Increasing State Capacity

What Role for the World Bank?

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1 Introduction

The World Development Report 1997 (WDR97) is a refreshing reassessment of the role of the state in development. Thinking within the World Bank on the possibilities and limitations of the state has significantly changed: it seems the pendulum now hovers in a more balanced middle position after swinging from naive optimism about state-led development of the 1960s and 1970s to the neoliberal anti-state bias of the 1980s and early 1990s. It is clear that within the World Bank, political and institutional aspects of development have received renewed attention, as evidenced in its borrowing from the literature on the new institutionalism, social capital formation and civil society. The diagnosis in WDR97 revolves around the weakness of developing country states. The proposed solution is the combined strategy of matching roles to capacity, while simultaneously increasing state capacity through various reforms. At first sight, these solutions appear sensible and straightforward.

However, as with the World Bank's earlier prescriptions for the ills of developing countries, there are adverse side-effects from the strong focus on a single line of argument. While WDR97 borrows heavily from a wide range of literature, pieces of several puzzles are made to fit into one neat overall picture, creating tensions and contradictions. At the level of diagnosis, the weakness of states is presented more as a technical problem than one relating to leadership, social groups and structures. The Report brushes over important differences among developing countries. The concept of 'good governance', quite central to the cure, is broad and touches at the heart of politics; at the same time, a narrow technocratic view on governance frequently pops up. I will argue that the technical and the political meanings of 'good governance' may fundamentally conflict. Furthermore, I will examine how far the World Bank, as an institution specialising in economic matters, is equipped to deal with issues of state capacity.

The Report's focus on state capacity reminds me of the 'political development' literature of the 1960s and 1970s, which was later displaced by the perspectives of dependency and political economy. While everyone, particularly in international policymaking circuits, was concerned with the

'economic gap', a few dissenting authors focused on the 'political gap' between developed and underdeveloped nations. The idea in WDR97 that the Third World state is characterised by low institutional capacity is far from new. I will attempt to enrich the analysis by drawing on these earlier political science perspectives, while also pointing to the dilemmas inherent in that literature, which remain obscured in the Report.

In the early political science literature, political development was conceptualised as increased capacity of the political system. The literature recognised that developing countries were confronting many challenges: crises of identity, of legitimacy, of integration, of penetration, of participation and of distribution. The simultaneous occurrence of these crises posed many problems. The literature exhibited a slight bias towards seeing the problems of national identity and integration as central: the single party system was deemed a suitable solution. However, not all observers shared this bias. The 'development administration' school, in particular, addressed problems of state penetration. At that time it was widely assumed that governments pursued the general interest, in particular the goal of development in the broad interest of society.

Real world events made it clear that many countries had failed to solve these crises and had entered a downward spiral of decreasing capacity, authoritarianism and abuse of power. In practice, governments of developing countries emphasised strengthening the capacity of the state by expanding control through the state bureaucracy and strengthening executive power. At the same time, national integration and identity were created 'from above' through single party systems, 'guided democracy' or outright military rule. The results were varying degrees of authoritarianism. The authoritarian state was simultaneously heavy-handed and weak. As some dissenting authors in the political development school noted, the single parties had become mechanisms of control, not channels for participation. Legitimacy declined steeply. In attempting to solve problems of state penetration and national integration, participation was limited and distributional policies were sacrificed. By 1980, the 'soft state' phenomenon, characterised by lack of effectiveness and legitimacy, was widely noted.

In the 1990s, the more recent and extreme phenomenon of the collapsed state seems to have captured the attention of both academic and policy analysts. In writing about state capacity today, WDR97 similarly pays much attention to the collapsed state. However, on the 'weaker states' end of the continuum, it is useful to examine the difference between the collapsed state and the much more common and persistent phenomenon of weak or 'soft' states. Is it a difference in degree or in kind?

In the 'soft' case, the state has become almost irrelevant as many social groups retreat from interaction with states (and sometimes from markets) and/or boycott the state. Paraphrasing Chazan *et al.* (1992), popular protest chips away from below at the foundations of state power. Although the state lacks legitimacy, this situation may be coupled with relative tranquillity and peace. Civil society, though weak, may rebound. The challenge of soft states is to redress the crisis of participation and legitimacy: effective governance depends on achieving legitimacy; the latter, in turn has something to do with the way the participation and distribution issues are being tackled. The need to do this may 'cost' the state control, or require the creation of political space to accept sub-national identities.

The collapsed state is a different case. In the collapsed state, social forces have also turned against each other. Integration failed, sometimes due to highly skewed policies emanating from the centre and the concentration of power there. In this case, civil society has also collapsed: there is chaos and violence. The collapsed state is a particular problem requiring specific solutions and external policy interventions: these must be focused on the immediate problems of restoring order, making or keeping peace and humanitarian assistance. While recognising the problems posed by the extreme case of state collapse, and the need to couple any political/military strategy to end violence to a strategy for long-term economic rehabilitation, this article will focus on the problems of the soft state, since that category still represents the majority of developing countries. The soft state is the context in which donor institutions run up against brick walls in pursuing long term development goals. It is in the context of weak states, not in collapsed states, that the 'good governance' agenda, however problematic, may be pursued.

2 Governance

In earlier World Bank policy documents, there was a tendency to conceptualise governance primarily in terms of 'good policies' and 'effectiveness' (at other places 'efficiency'). This rather technocratic approach to governance still surfaces at various points in WDR97, although the overall thrust of the Report now is towards a broader conceptualisation of good governance. Good governance is meant to imply 'transparency', 'accountability' and 'responsiveness'. This broader conceptualisation touches at the heart of politics, but the Report fails to recognise that it may be at odds with the technocratic sense of 'good governance'.

In itself, the technocratic approach to governance is problematic. It is based on the implicit assumption that there is a rational consensus about what constitutes 'good policies'. The World Bank might be expected to recognise that the recipes for good policies change over time, as World Bank thinking has shifted from more extreme versions of neoliberalism to a re-appreciation of the role of the state. More recognition of such changing views is warranted, for instance in relation to social development: where developing country governments are now criticised for having cut back in their necessary core functions, the World Bank should admit its share of responsibility through the economic policy conditionality it has been promoting.

Others wish to maintain the link between 'good governance' and policies by defining good governance as the formation and implementation of development-oriented policies (Otto 1994). The problem here, too, is that development is conceptualised in varied ways by recipient countries, some emphasising mere growth and macro-economic stability, while others may emphasise indicators of 'human development'. Donors are prone to change their concepts of development according to fashion. A last reason for being careful of equating good governance with the content of policies is that democratic government is now broadly viewed as part of good governance. The problem is that we cannot be sure that democratic processes will bring about the policies deemed 'good' by international financial institutions.

This leads directly to the tension between the technocratic meaning of 'good governance' and its broader political meaning. In my view, this results from mixing process and outcome in the definition of good governance. Governance is best defined as the way in which those occupying state power interact with citizens, either organised in groups or as individuals; it concerns the process and not the content (the outcome, or policies). Besides respect for human rights, and ensuring the rule of law, it concerns the way governments interact with citizens in the policymaking process. The term 'responsive governance' rather than the more normative 'good governance' better covers the process orientation of governance (see also van Cranenburgh 1995). The issues that are especially relevant here are achieving consensus and maintaining legitimacy (even where complete consensus about the content of policies is lacking). WDR97 has now adopted such a broader political approach. I have noted that the Report has added 'responsiveness' to the list of governance requisites. But the Report does not address the possible conflict between this broader concept of good governance and the more technocratic meaning. Some of the examples of 'good policies' cited in the Report reflect this contradiction. For example, the new 'donors' darling', Uganda, is frequently cited for its good macro-economic policies. But Uganda is a highly controversial case with respect to democratic governance, or even policies (high defence expenditures).

In following the broader approach, WDR97 addresses the interaction between government and societal forces under the heading 'Bringing the Government Closer to People' (Chapter 7). Further, the Report makes a commendable attempt to analyse the stakeholders supporting and opposing economic reform. Sharing the view that the policymaking process does indeed lie at the heart of governance, this article examines two major issues complicating the analysis and prescriptions offered in WDR97: (1) the degree of autonomy of the state *vis à vis* domestic societal groups and (2) the question of autonomy *vis à vis* international actors: the impact of international policies, in particular the aid relationship, upon the policymaking process. The issues are rather central to the problem of low state capacity, but they are not explored sufficiently in the Report. At the same time, it appears that the World Bank's comparative advantage as an economic institution in dealing with these issues is higher in the first case than in the second.

3 Policymaking in Developing Countries: Autonomy vis à vis Domestic Actors

In many soft states in Africa and Asia, policymaking has been characterised by radical shifts: in former one party states and other authoritarian regimes, governments were highly autonomous from societal forces. Consequently, as noted in WDR97 (pp.35–36), entrepreneurs frequently fear unpredictable policy changes. What will be the impact of current political reforms on this pattern, and will the degree of autonomy change? Indeed, how much autonomy should the state retain?

It is highly questionable whether current reforms centring around multi-party elections will lead to significant changes in the manner in which policies are formulated. A large degree of autonomy in policymaking may continue in the context of multi-party politics. While elections may lead to opposition parties sitting in parliament, they often lack any capacity for policy analysis. Parties often do not present a coherent policy programme, including a sound financial analysis. They are frequently limiting their role to populist appeals and capitalising on a general anti-governing party sentiment or anti-system positions. Furthermore, as noted in the Report, there is hardly a tradition of involving interest groups or advisory councils with representatives from economic sectors or civil society in a systematic way in the policymaking process. Many developing countries lack such mechanisms to ensure 'input and oversight' in policymaking (p. 83). All this points to a high degree of autonomy in policymaking in developing countries today.

WDR97 argues that policymaking process needs to allow for greater input of societal groups. This illustrates the increased attention to the political side of the policymaking process: acquiring consensus and co-operation of social forces. This recommendation implies a reduction of state autonomy, but the question is how and how far this should be achieved. The recommendation to increase 'input and oversight' in policymaking also leaves unanswered the question to what degree input and oversight is best achieved through involvement of political parties in policy debates, or involvement of socio-economic forces (stakeholders). It is possible that the autonomy of the state will be reduced due to multi-party politics. If opposition parties gaining power succeed in radically altering policies, the result is reduced autonomy. But in view of their low capacity for policy analysis, former opposition parties may be prone to experiment with ill-conceived new policy initiatives, once they are in power. This, of course, is not the desired outcome. However, the scenario is not unthinkable in light of the lack of other mechanisms for input into policymaking through functional interest groups.

As noted, in Africa's newly democratising countries, political parties frequently lack the capacity to analyse policies; they are mere factions around a single leader and lack a clear policy orientation. Policymakers concerned about state capacity need to consider whether capacity building of political parties should form part of a strategy to increase the capacity of democratising states. Clearly, such activities are inherently political and are better addressed by bilateral donors than by a financial institution such as the World Bank. Currently, bilateral donors channel funds to political parties, whether through individual party foundations (the German model) or through all-party foundations (the Westminster Foundation in the United Kingdom; the Foundation for a New South Africa in the Netherlands). While there are few insights into the impact of this support to parties and many questions as to possible unintended effects, such programmes do address a pressing problem of low capacity of political parties.

An alternative mechanism to increase input into the policymaking process is the involvement of functional groups, such as neo-corporatist interest representation arrangements – 'deliberation councils'. These mechanisms have both strengths and weaknesses. In OECD countries, neo-corporatist interest representation appeared to work well during periods of economic growth, but were criticised from the 1980s on for their tendency to lock generalist policymakers into a ring of specialised interests. Mechanisms to 'lock in' good policies may also 'lock in' bad policies. Moreover, neo-corporatist arrangements frequently implied that newly emerging interests (e.g. the environmental movement) remained unrepresented. Generally, the poor are not strongly organised; in developing countries, labour unions may be strong, but workers in the informal sector lack organised representation.

Policymakers wishing to increase 'input and oversight' of stakeholders in the policymaking process need to examine what degree of autonomy for the state is desirable. There is a need for flexibility in policymaking which may be hindered by too many veto points. How may functional interest representation be combined with political party representation in legislatures to create an optimal policymaking process: insuring responsiveness while maintaining a degree of flexibility? The strength of political parties, in this respect, is their role of aggregating interests (not just articulating specific interests) into a more or less coherent policy programme. (This all presumes that parties are capable of performing this function; that capacity may in reality need to be built up). The weakness of political parties is that they may not in practice be able to understand the interest of direct stakeholders. On the other hand, functional interests groups often possess the information policymakers depend on; obtaining their support increases the chances of successful policy implementation. However, functional interest groups may pursue narrow interests and may not be representative. The lessons from the more developed countries are that consultation with societal interests is a prerequisite for the necessary information and compliance, but that mechanisms for consultation must be designed so as to avoid giving special interests undue veto power. Interest representation must be designed institutionally in such a way as to allow a place for newly emerging interests, whether consumers or environmental campaigners. This requires working less with permanent and narrowly mandated councils and more with *ad hoc* councils intended to deal with new and pressing issues. Permanent councils, that are necessary to some degree, should be broad in composition. In the Netherlands, the system of deliberation councils has recently been reformed to avoid problems of narrow sectoral 'lock-in' of policies and to increase possibilities of integrating policies. For example, the formerly separate advisory councils on development aid, peace and security and human rights are now integrated into one council for international affairs. With regard to the poor, special measures may be needed to ensure their voice is heard.

Lastly, achieving policy consensus and avoiding veto power being exercised by narrow interest groups may be achieved through an effort to conduct broad societal debates. These debates serve to maximise information and stimulate the formulation of policy options. Such broad debates may be facilitated by a vigorous and independent media. WDR97 pays little attention to the positive role that professional journalism can play in the context of independent media: the media may initiate and pursue a broad societal debate about policies. The professionalism of journalists and freedom of the press not only stimulate societal debate, they also act as restraints on arbitrary decisions and corruption. Support to the media may form part of a strategy to increase state capacity. However, in this respect the World Bank, as an economic institution, lacks a comparative advantage. Support to the media may best be provided by bilateral donors, and preferably channelled through NGOs.

This discussion about the involvement of domestic actors in the policy process indicates that several issues complicate the analysis and prescriptions offered in WDR97. While they must be addressed, it also appears that the World Bank as an economic institution is not the best situated to address these rather central issues affecting state capacity.

4 State Autonomy vis-à-vis International Actors: The Impact of International Policies and Development Aid

In developing countries, the margins for policy choice are ever narrower. While economic globalisation has narrowed this space even in industrialised countries, in developing countries the space is narrowed further by the nature of their economies and heavy dependence on external aid. As noted by Moore (in this Bulletin), there is in WDR97 little recognition of how international factors influence governance. In developing countries, the policymaking process is heavily influenced by development aid. The aid relationship has far-reaching consequences for state–society relations: major macro-economic policies are the result of negotiations between the government and international financial institutions (IFIs) or donor governments, and even the minute details of aid projects are being negotiated with aid donors. While this process is far from transparent, it also implies that accountability is towards donor governments or IFIs, rather than toward domestic forces. The

inherent bias in bilateral aid results from the fact that it is bound to be responsive and accountable to funders (taxpayers and politicians in the donor country) and, as a result, highly susceptible to fashion in donor countries.

The bilateral aid relationship is primarily an intergovernmental relationship and this may explain reluctance to criticise it. WDR97 does explicitly mention the adverse effects of the aid relationship (burdening local weak institutions with their demands and procedures or fragmenting them), but fails to address the World Bank's own role (pp. 83–84). Due to its role in consultative groups, the World Bank is the most appropriate international actor to ask the question: how to achieve 'good governance' in the aid relationship? Despite all rhetoric about participatory development, the parameters of aid are set in the donor countries. With the increased use of conditionalities, not only economic but also political, these parameters are ever more volatile. The desire to boost donor profiles remains strong, resulting in efforts to create recognisable projects or programmes. Development aid suffers heavily from 'staccato policies'.

Parallel to the mechanisms to 'lock in' good domestic policies discussed in the Report, the answer to the problems posed here may lie in 'locking in' development aid. Development aid needs to become more predictable and needs itself to be more clearly geared to good policies. WDR97 finds bilateral aid barely oriented towards countries with good policies, and international institutions only weakly geared to it. There are still numerous examples of donor governments funding unviable industrial projects. Moreover, donors tend to direct a very small proportion of their aid to social development (health, education and basic sanitary facilities), which is now widely recognised as deserving priority. Here, the analysis in WDR might have been taken some steps further toward proposing reforms in the aid relationship and policymaking processes in the 'development community'. The recommendation to concentrate aid to poor countries with good policies requires elaboration. What are the criteria for 'good policies' and through which mechanisms are these policies to be formulated? The criteria must be clearly stated and transparent to all. They should be formulated in a multilateral setting, to avoid biases to particular countries' orientations. Once donor countries have agreed on broad criteria, they should desist from detailed and particular conditionalities, leaving the setting of specific priorities to the recipient government. The World Bank should take a leading role in a coordinated attempt to specify the criteria in a transparent manner. The aim would be to streamline and make transparent the economic conditions for development aid.

There is a need to establish aid mechanisms that leave the maximum amount of room for the recipient country to allocate the aid to specific programmes in consultation with domestic social groups. An example is the 'social fund' formula as practised in some Latin American countries. The spending of these aid funds is overseen by a broadly composed board, including representatives from domestic groups affected. Direct donor involvement in setting priorities is decreased, while the margin to set the recipient country's own policies is increased, and 'ownership' and participation by local actors is maximised.

Next, let us face the fact that many governments with 'bad governance' are being given development aid. We are now entering the realm of political conditionalities. Neither human rights nor good governance conditionality are being applied consistently by bilateral donors. But will aid given in the context of bad governance ever achieve the intended goal of development, broadly conceived? The World Bank itself cannot apply explicit political conditionality due to its Articles of Agreement. The Bank could circumvent this problem by pressing donor countries to look more at outputs and outcomes of development policies. The questions policymakers must address is how the accepted definition of official development assistance may be adjusted from being intentional (development oriented) on the part of the donor government to result-based on the part of both the donor and recipient country. An emphasis on outputs (budgetary allocations) and results (improvements in health or education) may imply an automatic diversion of aid away from countries with bad governance and policies detrimental to development. It would also submit donor countries more consistently to the test of results.

Lastly, while policymakers in developing countries face numerous pressures in their interaction with multilateral and bilateral donor institutions, they

are at the same time confronted with other international policies which severely constrain their developmental policy opportunities. For example, trade policies of foreign countries or international organisations (for example, the EU) may constrain their abilities to pursue the recipes prescribed by the multilateral institutions. Equally, conditions applied by donors (for example to limit defence spending) may go together with arms sales sanctioned by the very same donor governments. The lack of coherence between policies pursued by the development ministries and trade or financial ministries of bilateral donor governments affect the ability of both donor and recipient governments to implement development oriented policies. In the Netherlands, efforts are being made to increase the coherence between development co-operation, foreign affairs and foreign economic policies. The important question to address here is how the World Bank may contribute to an improvement of policy coordination mechanisms, moving beyond the terrain of development policies narrowly defined so as to include the coherence between development policies and international trade and finance policies. This effort might help to limit the negative effects of such incoherent policies toward developing countries. I suggest that the World Bank take an active role in addressing international trade and finance policies of OECD countries as they affect developing countries.

In conclusion, some of the problems of governance in developing countries highlighted in WDR97 are intimately linked to international factors, such as the aid relationship and international policies. The World Bank occupies a strategic position in addressing governance issues in the aid relationship, such as streamlining the formulation and increasing the transparency of economic conditionalities and increasing the consistency of development, trade and finance policies towards developing countries. However, I have argued above that the World Bank is primarily an economic institution, and not well placed to address many internal governance issues in developing countries. Issues such as improving the policy capacity of political parties and strengthening the media are better addressed in the context of bilateral aid. The analysis of policy reform issues in WDR97 is ambitious and incomplete. Reforming the policymaking process will be difficult and will not follow automatically from current democratic reforms. Despite these shortcomings in WDR97, the World Bank has taken an important step to address the broader political issues of increasing state capacity.

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