing machines for large contractors and donors, civil society is still weak and receives relatively little support, and many social or

business entrepreneurs have given knocking on doors of development agencies, because their central planning culture leaves little space for such entrepreneurial spirits. We will have to think more carefully about how can create the circumstances in which such social entrepreneurs can emerge, and how we create a fertile soil for them to flourish. The current narrow focus on the state as the locus of intervention seems to miss the target in this regard. Going back to Axelrod's trade-off between exploitation and exploration, it appears that in the field of leadership and social entrepreneurship we need to create much more space for autonomy and variety.

Influencing interactions and feedback mechanisms

By now it will have become clear that one of the most essential ingredients of adaptive capacity of a social system is the connections between the various sub-systems. Not too loose and not too tight, with the right balance between rigidity and flexibility, between exploitation and exploration. These are questions of institutional infrastructure and of voice and accountability. If no institutional structures and channels for voice and accountability are present for the citizenry, increased accountability is less likely to occur. But here again we must take care not to conflate form and function. To understand how such infrastructure can be created, one cannot rely on best practice solutions and add these design fixes onto the laundry list of reforms that the government must carry out. Instead one must really understand the forces at play in the system and be creative about finding the space to create such infrastructure or rather to allow them to emerge.

The effort of Integrity Watch Afghanistan is a good example of tapping into strong horizontal and vertical linkages at the local level, with the result of increased local accountability through the forces of social pressure. Such an approach could be further strengthened by formally institutionalizing the feedback loops into governmental departments, regulatory agencies or funding bodies. Sectoral ministries could make this community-type monitoring an integral part of the performance measurement of their own civil service. This would create a productive tension between the community-based structures and the civil service, building on the strength of each. At the same time it would give the international community the opportunity to ensure accountability, both to the citizens of the fragile state and to their domestic constituency.

When one starts to think in terms of sub-systems and how these are connected to each other, it becomes easier to look at function rather than form. One can start to think about different ways in which governance structure, for example, can be structured. One can move away from fixed categories such as central versus federal or tribal versus modern, which are very binary ways of looking at a system. One could explore a million possibilities of increasing autonomy in certain realms while keeping them connected to the higher scales of the system.

The development system itself suffers from interaction patterns and feedback mechanisms that are highly dysfunctional. The work of NGOs at grassroots level is often very innovative, and well grounded in local rules systems. But the linkages to the larger system are weak or non-existent, and as a consequence these innovations don't permeate throughout the system. The importance of piloting is well recognized in development discourse, but achieves little if the lessons learnt travel to New York, Geneva or Rome and get transferred into more best-practice solutions, rather than getting absorbed by the next district in the country itself.

VII.   Conclusion

I realize this paper raises more questions than it provides answers. But from my perspective that is exactly where we should be. From the starting point that we just do not know, and the best we can do is ask the right questions and remain open to what the answers may be, even if we don't like what we hear. This will lead to a much more open-ended conversation about institutional change, one in which domestic and external partners can jointly search for opportunities to effect change, with full recognition of the prevailing constraints.

To reach this goal the mental models of the development institutions has to change quite considerably, and a new conceptual framework needs to be adopted that views institutional change as a more complex, unpredictable dynamic, where the objective is to increase the adaptive capacity of the system as a whole. This will require a broadening of the concept of state building as the ability of the system to adapt its rules and internal institutional infrastructure to changing circumstances and opportunities in such a way that it leads to a positive transformation in the four realms of society; economic, political, societal and administrative capability.

The concepts of complexity theory and systems thinking provide a solid foundation for such a new conceptual framework to develop, which has implications for the good governance agenda, public sector reform and capacity building and the design, implementation and management of development programmes. As much as some parts of this paper may feel disheartening, it is in fact an exciting opportunity to look at social systems in new ways, and devise creative ways of working towards institutional change.

This paper describes five main strategies that can be used to guide the pace and direction of social change; working on the basis of what already works; nudging the system; identify a space with less resistance; institutional islands, and the confrontational approach. These strategies may be combined in various ways, depending on the characteristics of the social system. This kind of analysis needs to be based on a good understanding of the landscape of the social system, where resistance can be expected, where opportunities for change may lie, and which rules systems can be expended at the expense of which other ones. The connections between the different sub-systems are a highly important feature of the adaptive capacity of a system, and this is where a lot of the attention could zoom in on. Arriving at the right balance between control and autonomy, exploration and exploitation, and central versus peripheral leadership for change is essential.

As much as the rhetoric in development discourse has already started to take some of these notions on board, this has not yet translated into a real change in the mental models applied. Some of the first steps the international community should undertake is to increase the policy space; the space for genuine endogenous change to take place. Development actors must learn to act as co-leaders, not as technocrats. Managing institutional change is an art, not a science.

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