The World Development Report 2017

Governance and the Law

Concept Note

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World Development Report 2017
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Motivation and driving questions of the Report

1. The persistent disparity in social and economic achievement across countries has intrigued policymakers, academics, and development practitioners for a long time. Analysts have been puzzled by the vast and persistent heterogeneity in welfare levels, particularly in today’s world, where the links among countries are stronger and technology diffusion can be fast and cheap. In order to explain differences in development performance, policy discussions typically focus on proximate factors such as coverage and quality of education, provision of health services, ease of doing business, or access to finance. “The intensive study of the problem of economic development,” explains Hirschman (1958), “has had one discouraging result: it has produced an ever-lengthening list of factors and conditions, of obstacles and prerequisites.”

2. The proximate factors that constrain development are often symptoms of deeper underlying determinants, related to governance. Governance is traditionally conceptualized as the way power and authority are derived and exercised (World Bank 1992). The World Development Report (WDR) 2017 seeks to unpack and analyze the elements contained in that definition more specifically. In this Report, governance refers to the process through which state and nonstate actors interact, within a given set of formal and informal rules that shape and are shaped by norms and power.

3. The actors in question, depending on the context, may establish a government, as a set of formal state institutions (organizations and rules) that enforce and implement policies. Citizens delegate power to those in charge of government. Government is thus an instrument in the governance process. The extent to which state actors play a more important role with respect to nonstate actors in such process depends on the context.

4. This Report deconstructs the different elements that constitute governance to understand how their interaction ultimately affects the ability of society to deliver on goals related to economic and social development. Particular attention is paid to the concept of law and its uneven implementation, given the primary role of law in ordering these elements on a de jure level, and the stark divergence from the formal legal statutes and regulations in practice.

5. WDR 2017 seeks to shed light on how a better understanding of governance can bring about more effective policy interventions to achieve sustainable improvements in welfare. To do

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1 Power is defined as the capacity of one actor or group of actors to make others behave in alignment to their own interests, or to bring about specific outcomes. The report attempts to provide simple definitions of complex concepts, definitions that enhance the clarity of the analysis and are founded in the existing literature, while acknowledging that that there may be other valid definitions (see Glossary in box 2).

2 See box 2 for a glossary of main terms used in the Report.

3 Not only may different countries have different configurations of state and non-state actors in the governance process, but within a country, the configurations may differ.

4 For purposes of this Report, law refers to formal state-enacted legal provisions, such as statutes and regulations. The Report notes that this subset of law is one of several legal and normative orders (including international law, customary law, private law, and norms) that influence behavior.
so, the Report focuses on two guiding questions: (a) In a given governance environment, how can policies be more effectively designed and implemented to improve welfare? (b) What are the channels through which the governance environment can be changed to improve welfare? The target audience for the Report is policymakers, development practitioners, academia and civil society.

6. In the past few decades, the global community has aimed at transitioning from a dialogue based on ideology to a dialogue based on ideals. The establishment of the Millennium Development Goals (MDGs) in 2000, and the recent ratification of the Sustainable Development Goals (SDGs) by member countries at the United Nations are examples of these efforts to set common goals for social and economic advancement. SDG number 16 to promote “peace, justice, and strong institutions” is explicitly related to governance. However, as this Report will argue, the achievement of all the SDGs will require a solid understanding of governance dynamics in order to enable more effective policies.

7. While this is not the first World Development Report to explore governance-related issues, it is the first to move beyond a focus on institutions and strategically weave together the role that power and norms play in the development process. In line with WDR 1997 on The State in a Changing World, WDR 2017 emphasizes the importance of state capacity, with the added value of highlighting the system of incentives embedded in rules, informal norms, and power structures, to understand (and reduce) implementation gaps. WDR 2002 on Building Institutions for Markets stresses regulatory aspects and credibility to enable well-functioning markets. Building on this foundation, the WDR 2017 focuses on the effectiveness of a broader set of policies relevant to development. WDR 2004 on Making Services Work for the Poor underscores the “short route” of accountability—for specific services provided. This Report builds on that view, emphasizing the “long route of accountability”: inclusion in the overall power structure. For more details on how governance was treated in previous WDRs, see annex D.

8. WDR 2017 is being conceived as part of a trilogy of World Development Reports, alongside the WDR 2016 on Digital Dividends and the WDR 2015 on Mind, Society, and Behavior, which examine how policymakers can make fuller use of behavioral, technological, and institutional instruments to improve state effectiveness for development.

Revisiting the links between governance and development

9. While the contrast in the political and economic institutions between high-income and low-income countries today is indeed stark, the pattern is much less clear within the set of developing countries. Using the institutional categories of the World Governance Indicators (WGI), and aggregating countries by their current income categories, a pattern of dominance emerges in terms of higher scores in governance indicators—in every dimension—as the income level increases. Such a pattern may lead to the conclusion that certain types of institutions unambiguously determine higher levels of prosperity. That has been the perception of many development specialists—and has led many well-intentioned political leaders and development agencies to

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5 North, Wallis, and Weingast 2009; Acemoglu and Robinson 2012.
promote institutional reforms that aim at achieving those institutional standards. This conclusion, however, is rather misleading.

10. For example, growth—one dimension of development—is happening in countries around the world with a wide range of institutional profiles. The 2008 World Bank Commission on Growth and Development Report identifies 13 economies that have grown at an average rate of 7 percent per year for 25 years or longer since 1950. As shown in figure 1, there is no clear pattern to their governance scores, as measured by the World Governance Indicators.

11. The institutional features observed in high-income societies are themselves the result of a long historical process of adaptation to changing circumstances. The nuances of how these governance configurations evolved, and the development trade-offs inherent in the process, need to be better understood. To shed light on the interaction between governance and development (more broadly understood), there is a need to move away from aggregate indicators.\(^6\)

![Figure 1 Country governance scores, by income group (left) and in 13 rapidly growing economies (right), 2014](image)

\textit{Source:} WDR 2017 team based on World Governance Indicators (WGI).

\textit{Note:} OECD = Organisation for Economic Cooperation and Development.

12. This Report argues, first, that the assessment should go beyond growth, and must also consider other outcomes such as equity and the absence of violent conflict. The assessment should also incorporate how sustainable are the achievements, while unveiling potential tradeoffs among those outcomes, at least in the short run. Second, while there are different institutional paths to development, it is important to identify the \textit{principles} of governance that make policies more

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\(^6\) Some studies have established robust and positive correlations between growth and specific measures of state institutions, such as rational-legal bureaucracies (Evans and Rauch 1999), judicial independence (Feld and Voigt 2003), protection of property rights (Knack and Keefer 1995); and government credibility to attract investment (Brunetti, Kisunko, and Weder 1997). Other studies, however, find that good governance measures do not exhibit a strong correlation with GDP growth rates across countries (Glaeser and others 2004; Quibria 2006; Holmberg, Rothstein, and Nasiritousi 2009; Shaw, Katsaiti, and Jurgilas 2011). Some have suggested that correlations (or their absence) between governance and growth rates might not be very informative because rapid growth accelerations tend to be highly unpredictable, and many are not sustained (Hausmann, Pritchett, and Rodrik 2005; Rodrik 2005).
effective and potentially enhance the capacity of societies to adapt to the tensions emerging from the unevenness of the development process. Such principles, as discussed below, can lead to different solutions in terms of institutional forms, depending on the context. Finally, the Report will also revisit the way governance is measured, by disaggregating the traditional indicators to reveal their primordial components, and refining and regrouping them in line with the main elements of the Report’s framework.

The WDR approach

13. This WDR takes a “functionalist” approach to governance and identifies the elements that contribute to the success of policies and potentially explain “implementation gaps.” The framework gives centrality to what the Report calls institutional functions. The functional role institutions play, within a given governance context, in terms of shaping behavior and solving collective action problems is fundamental to understanding the heterogeneity in development outcomes. Traditionally, governance interventions have focused on replicating institutional forms that have been successful in other contexts. This Report, however, argues that institutional forms matter only to the extent that they are able to solve the relevant functional challenge, regardless of whether the form complies with “best practice” standards. There are many institutional functions, but the Report focuses on three of them that are foundational to the effectiveness of policies to promote growth, equity, and security: (a) supporting consistent policies over time to make sure promises are delivered (commitment); (b) credibly signaling what is the expected behavior of others to promote a common action (coordination); and (c) changing the incentives of individuals to limit opportunistic behavior (cooperation).

14. The functional performance of institutions is determined by the bargaining process between state and nonstate actors to formulate and implement policies. This bargaining process is influenced by three key constraints: (a) the state’s capacity to design and implement policies (capacity constraint); (b) the compatibility of policies with the power structure (power constraint) and (c) the coherence of policies and formal rules with the informal norms and beliefs upheld by society (social-compatibility constraint).

15. Using this approach, different types of governance and development challenges can be analyzed—such as decentralization, corruption, regulatory capture, or poor service provision—and decomposed to understand the deeper constraints perpetuating them, and to improve the formulation and implementation of policies to address them.

16. Let us take the example of corruption as a governance failure, or a systematic friction which reduces the effectiveness of rules and policies. There are several parallel arguments in the public discourse relating to the emergence and persistence of corruption. Some scholars argue that corruption is a problem related to poor administrative design which provides weak incentives for bureaucrats. Others argue that corruption has to do with powerful groups that have control over sectors of government that they can exploit for their own benefit. Finally, many believe that corruption is a cultural problem, related to norms and behaviors rooted in history. This Report, however, argues that corruption—and other specific governance issues—in fact has to be

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understood in all those dimensions: capacity, distribution of power, and social compatibility of the rules. Only an integrated approach can be effective.

**The analytical framework of the Report**

17. The Report is driven by an outcome-oriented line of inquiry. Thus, while acknowledging the intrinsic value of indicators that relate directly to governance, the Report assesses various governance configurations only in terms of their effectiveness to deliver on development outcomes. Specifically, the Report focuses on three key development outcomes that fundamentally affect the welfare of individuals: the material standard of living (growth); the opportunity to participate economically and socially (equity); and the absence of violent conflict (security).

18. The notions of justice and sustainability are discussed as cross-cutting issues. Equity and security are closely related to the notion of justice and the perception of fairness in terms of the how the governance process works. Environmental sustainability is considered in terms of its implications for growth (green growth, natural resource depletion); equity (access to natural assets, the impact of climate change); and conflict (management of natural resources).

19. The sections that follow describe the foundational elements of the analytical framework, and illustrate the dynamic interaction between the different elements in the broader context of governance and development. The framework should not be interpreted as an attempt to provide a grand theory of economic development, but rather as a heuristic device to call attention to the importance of institutional functions for meeting developmental goals, and the specific constraints to this system with which this World Development Report is concerned.

**Foundational elements**

20. Policies can be understood as instruments that the state uses to perform its functions. The basic function is the state’s ability to ensure credible commitment in society. A failed state, for example, is an extreme case in which the state has no capacity to commit to the enforcement of rules and implementation of policies. Commitment is often also crucial to promoting collective action through coordination and cooperation. These functions are further elaborated below:

- **Commitment:** Often incentives change over time and actors break their promises. Policies that remain consistent over time, so that the state can commit to maintaining a specific action even if circumstances change, are necessary for societies to pursue long-term objectives. For example, granting independence to the central bank is a mechanism governments use to tie their hands to gain credibility that they will not use inflation to finance public expenditures. Commitment is often a prerequisite that allows societies to solve collective action problems.

- **Coordination:** In many social interactions, actors have the same goals, but the actions they choose depend on their beliefs about what the others will do. A specific example—one classic type of coordination game—is when uncertainty about what others will do prevents actors from taking the desirable action. In other words, it is in each player’s own interest

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8 Cukierman and Lippi 1999.
to take action \( x \) if there is assurance that everyone else will also take action \( x \). To achieve coordination, policies need to create common knowledge that everyone will take action \( x \), which sometimes requires providing incentives for the first movers. For example, infant industry protection and other industrial policies are one way governments have provided incentives to create a big push\(^9\) in the economy, to avoid being trapped in a low-level equilibria where everyone waits for the others to invest first.\(^1\)

- **Cooperation:** In other cases of social interactions, it is in actors’ interest to act opportunistically. This can lead to worse outcomes for the group as a whole. In such cases, both actors would gain from cooperation (both taking action \( x \)), but each on its own has a greater incentive to free ride (take an action different from \( x \)).\(^1\) To encourage cooperation, policies need to put forth a credible mechanism of conditional reward or penalty to induce actions that would yield the jointly preferred outcome.\(^13\)\(^14\) For example, when the city of Bogota in Colombia suffered from a water shortage in 1997, the government successfully limited opportunistic behavior by launching an educational campaign on the importance of using water efficiently, alongside a system that provided recognition for those households that conserved water and sanctions for those that did not.\(^15\)

21. These functions, however, are not performed in a vacuum, and face three fundamental constraints. Whether the state can credibly commit and promote collective action depends on: (a) the *capacity constraint*, whether the state can effectively design and implement policies; (b) the *power constraint*, whether policies are compatible with the power structure; and (c) the *social-compatibility constraint*, whether policies are coherent with respect to the norms upheld by society.

22. The *capacity constraint* refers to the state’s technical and material ability to perform its functions. The question here is whether the state has the ability to design and implement policies, overcoming constraints that can arise due to a lack of financial resources, human capital, or organizational skills. In terms of the latter, organizational skills refer to two issues:

a. The capacity to aggregate the preferences of different actors so the decisionmaking process reflects their preferences, a classic fundamental problem of social choice theory;\(^16\) and

b. The capacity to overcome information and technical limitations that prevent the implementation of the policy.\(^17\)

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\(^9\) In game theory, this is referred to as an assurance game.
\(^10\) Rosenstein-Rodan 1943; Murphy, Shleifer, and Vishny 1989.
\(^11\) See Hoff and Stiglitz (2001) for several other examples of coordination problems that are central to development.
\(^12\) In game theory, this is referred to as a prisoner’s dilemma game.
\(^13\) This Report is interested only in the cases where cooperation leads to better development outcomes. There are cases where lack of cooperation strengthens competition and leads to gains for the society as a whole.
\(^14\) Hardin 1968; Ostrom 1990.
\(^15\) Guillot 2014.
\(^16\) de Condorcet 1785; Arrow 1951; Gibbard 1973; Satterthwaite 1975; Maskin and Sen 2014.
\(^17\) Many asymmetric information problems can be understood as capacity problems (Tirole 1996). For example the selection of low-quality politicians (Caselli and Morelli 2004), persistence of inefficient policies (Morris 2001), and pandering (Canes-Wrone, Herron, and Shotts 2001; Frisell 2009; Acemoglu and Robinson 2012).
For example, it took Mexico almost twenty years, three different presidents, and a large group of government officials to finally coordinate the different actors and implement a skills-based vocational education and training system to make it easier for job seekers to signal their qualifications to employers.18

23. Sometimes the capacity to design and implement good policies exists, but the incentives to do so are missing. The power constraint19 refers to the constraints that are in place because of the relative de facto power and vested interests of state and non-state actors, which may constrain the implementation of policies. It is a matter of incentives. The fact that citizens can effectively identify and vote out politicians who do not deliver is a classic way in which power is constrained.20 Understanding the nature of the interaction of actors in the political arena over time is central to understanding ways to shape stronger incentives for implementation. For example, despite passing a “best practice” reform in Kenya to design contracts for teachers to improve effectiveness, learning outcomes did not improve. This was because the bureaucracy in charge of monitoring the teachers was unable to make a credible commitment to fire the underperformers as such an action would be too costly politically.21,22

24. Other times, the lack of coherence between formal rules and existing social norms may explain the ineffectiveness or adverse impacts of policies. The social-compatibility constraint refers to instances when the performance of institutional functions is undermined because of a lack of coherence with the norms upheld by society. Formal laws interact with prevailing social norms and can remain just “ink on paper” if the legal changes are not embedded within the social context. Changes in formal laws should be seen in the context of intersecting layers of rules and incentives—formal and informal—that jointly shape behavior. For example, formal land titling actually decreased tenure security for women in Ethiopia, because it did not address norms prohibiting women from ploughing land or entering into share-cropping arrangements with men. As a consequence, land lay fallow where no working men were available, leading to forced cultivation by others (without the title-holding women reaping any benefits) and forced evictions.23

**Bringing the elements together**

25. The previous sections called attention to the importance of institutional functions and their determinants. Those constraints can be considered quasi-parameters, which means that they are fixed in the short term but can change in the medium and longer term.24 In this light, the Report’s guiding questions can be refined as follows: (a) In a given governance environment, how can policies be more effectively designed and implemented to improve welfare, given the capacity, power structure, and norms upheld by society? (b) What are the channels through which capacity, power, and norms can be influenced to improve welfare? This section presents an illustration of

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18 Kuris 2014.
19 This refers technically to incentive-compatibility constraints for the actors involved.
21 Fujiwara 2015.
22 Similar examples, where small institutional changes led to big improvement in development outcomes include reservations to ensure political representation of disadvantaged groups in India (Duflo 2005) and steps to prevent electoral fraud in Afghanistan (Callen and Long 2015).
23 Teklu 2005; Lawry and others 2014.
the dynamics of the broader governance-development nexus, in which these functions and determinants are constantly interacting and undergoing change.

26. Figure 2 presents a visual representation of the WDR framework, and consists of two loops. The right-hand loop assumes pre-established formal rules for the allocation and exercise of power; it illustrates, in a given governance context, how the policy bargaining process influences the institutional functions to impact development outcomes, and how this dynamic process feeds back into the loop and reshapes the constraints to power and norms. In many countries, this system remains a closed loop, in which countries undergo marginal changes, which lead to positive, negative, or persistent outcomes. However, in some cases, countries undergo more extreme changes and enter an open loop system, in which enough pressure builds up to demand fundamental changes in the governance context through the rewriting of the formal rules for the allocation and exercise of power. This is depicted by the left-hand loop.

27. The framework identifies three important nodes of change in this system: (a) the development process itself, which constantly reallocates resources, conferring new de facto power to actors and shifting norms over time; (b) the nature of the policy bargaining process, which can lead either to marginal changes within the right-hand loop, or build up pressures, which drive coalitions for reform and open the left-hand loop; and (c) changes in the formal rules for the allocation and exercise of power, which may shift the pre-existing bargaining dynamics. The Report looks at how these different types of change ultimately affect the capacity of the state to credibly commit and promote collective action.

28. The development process is uneven. Different sectors of the economy grow at different rates, and societies modernize in heterogeneous ways. As is well understood, this unevenness generates imbalances.\(^{25}\) The tensions generated by the unevenness of development show up in clear ways: inequality, migration, urbanization, violence, and cumulative grievances stemming

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\(^{25}\) Hirschman 1958; Streeten 1959; Ray 2010.
from perceptions of injustice. These factors put pressure on societies to reorganize themselves and to reallocate resources and power, highlighting the endogeneity of the governance-development process. This can often lead to cycles driven by self-reinforcing dynamics: both vicious and virtuous. For example, the unequal distribution of wealth can lead to the formation of lobbies that reproduce the power of the wealthy. On the other hand, norms, typically a source of persistence, can also change. Gender roles and social norms changed in Bangladesh as a result of the growth of the export-oriented garment industry during the last 30 years, which caused a large increase in female labor force participation.

Pressures built up from the development process, including exogenous shocks (such as a regional or worldwide financial crisis), and endogenous structural or norms-based changes (such as a demographic shift), can act as triggers for change in the policy bargaining process. These triggers provide opportunities for actors to change the system as they alter the de facto power distribution and shift norms (and thus actor preferences), resulting in (a) modified institutional functions, or (b) modified rules for the exercise of power, or (c) both.

Domestic pressure for reform can come from the bottom up (citizen engagement) or from the top down (elite adaptation). Through citizen engagement, individuals can put pressures on elites to reform either through individual actions (voting) or through collective organization (political parties, civil society organizations, social movements). Transparency and access to information through channels such as internet and free media can play an important role in helping citizens solve their collective action problem and demand policy change. In this context, digital technology (as explored in the WDR 2016 on Digital Dividends) plays a key role in enabling citizens to overcome information barriers and to facilitate mobilization. In response, groups that can directly influence the existing policy design process and the allocation of resources (sometimes defined as “elites”) may adapt to pressure by initiating institutional changes that help them maintain power and sustain an elite bargain.

In today’s interconnected world, a wide range of transnational processes, mechanisms, and actors also play an important role in influencing the domestic process of governance. Regional integration, international laws and regulations, intergovernmental organizations, multinational corporations, and transnational advocacy networks interact to diffuse norms, empower coalitions, and realign incentives. For instance, in Jordan, electoral reforms arose not from opposition pressure, but rather as a means for the ruling party to win democracy dividends in response to international incentives.

In most cases, the outcomes of these policy bargains drive change in the way that the institutional functions are performed to yield different development outcomes. However, in some cases, these changes result in modified rules for the allocation and exercise of power, fundamentally shifting the foundation of the system. Whether these modified rules will actually change the game (have an effective impact on both the preferences and power of actors in the bargaining process) will depend on the interaction of the new rules with the pre-existing dynamics.

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26 Esteban and Ray 2006.
27 Heath and Mobarak 2015.
28 Khemani 2015.
29 Lust-Okar 2006.
Methodology, level of analysis, and data contributions

33. Given the complex and systemic nature of the governance process, the Report adopts a multidisciplinary approach and relies on several methodological tools. The WDR will use cross-country empirical work, well-identified microeconomic studies of specific interventions, qualitative case studies, and historical comparative analysis. See annex B for more details on background papers, country and sector case studies, and planned empirical work for the Report.

34. The WDR is not limited to analysis at the national level. Even countries that have a challenging governance context at the national level may have islands of effectiveness in which some government agencies function very well. Understanding subnational variations in the quality of public institutions can shed new light on the micro-foundations of institutional effectiveness, while helping to identify the mechanisms through which change in the incentives of state and nonstate actors results in better development outcomes.

35. WDR 2017 seeks to contribute to the debate about measuring governance by revisiting governance indicators. It will take stock of the wide range of existing governance measures, arguing that they should be reconsidered given conceptual conflations between de jure and de facto governance; governance processes and outcomes; and institutional form and function. Disentangling these elements will make it possible to examine correlations between governance and development outcomes with more nuance. See annex C for more details on governance measurement.

Emerging messages

36. The following emerge as cross-cutting messages from the WDR team’s initial research and consultations:

37. Governance should be assessed in terms of its capacity to deliver on goals that society values (function trumps form). While acknowledging the intrinsic value of governance-related aspects, the Report argues that the first order challenge to improving governance for development is to understand which institutional functions need to be performed for a specific intervention to help promote growth, equity and absence of violent conflict. Any intervention may then be unpacked into three constraints: (a) what are capacity limitations which may inhibit the design or implementation of the intervention? (b) what are the potential power imbalances that may limit the effectiveness of this intervention because of the implicit incentive structure? and (c) what are the types of norms and entrenched behavior that may have to be internalized in order to close implementation gaps?

38. The development community has largely emphasized the importance of addressing the first constraint through capacity building initiatives—a dimension in which interventions are better understood, though rarely properly evaluated. This Report will show that institutional functions may also require specific actions to overcome the second and third constraints through efforts to change incentives and shift norms (respectively). Evidence in terms of how these actions may enhance effectiveness is still limited, but growing.

39. Collective-action problems can be solved in multiple ways, and specific solutions may lead to tradeoffs. For example, a balance must be struck between commitment and
accountability.\textsuperscript{30} In terms of the outcomes, this is reflected on how certain solutions to the commitment problem, for example, may lead to positive spells of growth but they imply trade-offs in terms of equity and environmental sustainability. That is the case of policies that prevent competition to induce investment of specific groups, or having policies that distribute rents to respond to social pressures but affect long-term growth prospects.\textsuperscript{31} One of the key aspects of governance is how to solve those trade-offs over time. Each mechanism to solve the functional problems must therefore be context-specific, taking into account the society’s priorities in terms of growth, equity, and security.

40. **Accountability enhances functional capacities, and can thus lead to more sustainable outcomes.** Accountability can take many different forms, but it comprises two key attributes: answerability and responsiveness. Answerability means that decision makers can be called into question through formal or informal means, and that decisions have consequences for those who made them. Responsiveness means that decision makers must reflect the interest of all individuals and groups in their decisionmaking process.\textsuperscript{32}

41. In every society, it is common to find failures of accountability. Understanding the importance of accountability failures—which generate imbalances of power for certain groups or for citizens with respect to politicians or service providers—can be very helpful to understand and tackle implementation gaps. Accountability mechanisms play a central role in balancing power, contributing to the overall effectiveness of the governance process.

42. The ways in which accountability rebalances power are different depending on the actors involved. Horizontal accountability takes place between those who directly shape policy design and implementation (for example through formal checks and balances). Vertical accountability is the means through which those who only have an indirect influence, such as ordinary citizens, can affect policy formulation and implementation (for example through political representation or social mobilization).\textsuperscript{33}

43. **Accountability mechanisms sustain governance equilibria through either institutionalized or informal arrangements.** For example, there are instances where elites adjust to pressures to reach a long-term equilibrium, where citizens are effectively excluded from the governance arena. To reach better outcomes, competition can be fostered between elites, for example in the form of anti-monopoly laws. However, informed citizen participation, combined with actionable mechanisms of accountability, leads to more sustainable development outcomes. On the other hand, laws that ban social mobilization, for example by restricting the existence of nongovernmental organizations or other manifestations of civil society, erode political representation and participation.

\textsuperscript{30} Bardhan 2015.
\textsuperscript{31} Haber 1997; Castaneda 1995.
\textsuperscript{32} Voting, when the vote is truly the expression of the citizen’s will, is a classic accountability mechanism through which the voter can “vote out” politicians who do not respond to their interests or elicit the desired actions from those in power.
\textsuperscript{33} In political economy terms, the balancing of power among those actors who can directly influence policy formulation and implementation is known as elite-elite bargains, while the citizenship engagement in political representation is referred to as elite-citizen accountability.
44. **The lack of representation of specific interests in the policy arena leads to other governance failures.** A clear governance failure arises when a group is unable to affect decisions, even indirectly. A significant case concerns future generations with respect to environmental sustainability; resource depletion affects players who are not represented. The absence of representation from the policymaking process is at the heart of these sustainability issues. Another example concerns children and the representation of their interests. Children do not vote, are unable to belong to political parties, and cannot easily mobilize, so agents are needed to represent them—typically, the adults in their households, which could be problematic, as their interests may or may not be fully aligned.

45. **International actors cannot reform countries, but they can help change the domestic balance of power in favor of reform.** International forces—including human rights conventions, international standards, multinational corporations, and development agencies—play a key role in changing incentives for reform within de facto power structures or helping mobilize new forces to change de jure or de facto rules. While it is almost impossible to reform countries from the outside, these actions can help societies be prepared for change when the opportunity arises.

46. By showing how these principles are linked to effectiveness, the WDR 2017 aims to propose a new way to think about the interaction between governance and development from a practical perspective: one in which the same principles can be applied to different contexts.

## The proposed structure of the Report

47. The Report is divided into three parts. The chapter structure is presented in box 1. Part 1 will present the motivation for the report and the proposed analytical framework. Part 2 will unpack and analyze the critical institutional functions necessary for growth, equity, and security, as well as their various constraints in different contexts. Part 3 will analyze the potential drivers of governance change, identifying the strategies used by citizens and elites as well as the role that international influences play. Detailed summaries of each chapter are included in annex E.

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**Box 1 Proposed Structure of WDR 2017**

**Part 1: Rethinking governance and development**

- Chapter 1: Motivation
- Chapter 2: Framework
- Chapter 3: Legal order, social norms, and institutions

**Part 2: Governance, institutions, and development**

- Chapter 4: Governance and growth
- Chapter 5: Governance and equity
- Chapter 6: Governance and the absence of violent conflict

**Part 3: Drivers of change**

- Chapter 7: Citizen engagement, mobilization, and change
- Chapter 8: National elites, bargaining, and adaptation
- Chapter 9: International influence for change
Part 1: Rethinking governance and development

48. **Chapters 1 and 2, motivation and framework**, discuss the driving questions and the value added of the Report and present a framework to understand how governance interventions can be more effective in generating sustainable welfare improvements. The framework adopts an instrumental approach to governance and gives centrality to what the Report calls the institutional functions; these include the capacity to commit to long-term objectives despite changes in circumstances (commitment), as well as coordinating beliefs (coordination), and preventing free-riding (cooperation). The ability of the state to perform these functions plays a key role in determining the effectiveness of policies to promote development outcomes. These institutional functions are not just about solving technical problems. The state’s ability to perform these functions will depend on: (a) the capacity constraint, whether the state has the capacity to design and implement policies; (b) the power constraint, whether policies are compatible with the power structure; and (c) the social-compatibility constraint, whether policies are compatible with the norms upheld by society. The framework identifies three important channels of change in this system: (a) the development process, which constantly reallocates resources, conferring new de facto power to actors and shifting norms over time; (b) the nature of the policy bargaining process, which can either lead to marginal changes that modify the institutional functions, or build up pressures that drive coalitions for more fundamental reform of the rules for the allocation and exercise of power; and (c) changes in those rules, which confer new de jure power and may trigger shifts in the pre-existing norms. The Report will look at how these different types of change will ultimately affect the capacity of the state to credibly commit and promote collective action.

49. **Chapter 3, legal order, social norms, and institutions**, will deepen the analytical framework by explaining how the rules of the game that define governance institutions are determined. Law is the primary means by which states purport to define and shape the way society is governed. But the existence of laws by no means leads to their intended effects. Rather, the extent to which laws determine the institutional rules of the game depends to a large extent on their relation to a range of social norms, as well as structures of power. In order to understand how the law actually works—and can contribute to patterns of persistence as well as generate change—this chapter will examine how law and social norms work to shape behavior. It will draw on both economics and socio-legal traditions to explain the coordination, coercive, and socialization powers of law and norms. Finally it will explore the role of the law in shifting persistent norms and interests toward new equilibria.

Part 2: Governance, institutions, and development

50. **Chapter 4, governance and growth**, aims to explain why and how governance matters for growth, and the key factors (besides formal rules and bureaucratic capacity) that condition the effectiveness of state institutions in addressing the growth challenge. Since this chapter covers a potentially vast topic, it will focus on select growth topics (farm and industrial land rights, business regulation, trade, and innovation), using the key motivating questions and analytical framework of the Report. It will begin by using economic theory and rigorous micro-empirical studies to describe the fundamental commitment and collective action challenges (or “functions”) that societies must address to achieve sustainable GDP growth, such as the enforcement of contracts and property rights to solve commitment problems between firms, traders, or lenders and borrowers; the
coordination of investment when there are complementarities across investors; and inducing cooperation to overcome free-rider problems in public investment.

51. The chapter will also describe how these problems can be “solved” with no (or limited) state involvement; for example, through informal arrangements based on relationships among actors. There are trade-offs to such informal arrangements, and an arrangement that worked well in one stage of growth might not work well in another. Understanding what makes them feasible and how they are efficient and inefficient in some contexts can help identify specific gaps, as well as specific constraints to reform. Next, the chapter will discuss how political economy factors (such as pressure from powerful groups) and norms interact with the formal elements of state institutions—rules, capacity, and systems of accountability—to help determine their effectiveness in policy implementation. Political capture and norms can often subvert reform, but there have been some successes. By looking at common failures and some cases where such failures were avoided, this chapter can begin to identify some general principles for improving and sustaining implementation. The mechanisms identified in this chapter—involving marginal changes to norms and political incentives, building in the key accountability mechanisms that were missing, and leveraging opportunities outside (exogenous to) the system—will be explored in part 3 of the Report.

52. **Chapter 5, governance and equity**, will start by highlighting an apparent puzzle in the association between governance and equity: the contrast between the success of reforms aiming to improve accountability de jure, such as community-driven development programs, and the weak empirical link observed in cross-country correlations between governance and equity. To answer the question of how governance affects the design and implementation of policies to improve equity, the chapter will first describe the institutional functions that need to be strengthened to enhance equity. It will stress the importance of inducing cooperation to reduce free-riding, in particular to expand opportunities in the labor market and to raise taxes.

53. Improving capacity, including taking into account the existing incentives and power structures, can help improve the performance of institutional functions to implement equity-enhancing policies, such as better tax collection or service delivery. However, the chapter will argue that sustaining equity gains call for actual improvements of accountability to citizens, including disadvantaged ones, and that the design of policies needs to take into account the balance of power in society, as well as prevailing norms. The ability of politicians to credibly commit to redistributive policies depends on the distribution of power in society and how it matters for politicians’ election. For instance, while management matters to improve service delivery in education, a major obstacle for reform can be the power of teacher unions. Similarly, the distribution of income and wealth can shape taxation and public spending because of lobbying by economic elites. Furthermore, policies may not have an impact—or, worse, can lead to adverse impacts—when they do not take norms into account. The chapter will discuss the design of socially compatible policies, as well as how policies can reshape norms.

54. **Chapter 6, Governance and the absence of violent conflict**, delves into the links between governance, security, and violence, applying the framework introduced in part 1. The nonviolent resolution of conflict and contract enforcement is without doubt a prerequisite and a constitutive element of development. The chapter identifies non institutional precipitants of conflicts such as resources, identity, and shocks, building on WDR 2011 on Conflict, Security, and Development. It
argues that conflict over these precipitants becomes violent only when institutional failure occurs. It shows that security is a public good, and its under-provision represents a cooperation problem; that norms and culture can shape behavior so that violence becomes persistent, inducing a coordination problem where changing beliefs about the way power is exercised and disputes settled becomes crucial; and that nonviolent resolution of conflicts implies a commitment capacity on the part of individuals and the state, to make enforcement credible. It establishes the centrality of different governance variables for preventing conflicts from occurring in the first place, for resolving conflicts in nonviolent ways, and for breaking out of the cycle of violent conflict. Each of these three junctures offers a pathway to security. The chapter also makes the case that different precipitants of conflict elicit different governance interventions to prevent and resolve violent conflict. Finally, it argues that violent conflicts persist because those who benefit from them do not have incentives to commit to ending violence.

Part 3: Drivers of Change

55. Chapter 7, citizen engagement, mobilization and change, introduces the concept of citizen engagement and seeks to understand under what conditions citizens can overcome collective action problems and become powerful agents of change. Across the world, governments’ failures to adopt and implement public policies that reflect the needs and the interests of the poor and other disadvantaged groups often lead to widespread dissatisfaction and lack of confidence in public authorities. Dissatisfaction alone, however, is hardly sufficient to promote change, as ordinary citizens often face formidable obstacles to effectively engage with the authorities, change the incentives of powerful elites, and influence the policymaking process. This observation raises two central questions that the chapter seeks to answer: Why do constituencies for reform emerge? And how can they be successfully mobilized to bring about capable, responsive, and accountable state institutions for better development outcomes?

56. The chapter will be organized into three main sections, reflecting specific strategies of citizen engagement, namely: (a) individual feedback as voters; (b) collective action through institutionalized channels and organizations such as political parties; and (c) collective action through non-institutional channels such as social movements. Building upon selected historical and contemporary cases of institutional reforms and changes in public policies, the chapter will investigate which political, legal, and social strategies adopted by citizens are most successful in challenging the status quo and prevailing social norms, and promoting and sustaining governance reforms at both national and subnational level. The capacity to leverage exogenous opportunities and build transnational alliances will also be analyzed, introducing mechanisms and issues that will be elaborated in chapter 9. Various governance themes will be explored, including anticorruption and bureaucratic reforms, popular initiatives to improve transparency and accountability, institutional reforms to promote the rights of women and other disadvantaged groups, as well as other public solutions to long-lasting patterns of inequalities and other forms of social and political discrimination.

57. Chapter 8, national elites, bargaining, and adaptation, introduces the concept of elite adaptation and argues that reforms of formal institutions initiated by elites acting in their own interests can lead to transformative change. The key question the chapter will seek to answer is: Why do elites choose to tie their own hands and when does this promote development? The chapter highlights the circumstances under which elite actors adapt to changing circumstances by
reforming the formal institutional rules that define how power is allocated and exercised. Elites reform institutional rules to maintain and strengthen power or to increase rents,\textsuperscript{34} often in response to exogenous and endogenous pressures for change. Three general elite strategies exist: (a) increasing the power of the state to strengthen the position of elites; (b) bargaining among elites to distribute rents, extract policy concessions, or co-opt others; and (c) introducing rules for accountability and responsiveness to preempt citizen demands. In all these cases, political elites adapt and adopt institutions for reasons of short-term self-interest, but the new institutional dynamics change payoffs for these actors and lead to larger unintended changes in institutions and development outcomes. The chapter concludes by discussing the trade-offs that often arise as institutions adapt, particularly with regard to the rising costs of repression and legitimacy crises stemming from inequality, corruption, injustice, and economic crisis or underperformance. These trade-offs may become insurmountable; when elites cannot further adapt, the elite bargain may break down and necessitate larger institutional redesign.

58. **Chapter 9, international influence for change**, looks into the role of transnational policy networks, and international institutions and processes that enable institutional change processes at the country level. The dynamics of development, contestation, and mobilization do not occur solely within the boundaries of nation-states. In today’s vastly interconnected world, a wide range of global, regional, and transnational mechanisms diffuse rules and create incentives with domestic implications in many areas, including the governance of trade, labor, public financial management, intellectual property, procurement, utility regulation, human rights, and environmental sustainability. Multilateral organizations, such as the European Union, the World Trade Organization, the North America Free Trade Agreement (NAFTA), the United Nations, and the World Bank Group, other transnational coalitions, and even private multinational corporations, can affect both the incentives and commitment capacity of state institutions. These transnational and international orders—made up of voluntary association, and “hard” (treaties, conventions) and “soft” (guidelines, standards, principles) law and norms—are influential in shaping state exercise of power. They can also be used by various interests groups to reinforce or contest power dynamics. Local interest groups may reach past the state to these transnational rules and players as part of a mobilization and contestation strategy for reform at the state level. And in some cases, local interests may mobilize to resist the influence of global and transnational orders on the state. In short, unpacking the drivers of institutional effectiveness and adaptability requires understanding the interrelationship between local, national, and transnational dynamics.

\textsuperscript{34} In this context, *rents* refer to earnings that arise not as return to a factor of production, but rather are artificially created by manipulating the social or political environment.
Box 2. Glossary of main terms

**Accountability:** Accountability refers to answerability and responsiveness. Answerability and responsiveness relate to the “requirement for representatives to answer to the represented on the disposal of their delegated powers and duties, act upon criticisms or requirements made of them, and accept responsibility for failure, incompetence, or deceit” (Oxford Concise Dictionary of Politics). In the Report, the accountability is extended *de facto* to other actors (nonstate), which react to demands and contestation by others as a response to their positions and decisions.

**Elites:** Actors that directly influence the process of policy design and implementation

**Equity:** In a society that is equitable, all individuals have the opportunity to participate economically and socially, and pursue a life of their choosing. To be able to participate, individuals need to have a minimum standard of living, and they need to hold and use assets: human, physical, financial, social, and natural. Inequality in economic opportunities matter particularly, but not only, when it is due to circumstances beyond an individual’s control*. 

**Governance:** Governance is traditionally conceptualized as the way power and authority are derived and exercised (World Bank 1992). The WDR 2017 tries to unpack and analyze the elements contained in that definition more specifically. In this Report, governance refers to the process through which state and nonstate actors interact, within a given set of formal and informal rules that shape and are shaped by norms and power. This more closely approximates the Concise Oxford Dictionary of Politics’ definition of governance as the process of collective decision-making and policy implementation, used distinctly from government to reflect broader concern with norms and processes relating to the delivery of public goods (McLean and McMillan 2009).

**Government:** The set of formal state institutions (both rules and organizations) that enforce and implement policies.

**Institutions:** Depending on the context, the Report considers two types of institutions: a) institutions as “humanly devised constraints on behavior that structure political, economic, and social interaction” (North 1991); and b) institutions as organizations (administrative structures)

**Law:** For purposes of this Report, law refers to formal state-enacted legal provisions, such as statutes and regulations. The Report notes that this subset of law is one of several legal and normative orders (including international law, customary law, private law, and norms) that influence behavior.

**Norms:** Ideas about how the world works and one’s place on it that influence behavior. This includes ideas about what others think, expect, and do (social norms, in the language of the WDR 2015). It also includes concepts that reflect the shared understandings of one’s community (mental models, in the language of WDR 2015).

**Power:** The capacity of one actor or group of actors to make others behave in alignment to their own interests, or to bring about specific outcomes. Power can be *de jure* or *de facto*. De jure refers to power that it is conferred by formal rules. De facto refers to the actual power to influence other actors, whether or not it is formally conferred by law.

**Rents:** In the context of this Report, rents refer to earnings that arise not as normal market return to a factor of production, but rather are the result of market power or artificially created by manipulating the social or political environment.

*This definition builds on the definition in the WDR 2006 on Equity and Development (p. 2): “By equity we mean that individuals should have equal opportunities to pursue a life of their choosing and be spared from extreme deprivation in outcomes.”*
References


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WDR 2017 Concept Note: Annexes

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Institutional arrangements

Team composition

1. The WDR 2017 team is led by Luis F. López-Calva and Yongmei Zhou. Core team members include Edouard Al-Dahdah, Kimberly Bolch, David Bulman, Lidia Ceriani, Deborah Isser Marco Larizza, Bradley Larson, Annamaria Milazzo, Ezequiel Molina, Maria Ana Lugo, Abla Safir, and Siddharth Sharma. Brónagh Murphy and Jason Victor comprise the production and logistics team, and Mart Kivine and Stephen Commins provide resource mobilization and consultations support.

2. The World Development Report is sponsored by the Development Economics Vice-Presidency (DEC). Overall guidance for the preparation of the Report is provided by Kaushik Basu (Senior Vice-President and Chief Economist) and Indermit Gill (Director for Development Policy).

Advisory Panel

3. The Report will benefit from the guidance of a high-level Advisory Panel consisting of distinguished scholars, policy makers, and social leaders with expertise in how governance and the law can affect development. The first meeting was held on November 3, 2015 in Washington, DC. Members of the 2017 WDR Advisory Panel include: Pranab K. Bardhan (University of California, Berkley), Mauricio Cardenas (Government of Colombia), Francis Fukuyama (Stanford University), Avner Greif (Stanford University), Rebeca Grynspan (Secretaría General Iberoamericana), Tarja Halonen (Former President of the Republic of Finland), Joel Hellman (Georgetown University), Karl Ove Moene (University of Oslo), Benno Ndulu (Bank of Tanzania), James Robinson (Harvard University), and Xixin Wang (Peking University Law School).

Consultations

Internal consultations

4. In addition to informally engaging with various country and sector teams (ranging from the Governance Global Practice to Systematic Country Diagnostic preparation teams), the team has hosted two formal internal consultation sessions. The team will continue to consult with these groups and others throughout the process of preparing the Report.

5. On September 21–22, 2015, the team hosted a Chapter Brainstorming Workshop with expert reviewers. Over 25 discussants, including leading representatives from DEC, the Global Practices (GPs), and Cross-Cutting Solution Areas (CCSAs), as well as external experts, provided comments and advice to the team to refine the approach and messages for each chapter.
6. **On September 28, 2015, the team met with Focal Points from the Global Practices and Cross-Cutting Solution Areas.** Focal Points were nominated by GP/CCSA Directors and will serve as liaisons to provide feedback and references from a sector-specific perspective, keep the GP or CCSA informed throughout the process, and help WDR 2017 build ownership of the Report and messages within the Bank.

7. **The WDR 2017 team has also been hosting conversations with Regional Chief Economists, former WDR Directors, and other experts in the field.** Finally, the Co-Directors have been discussing the proposed approach to the Report with World Bank Executive Directors and their advisors.

### External consultations

1. **The WDR 2017 team has been actively consulting with a wide range of external stakeholders across academia, civil society, international organizations, multilateral agencies, bilateral development partners, and foreign ministries.** The team plans to continue engaging with these representatives throughout the process, while expanding its outreach across all regions to build a Global Network.

2. Formal consultations have taken place in Chile, Estonia, Finland, France, Germany, Ghana, Mexico, the Netherlands, Norway, Spain, Sweden, Tajikistan, the United Kingdom, the United States, and globally through online forums. Upcoming consultation engagements are planned in Egypt, Kenya, Lebanon, and Senegal. Consultations have included, but are not limited to the following.

3. **Academics**, including Pranab K. Bardhan (University of California, Berkley), Carles Boix (Princeton University), Francesco Caselli (London School of Economics), Avinash Dixit (Princeton University), Thomas Fujiwara (Princeton University), Francis Fukuyama (Stanford University), Tom Ginsburg (University of Chicago), Patricia Justino (University of Sussex), Brian Levy (John Hopkins University), Sebastian Mazzuca (John Hopkins University), Karl Ove Moene (University of Oslo), Gerardo Munck (University of Southern California), Rohini Pande (Harvard University), Lant Pritchett (Harvard University), James Robinson (Harvard University), Brian Tamanaha (Washington University in St. Louis), John Wallis (University of Maryland), Xixin Wang (Peking University Law School), Leonard Wantchekon (Princeton University), and Michael Watts (University of California, Berkley).


5. **International organizations and multilateral agencies**, including the African Union CAF Latin American Development Bank, European Commission, Inter-American Development


7. **Participation in conferences.** During the World Bank 2015 Spring Meetings, the team consulted with the Chief Economist’s Council of Eminent Persons. The team has also participated in several conferences, including the 2015 American Political Science Association Annual Meeting, the 2015 Annual Bank Conference on Development Economics, the 2015 International Policy Workshop on Governance and the Law hosted by GIZ, and the World Bank’s 2015 Law Justice and Development Week.

### Timeline

Key milestones for the WDR 2017 include:

<table>
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<tr>
<th>Milestone</th>
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<tbody>
<tr>
<td>Bank-wide review of the Concept Note</td>
<td>October 2015 (completed)</td>
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<tr>
<td>Board presentation of the Concept Note</td>
<td>January 2016</td>
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<tr>
<td>White cover draft of the Report</td>
<td>February 2016</td>
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<tr>
<td>Bank-wide review of the Yellow cover draft</td>
<td>April 2016</td>
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<tr>
<td>Board presentation of the Gray cover draft</td>
<td>July 2016</td>
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<tr>
<td>Report launch at the Annual Meetings</td>
<td>October 2016</td>
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Annex B  Background papers

1. As inputs for the Report, the team will commission background papers on specific topics, as well as notes applying the framework to specific country and sector experiences. Key findings from these inputs will be integrated in the Report and the stand-alone materials will be disseminated online.

Background papers may explore the following themes:

- Evolution of the World Bank’s thinking on governance
- Revisiting governance indicators
- The incidence of culture, governance, and economics on countries’ development through an analysis of coupled networks
- The complex network of public policies: An analysis of their interactions and impact on societal outcomes
- The origin of state institutions
- A review of the WDR framework and the future of political economy
- Technological turning points in history and the importance of ideas
- The political economy of regulatory commitment for telecommunications (a five-country comparison)
- Governance and productivity gaps
- Governance, trade, and foreign direct investment
- Governance and informal enterprises in developing countries
- Local government capacity and productivity in Vietnam
- Governance, sustainability, and green growth
- The role of networks and the persistence of gender inequality in labor market outcomes
- How different systems of political representation have different biases in patterns of spending
- Governance and global equality of opportunity
- A historical perspective on the role of networks in the labor market
- Case studies on the political economy of taxation and redistribution in developing countries
- Comparison of the relative importance of clientelism and improvements in management
- Emerging micro-level data on conflict and violence
- Impact of institutions for peace and security
• Governance and tradeoffs between growth and stability
• Social, cultural, and political constraints leading to persistent gender inequalities
• Governance and top incomes
• Governance and international illicit financial flows
• Governance and culture (in collaboration with the French Development Agency)
• Governing the commons (in collaboration with the French Development Agency)
• From commitment to compliance: an empirical investigation on the effect of international human rights laws on state practices and policies
• What drives legitimacy and how does it affect development outcomes? Evidence from survey data (in collaboration with DFID)
• Opting out of clientelism: the rise of programmatic parties and pro-poor development policies in Latin America
• The EU integration process as a driver of institutional change

Country and sector applications

2. The Report is interested in understanding how the framework applies in the context of different countries and sectors. The team will collaborate with strategic World Bank units to commission notes by experts to explore the changing nature of governance as it relates to development at both the national and subnational levels in unique country and sector contexts. At least one country per region will be included in this series. These notes will serve as an important bridge toward the operationalization of WDR 2017.
Annex C  Governance measurements

The first wave of governance indicators

When first released in the 1990s, aggregate governance indicators represented something of a sensation. They held the promise of finally measuring the unmeasurable and comparing the incomparable: the quality of intangible processes, like participation; inherently cryptic dimensions, like corruption; and notions rooted in nuance and interpretation, like the law. The notion of governance itself was—and still is—elastic and malleable, straddling politics, economics, public administration, and law. The measurement challenge was conceptual before it could be empirical.

The World Bank’s World Governance Indicators (WGI), launched in 1996, was part of this first wave of aggregate governance indicators.1 Twenty years later, they dominate the field with researchers, donors, governments, and the media. Their success and resilience are a testimony to their broad coverage (13 data sources and 173 countries as of 1996), their long time series, and their methodological transparency (underlying sources and margins of error are available to the public). The aggregation methodology was challenged (Arndt and Oman 2006; Knack 2006; Langbein and Knack 2009), but the WGI team’s rebuttals were persuasive (Kaufmann, Kraay, and Mastruzzi 2007a, 2007b).2

The second wave

The second wave of aggregate indicators, originating in the mid-2000s, drew from a decade of interest in and research on the field and made some important conceptual advances: indicators like those of the nongovernmental organization (NGO) Global Integrity differentiated between de jure and de facto aspects of governance, highlighting and measuring “implementation gaps.” They also made the distinction between governance processes (such as inclusive rule-making processes) and outcomes (such as bad rules on paper). However, short time series, spotty and discontinuous coverage, and limited country coverage—especially among developing countries—greatly limited the appeal of these second-wave aggregate indicators.

A third wave?

This Report aims to disentangle a number of governance dimensions from one another to better measure the effect of governance on development outcomes, and visa-versa: first, differences between governance on paper and governance in practice; second, differences between governance processes and outcomes; and third, differences between form (what governance looks like: democracy, elections) and function (what governance does: accountable, responsive government). Using the WGI to measure governance will not help achieve the objective of this Report because they aggregate indicators and sub-indicators across the dimensions of interest.

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1 Transparency International’s Corruption Perceptions Index (CPI) started in 1995 with 41 countries. Its methodology has been convincingly critiqued, including by its creator (Galtung and Sampford 2005).

2 The WGI were also criticized for measuring perceptions and not objective data, but the WGI team showed that perceptions mattered just as much, if not more, for development, and that even objective indicators had a dimension of subjectivity, making the dichotomy a false one.
However, the WGI are useful in another way: they aggregate sub-indicators from up to 32 sources of cross-country governance data, making them comprehensive. This Report maps these sub-indicators against the elements of this Report’s framework: power, formal rules, state capacity, accountability; institutional functions of commitment, coordination, and cooperation; and norms; as well as other variables like trust and legitimacy. The WDR 2017 team also intends to add and assess additional indicators not covered by the WGI, focusing on indicators with long time series and broad coverage that have been used in scholarly research.

As a next step, the WDR 2017 team intends to aggregate the indicators for each of the elements and sub-elements in the Report’s framework—such as bureaucratic capacity and subcategories like revenue mobilization—into “nested” indicators. Doing so would make it possible to examine correlations between governance “inputs,” (like laws, bureaucracy, and mechanisms for change and adaptation) and governance “functions,” (commitment, coordination, cooperation) as well as between these “functions” and development outcomes. In particular, this would be the first set of governance indicators that would seek to explicitly look at governance functions. It will also allow Report authors and other users of the data to examine more specific relationships across a wider spectrum of countries than is currently possible using first- and second-wave aggregates, respectively. The team proposes to explore a number of aggregation methods, including principal component analysis and the unobserved components method.

To the extent that data licenses allow, the Report’s revised aggregates and underlying indicators will be made available online in a standardized format to researchers and the general public. The team will also work with the DEC data group to establish data visualization tools and a data portal for the Report. The team will also explore sustainable options for hosting the data. Public use will be promoted through a “web-first” strategy featuring narrated data visualizations and regular blog posts.

References


The French Development Agency’s Institutional Profiles Database, used as a source for the WGI, covers many governance variables about institutional functions.
Annex D  Governance in previous World Development Reports

WDR 1997: The State in a Changing World
The 1997 WDR was devoted to the “role and effectiveness of the state: what the state should do, how it should do it and how it can do it better in a rapidly changing world” (foreword). The state, the Report argued, should focus its activities to match its capabilities. It should reinvigorate public institutions: ensuring adequate incentives to public officials and adequate restraints to check corruption and arbitrary behavior. By focusing on the state’s role as “partner, catalyst and facilitator” of economic growth, and not as a direct provider, its functions could become more manageable.

WDR 2002: Building Institutions for Markets
The 2002 WDR provided “a diagnostic framework for understanding how institutions support market activity”. (p. 4). It cautioned that building institutions takes time, and emphasized the importance of history, norms, and culture. The Report drew four main lessons for institution building: Effective institution building requires policymakers to “complement what exists, innovate to suit local conditions, foster open trade and open information exchange and foster competition among regions” (p. 26).

WDR 2003: Institutions for Sustainable Development
The 2003 WDR looked at the challenge of building institutions that support sustainable development by helping manage environmental and social assets. The Report argues that institutions needed to “protect people and a broad portfolio of assets” and manage the major changes unfolding in the first half of the 21st century: urbanization, technological innovation, growth, and social values, “changing scarcities for environmental and natural assets.” This called for institutions that are both stable and adaptive to change.

WDR 2004: Making Services Work for Poor People
The 2004 WDR addressed service delivery, using a framework of relationships between “clients, providers and policymakers.” Clients as citizens empower politicians and policymakers (in democracies by voting for them). Policymakers (politicians), in turn, undertake to provide services to and for them; in this role, they influence providers of goods and services needed by citizens. The providers in turn serve clients. The Report argues that the long route of accountability that this three-sided relationship (triangle) entails is weak even in well-functioning democracies. It proposes that given the difficulties in strengthening the long route of accountability, it is important to focus on the short route: the client-provider relationship.

Governance in other WDRs
Since WDR 2004, there has not been another Report that focuses predominantly on institutions or governance. But two other WDRs also extended thinking on institutions in other areas:

WDR 2006 on Equity and Development looked at the issue of how institutions are influenced by inequalities in the political and social realm. The Report concluded that institutions, especially those that underpin property rights and broad-based investment, have a causative effect on long-term development processes; and that greater political equality could lay the basis for better economic causations.

WDR 2011 on Conflict Security and Development recognized that weak institutions often explained why violence repeats in different forms. Breaking the cycle of violence required restoring confidence and transforming institutions that provided citizen security, justice, and jobs. Creating institutions that could prevent repeated violence takes time. Much depends on the ability of national leaders to win citizens’ trust and convince them that they can make a break with the past.

Part I

Rethinking governance and development
Chapters 1 and 2  Motivation and conceptual framework

Section 1. Governance and development

2.1 Education quality in Kenya is far from perfect. In 2012, approximately 40 percent of teachers were not in the classroom during regular school hours.\(^1\) Based on international evidence on best practices to improve learning outcomes through boosting teacher attendance, the government introduced a new law to allow the hiring of 18,000 contract teachers. The rationale was that contract teachers could be fired if they did not perform their duties to the satisfaction of the community, which would in turn increase effectiveness. Yet results showed that contract teachers, who were recruited and monitored by the government rather than the community, did not improve attendance.\(^2\) To complicate things further, less than a year into the program, the teachers’ union increased pressure on the government to hire all 18,000 temporary contract teachers as civil service teachers, increasing budgetary pressures without achieving better learning outcomes.

2.2 The advisors who proposed the use of contract teachers were well-intentioned and were backed up by rigorous evidence. At the time of the reform, several voices in the multilateral donor community applauded the initiative, and called on other countries to follow Kenya’s path. However, the reform ultimately failed to improve learning outcomes because of an underlying factor: the bureaucracy in charge of monitoring the teachers was unable to make a credible commitment to fire those with a poor attendance record because of the political cost that decision would entail. This lack of credibility was recognized by the teachers, the unions, and the parents, who responded accordingly, weakening the potential effect of the intervention.

2.3 Typically, solutions such as changing rules for teacher’s contracts focus on addressing what can be called proximate factors. However, these are symptoms than can be effectively addressed only if their underlying determinants are understood. These determinants relate to what we typically call governance.

2.4 Governance is traditionally conceptualized as the way power and authority is derived and exercised.\(^3\) The World Development Report (WDR) 2017 tries to unpack and analyze the elements contained in that definition more specifically. In this Report, governance refers to the process through which state and nonstate actors interact, within a given set of formal and informal rules that shape and are shaped by norms and power.\(^4\) The actors in question, depending on the context, may establish a government, formal state institutions (organizations and rules) that enforce and implement policies. Government, then, is just an instrument in the governance process.

2.5 The framework proposed in this chapter aims to provide a useful way to think about how governance affects the ability of society to deliver on economic and social development goals, like the one attempted in Kenya. Specifically, the WDR 2017 framework seeks to answer two questions: (a) In a given governance environment, how can policies be more effectively designed

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\(^1\) Bold and others 2015a.
\(^2\) Bold and others 2015b.
\(^3\) World Bank (1992).
\(^4\) This more closely approximates the Concise Oxford Dictionary of Politics’ definition of governance as the process of collective decision-making and policy implementation, used distinctly from government to reflect broader concern with norms and processes relating to the delivery of public goods (McLean and McMillan 2009).
and implemented to improve welfare? (b) What are the channels through which the governance environment can be changed to improve welfare?

2.6 The Report’s approach to governance is outcome-oriented. Thus, while acknowledging the intrinsic value of governance-related dimensions, the Report assesses governance configurations only in terms of their effectiveness in delivering development outcomes. Specifically, the Report focuses on three fundamental development outcomes related to the welfare of individuals: the material standard of living (growth); the opportunity to participate economically and socially (equity); and absence of violent conflict, (security). While focusing on these outcomes, the report also makes trade-offs among them explicit, as solving one problem may create others.

2.7 The framework gives centrality to what the Report calls institutional functions. The form of governance features has been thus far emphasized in reform interventions, as in the teacher reform in Kenya. This Report suggests that what matters is the extent to which these forms enable the state to perform certain key functions that shape behavior and influence development outcomes. There are many institutional functions, but the Report focuses on three of them that are foundational to the effectiveness of policies to promote growth, equity, and security. These functions include (a) supporting consistent policies over time to make sure promises are delivered (commitment); (b) credibly signaling what is the expected behavior of others to promote a common action (coordination); and (c) changing the incentives of individuals to limit opportunistic behavior (cooperation).

2.8 The Report argues that the institutional functions are performed as a result of the bargaining process between state and nonstate actors, which themselves are not a monolithic set, to formulate and implement policies. This bargaining process is influenced by three key constraints (a) whether the state has the capacity to design and implement policies; (b) whether those policies are compatible with the power structure; and (c) whether those policies are compatible with the norms upheld by society.

Section 2. The foundational elements of the framework

2.9 Some of the most challenging problems societies face today are all underpinned by commitment, coordination and cooperation failures. Ending the violence in South Sudan, promoting investment in Argentina, increasing trade in Sierra Leone, or improving service delivery in Uzbekistan can all be explained through this lens. For example, in societies where violent conflict is high, there is often also high uncertainty about the changing relative strength of the different factions. Thus it can be difficult for those factions to agree to share power as they do not have any credible mechanism to enforce those agreements. In other words, groups are not able to cooperate as they do not have any credible commitment technology at their disposal. A fragile

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6 North, Wallis, and Weingast 2009. In these context institutions are often unable to develop greater economic complexity, with high degree of specialization and integration of different sectors. As economic complexity is necessary to increase the cost for political actors to engage in violence (as it provides overlapping economic interests among these actors), violence can become very persistent (the violence trap as discussed in North, Wallis, and Weingast 2009; Cox, North, and Weingast 2015).
state, for example, is a case in which the state has little capacity or willingness to commit to the enforcement of rules and implementation of policies.

2.10 Policies can be understood as instruments which the state uses to perform its institutional functions. The framework highlights three key functions that determine how policies shape individual behavior. The basic function is the state’s ability to ensure credible commitment in society, which sometimes it is also crucial to enabling the other functions of promoting collective action through coordination and cooperation. These functions are further elaborated below:

- **Commitment:** Often incentives change over time and actors break their promises. Policies need be consistent over time, so that the different actors can commit to maintaining a specific action even if circumstances change; such as commitment is necessary for societies to pursue long-term objectives. For example, granting independence to the central bank is a mechanism governments use to tie their hands in an attempt to gain credibility that they will not use inflation to finance public expenditure.

- **Coordination:** In many social interactions, actors have the same goals, but their action depends on their beliefs about what the others will do. A typical coordination failure arises when uncertainty about what others will do prevents actors from taking the desirable action. To achieve coordination, policies need to create common knowledge that everyone will take the desirable action. Sometimes this requires providing incentives for some actors to take the desirable action first so others will follow. For example, infant industry protection and other industrial policies are one way through which governments have provided incentives to create a big push in the economy, to avoid being trapped in a situation where everyone waits for the others to invest first.

- **Cooperation:** There are other cases of social interactions in which it is in actors’ interest to act opportunistically, leading to worse outcomes for the group. To induce cooperation, policies need to put forth a credible mechanism of conditional reward or penalty to prompt actions yielding the jointly preferred outcome. For example, when Bogota suffered from a water shortage in 1997, the government successfully limited opportunistic behavior by launching an education campaign on the importance of using water efficiently, alongside a system of recognition for those households that conserved water and sanctions for those that did not.

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7 The Report will discuss commitment, coordination and cooperation among different actors: (a) between the citizens and the state, (b) between the citizens, and (c) between the different actors that have a direct influence in the policy formulation and implementation process.
8 Cukierman and Lippi 1999.
9 In game theory, the latter is referred to as an assurance game, where it is in each player’s own interest to take action if there is assurance that everyone else is also taking action x.
10 Rosenstein-Rodan 1943; Murphy, Shleifer, and Vishny 1989.
11 See Hoff and Stiglitz (2001) for several other examples of coordination problems that are key for development.
12 In game theory, this is referred to as a prisoner’s dilemma game: where both actors would gain from cooperation (both taking action x), but each individually has a greater incentive to free-ride (take an action different from x).
13 This Report is interested only in the cases where cooperation leads to better development outcomes. There are cases where lack of cooperation strengthens competition and leads to gains for the society as a whole.
14 Hardin 1968; Ostrom 1990.
15 Guillot 2014.
2.11 However, performing the institutional functions to increase welfare is not always just a technical problem of knowing which policy to implement or having the resources to do so. While there may be capacity-related constraints, power and norms may also play a key role. For example, in Argentina, after decades of experiencing chronic inflation, which culminated in the annual inflation rate hitting 3,000 percent in 1989, the government decided to pass a law granting independence to the central bank in 1992. While it initially led to a reduction in inflation in the short term, it failed in the medium term. Despite being a well-designed policy, the reform failed because it was unable to credibly restrain those in power from being able to undermine its independence.16

2.12 The Report considers three main constraints that influence whether the state can ensure credible commitment and promote collection action: (a) the state’s capacity to design and implement policies (capacity constraint); (b) the compatibility of policies with the power structure (power constraint); and (c) the coherence of policies and formal rules with the informal norms upheld by society (social-compatibility constraint).

Capacity constraint

2.13 This Report refers to capacity as the state’s technical and material ability to perform the institutional functions. Capacity constraints refer to design and implementation problems that can arise because of a lack of financial resources, human capital, or lack of organizational skills. The term “organizational skills,” in turn, refers to two issues: (a) the capacity to aggregate the preferences of different actors so the decision-making process reflects their preferences;17 and (b) the capacity to overcome information and technical limitations that prevent a policy from being implemented.18 For example, what at first appears to be a simple solution—implementing a skills-based vocational education and training system to make it easier for job seekers to signal their qualifications to employers—proved quite challenging in the case of Mexico. It took Mexico almost twenty years to finally find the right person that was capable to lead this program and coordinate the different actors to deliver on this promise, even though neither power nor norms constrained its implementation.19

Power constraint

Box 2.1 Power and elites

*Power* is defined in this Report as the capacity of one actor or group of actors to make others behave in alignment to their own interests or to bring about specific outcomes. Power can be *de jure* or *de facto*. *De jure power* refers to formal attributions, as conferred by the formal rules. *De facto power* refers to the actual capacity to influence other actors’ decisions, which depends, for example, on the control over resources.

Power may be concentrated in the hands of a few actors. Those actors (*elites*) have a direct influence in the process of policy formulation and implementation.

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16 Jácome 2015.
17 de Condorcet 1785; Arrow 1951; Gibbard 1973; Satterthwaite 1975; Maskin and Sen 2014.
18 Many asymmetric information problems can be understood as capability problems. Examples include the selection of low-quality politicians (Caselli and Morelli 2004); the persistence of inefficient policies (Morris 2001); and pandering (Canes-Wrone, Herron, and Shotts 2001; Frisell 2009; Acemoglu, Egorov, and Sonin 2013).
19 Kuris 2014.
2.14 Vested interests constrain the capacity of the state to solve commitment and collective action problems. When power is in the hands of a few, those actors (elites) have fewer incentives to invest in using formal channels to bargain in the policymaking environment (box 2.1). For example, while moving to an impersonal justice system could reduce the risk of expropriation and lead to better outcomes such as promoting investment and economic growth, elites may not wish not give up the power required to credibly commit to this type of reform. Instead, they may rather use deal-based arrangements where the commitment is bilateral and personalistic.20 The Report proposes a typology of accountability mechanisms that separates actors into two broadly defined types (citizens and elites), and also separates the environments where they interact into two types (weak and strong institutionalized environments) (figure 2.1). In weak environments, actors find it difficult to enforce agreements using formal channels,21 and as a result, may resort to using informal ones (such as protests, violence, private dispute resolution mechanisms) to influence the policymaking process and solve collective action problems.22

![Figure 2.1 The accountability space](image)

Source: WDR 2017 team.

2.15 The fundamental effect of the unequal distribution of power on commitment also affects the state’s ability to promote collective action. For example, in the case of industrial policy, firms can capture the state, thereby reducing its ability to promote coordination.23 Another example is tax policy. In societies where taxpayers perceive that their voice is not heard and cannot influence policymaking, they respond by reducing their tax compliance.24

2.16 The set of actors, the environment where they interact, and their relative bargaining power will vary in each specific case. Understanding the nature of their interactions over time is central to identifying under which conditions those vested interests pose a binding constraint. In some cases, vested interests may not distort the design or the implementation of welfare-improving

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21 Levitsky and Murillo 2009; Jacobs 2011; Besley and Persson 2011; Caruso, Scartascini, and Tommasi 2015.
22 North, Wallis, and Weingast 2009; Dal Bó, Dal Bó, and Di Tella 2006; Scartascini and Tommasi 2012; Cox, North, and Weingast 2015.
23 Robinson 2009.
policies, and opportunities for effective reform can be seized.\textsuperscript{25} For example, in Brazil, there was no opposition against the introduction of the electronic ballot box. This reform led to the reduction of invalid votes and generated the de facto enfranchisement of thousands of illiterate individuals, which ultimately led to the election of more pro-poor politicians. These newly elected politicians supported improvements in the health care system, which in turn, improved health-related outcomes.\textsuperscript{26,27} In other cases, reform in one dimension may lead to deterioration in others, as politicians address the underlying demands of vested interests through other means. For example, in some countries where the central bank was reformed to increase independence and this led to reduced inflation, governments responded by increasing expenditure as a way to offset the fact that they could no longer use inflation to finance public expenditures.\textsuperscript{28}

\textbf{Social-compatibility constraint}

\textbf{Box 2.2 Norms}

The Report defines norms as ideas about how the world works and one’s place on it which influence behavior. This includes both ideas about what others think, expect, and do (social norms, in the language of the World Development Report 2015, WDR 2015) as well as concepts that reflect the sharing understandings of one’s community (mental models, in the language of WDR 2015).

2.17 Norms upheld by society also constrain the effectiveness of the state (box 2.2). For example, low levels of trust make it more difficult for states to ensure credible commitment, and also reduce the likelihood that citizens can organize effectively (overcome collective action problems) in ways needed to demand improvements from the state.\textsuperscript{29} At the same time, low levels of trust can also reduce the willingness of government bureaucrats to implement policies as designed or induce individuals (change their preferences) to demand private goods rather than public goods.\textsuperscript{30} Finally, low levels of trust can also increase the likelihood of violence conflict as a way to resolve disputes.\textsuperscript{31} The levels of trust among individuals can be the result of historical experiences and shape the decision-making process. For example, low levels of trust in part of Africa which persist until today, can be traced back to the transatlantic and Indian Ocean slave trades, even though there is no more slave trade.\textsuperscript{32} In contrast, cities in Italy that achieved self-government in the Middle Ages developed a deep sense of civic and cooperative behavior that transmitted through generations and had an impact on the levels of trust today.\textsuperscript{33}

2.18 Norms can also shape the effectiveness of specific policies. Some policies may not be successful or may even have adverse impacts if they do not take norms into account. For example, formal land titling actually decreased tenure security for women in Ethiopia, because it did not

\textsuperscript{25} Banerjee and Duflo 2011, 2014.
\textsuperscript{26} Fujiwara 2015.
\textsuperscript{27} Other similar examples the authors provide where small institutional changes have led to big improvements in development outcomes include the reservations in India (see example on the social constraint section) and steps to prevent electoral fraud in Afghanistan (Callen and Long 2015).
\textsuperscript{28} Acemoglu and others 2008.
\textsuperscript{29} Nannicini and others 2013; Miquel and others 2015.
\textsuperscript{30} Boix and Posner 1998; Dell, Lane, and Querubin 2015.
\textsuperscript{31} Reemtsma 2012.
\textsuperscript{32} Nunn and Wantchekon (2011) discusses the historical roots of low levels of interpersonal trust in certain parts of Africa.
\textsuperscript{33} Putnam 1993, Guiso, Sapienza, and Zingales 2015.
address norms prohibiting women from ploughing land or entering into share-cropping arrangements with men. As a consequence, land lay fallow where no working men were available, leading to forced cultivation by others (without the title-holding women reaping any benefits) and forced evictions.34

2.19 For policies to be successful, they either need to be compatible with pre-existing norms or complementary policies need to be put in place to shift those pre-existing norms. For example, in order to reduce gender discrimination, India enacted a constitutional amendment in 1992 mandating gender quotas in local governance bodies. In this case the law was effective in shaping gender norms and creating the conditions to increase the role of women as active participants in the political and economic sphere.35,36

Section 3. Governance and development: a dynamic framework

2.20 Previous sections call attention to the importance of the institutional functions and society’s constraints to perform those functions. Those constraints are fixed in the short term but can change in the medium and longer term.37 In this light, the Report’s guiding questions, can be reformulated as follows: (a) In a given governance environment, how can policies be more effectively designed and implemented to improve welfare given the capacity, power structure, and norms upheld by society? (b) What are the channels through which capacity, power, and norms can be changed to improve welfare? This section presents an illustration of the dynamics of the broader governance-development nexus, in which these functions and determinants are constantly undergoing change.

2.21 Figure 2.2 presents a visual representation of the WDR framework. It consists of two loops. The right-hand loop assumes pre-established formal rules for the allocation and exercise of power; it shows how, in a given governance context, the policy bargaining process influences the institutional functions to affect development outcomes, and how this feeds back into reshaping the power and norms constraints. In many societies, this remains a closed loop system, in which societies undergo changes that lead to positive, negative, or persistent outcomes. However, in some cases, societies enter an open loop system, in which enough pressure builds up to demand fundamental changes in the governance context through the rewriting of the formal rules for the allocation and exercise of power. This is depicted by the left-hand loop.

2.22 The framework identifies three important nodes of change in this system: (a) the development process, which constantly reallocates resources, conferring new de facto power to actors and shifting norms over time; (b) the nature of the policy bargaining process, which can either lead to changes within the right-hand loop; or build up pressures, which drive coalitions for reform and open the left-hand loop; and (c) changes in the formal rules for the allocation and exercise of power, which may shift the pre-existing bargaining dynamics. The Report looks at how these different types of change ultimately affect the capacity of the state to ensure credible commitment and promote collective action.

34 Teklu 2005; Lawry and others 2014.
35 Beaman and others 2009; Buch 2010; Ghani, Kerr, and O’Connell 2014.
36 This case may not be generalizable to other cases (see Ballington 2004).
37 This referred to as “quasi-parameters” by Greif and Laitin (2004).
Changes in the development process

2.23 The development process is uneven. Different sectors of the economy grow at different rates and societies develop in heterogeneous ways. As is well understood, this unevenness generates imbalances. The tensions generated by the unevenness of development show up in obvious ways: financial crises, natural disasters, migration, urbanization, violence, and cumulative grievances from perceptions of injustice, all of which put pressure on societies to reorganize themselves and to reallocate assets and de facto power, highlighting the endogeneity of the governance-development process. This can often lead to cycles driven by self-reinforcing dynamics: both vicious and virtuous. For example, the unequal distribution of wealth can lead to the formation of lobbies that reproduce the power of the wealthy. On the other hand, gender roles and social norms changed in Bangladesh as a result of the growth of the export-oriented garment industry in the last 30 years, which caused a large increase in female labor force participation.

Policy bargaining process

2.24 Pressures built up from the development process, including exogenous shocks (such as a regional or worldwide financial crisis), and endogenous structural or norms-based changes (such as a demographic shift), can act as triggers for change in the policy bargaining process. These triggers provide opportunities for actors to change the system, as they alter the de facto power distribution and shift norms (and thus actor preferences). The result can be modified (a) institutional functions, (b) modified rules for the exercise of power, or (c) both.

2.25 Political pressure for reform can come from the bottom up (citizen engagement) or from the top down (elite adaptation). In citizen engagement, individuals can solve their collective action problem and put pressure on elites to reform either through voting or through organizations.

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38 Ray 2010; Hirschman 1958; Streeten 1959.
40 Heath and Mobarak 2015.
(political parties, civil society organizations, social movements). The example discussed above about the improvement in health care systems related to the introduction an electronic ballot box in Brazil, illustrates how voting can have a powerful impact to shape policies. Citizens can also have an impact through mobilization. For example, in Egypt during the Arab Spring, citizen protests constrained the ability of politically connected firms to extract rents. Acemoglu and others (2014) show that greater numbers of protesters on the street were associated with lower stock values for politically connected firms (compared to non-politically connected ones).\textsuperscript{41}

2.26 Transparency and access to information through channels such as internet and free media can play an important role in helping citizens solve their collective action problem and demand policy change.\textsuperscript{42} For example, in Uganda a newspaper campaign aimed at providing schools and parents with information to monitor the central government’s management of funds (comparing the amount of resources designated for each school with how much the school actually received) reduced corruption and increased student achievement.\textsuperscript{43}

2.27 In other cases, pressure for reform comes from the top-down. In elite adaptation, the members of the elite find mechanisms to credibly cooperate among themselves to stay in power as circumstances change. Their incentives for cooperation arise through rent distribution,\textsuperscript{44} side payments to coalition partners, or co-optation of potential opposition through rents or policy concessions\textsuperscript{45} (such as allowing the opposition to have representation in the legislature).\textsuperscript{46} While in some cases elite adaptation may lead to worse outcomes for society, in other cases it may actually be a positive force needed to drive change. For example, in the early 2000s the Communist Party of China (CPC) accepted entrepreneurs to its ranks as a mechanism to signal commitment to the private sector.\textsuperscript{47}

2.28 In today’s interconnected world, a wide range of global, regional, and transnational processes, mechanisms, and actors play an important role in influencing citizen engagement and elite adaptation. Regional integration (like the European Union accession process), international laws and regulations, intergovernmental organizations (like the World Trade Organization and United Nations), multinational corporations, and transnational advocacy networks (such as human rights nongovernmental organizations, NGOs) interact to diffuse norms, empower coalitions, and realign incentives. For instance, in Jordan, electoral reforms arose not from opposition pressure, but rather as a means for the ruling party to win democracy dividends in response to international incentives.\textsuperscript{48}

Changes in formal rules that shape the bargaining process

\textsuperscript{41} Acemoglu, Hassan, and Tahoun 2014.
\textsuperscript{42} Khemani 2015; World Bank (forthcoming).
\textsuperscript{43} Reinikka and Svensson 2005. At the same time, mass media can also be used to solve collective actions that worsen development outcomes, for example to increase violence as in the case of the Rwanda genocide (Yanagizawa-Drott 2014).
\textsuperscript{44} In the context the Report, rents refer to earnings that arise not as return to a factor of production, but rather are artificially created by manipulating the social or political environment.
\textsuperscript{45} Bueno de Mesquita and others 2003; North, Wallis, and Weingast 2009; Svolik 2012.
\textsuperscript{46} Gandhi 2009.
\textsuperscript{47} This example is explore in detail in chapter 8.
\textsuperscript{48} Lust-Okar 2006.
In most cases, the outcomes of these policy bargains drive change in the way the institutional functions are performed to yield different development outcomes. However, in some cases, these changes actually result in modified rules for the allocation and exercise of power, fundamentally shifting the foundations of the system. However, whether these modified rules will actually change the game (have an effective impact on both the preferences and power of actors in the bargaining process) will depend on the interaction of the new rules with the pre-existing dynamics. For example, the creation of the de jure democracy after 1993 in Cambodia was not sufficient to change the political equilibrium. As de facto power remained concentrated in the Cambodian People’s Party (CPP), they were able to maintain control over the political system through the repression of any potential opposition.\(^49\)

\(^{49}\) Acemoglu and Robinson 2008.
References


Chapter 3 Legal order, social norms and institutions

Section 1. Law orders governance....Or does it?

This section will describe how law purports to order key aspects of governance: economic and social transactions; public administration; and the allocation of power. In theory, law determines the rules, as well as the ways rules are made, enforced and contested. In developing countries, however, there is often divergence between the laws on the books and the rules that are in fact used and determinative of outcomes.

3.1 Formal (state) law is the primary means by which states purport to order key aspects of governance. On a de jure level, law determines the rules, the means of making the rules, the way rules are enforced and the means by which rules are contested and changed. Law is meant to order the rules of public administration and its interface with citizens, including delivery of services, rights and entitlements. It is through legal—often constitutional—means that power is allocated across government, including how authorities are selected and replaced, how power is limited and how such limitations are enforced. Finally, law is a key means by which government regulates social and economic activity, determining what (and who) must, may and cannot do certain things, how such rules enforced and how disputes are resolved. In short, where institutions are the rules of the game, law is intended to determine what those rules are.

3.2 But the mere existence of formal laws by no means leads to their intended effects. In many developing countries laws on the books are just that; they remain unimplemented, selectively implemented and sometimes un-implementable. These “surface laws” come about for a variety of reasons, including efforts to transplant “best practice” laws, foreign imposition and colonial legacies, appeasement or window dressing, or well-intended aspirations.1 They may in fact have little effect on the institutional rules of the game, or they may have adverse effects. In the meantime, the “real” rules are determined by existing configurations of social norms, alternative legal orders (customary law, transnational legal orders), and de facto power structures.

3.3 This chapter will analyze why some laws are effective, others are benignly ignored, and still others yield perverse effects. It will draw on the scholarly traditions of socio-legal studies and law and economics to identify and trace how the rules of the game are in fact determined. It complements chapter 2 by explaining how law works across the framework to contribute to patterns of institutional persistence as well as to generate change by shifting or overcoming persistent norms and power dynamics.

Section 2. Law and social norms

State law is one of multiple overlapping normative orders that shape behavior. State laws coexist with a range of other legal orders (religious law, international law, traditional law, and the like) and social norms (derived from a variety of social associations); thus condition of legal and normative pluralism exists everywhere. This is neither good nor bad; what matters is how they interact to shape the exercise of governance.

1 The term “surface laws” is from Twining 2009.
3.4 Since Aristotle, legal scholars, philosophers, sociologists and others have sought to define law. H. L. A. Hart, one of the most prominent modern legal scholars, observed that “Few questions concerning human society have been asked with such persistence and answered by serious thinkers in so many diverse, strange and even paradoxical ways as the question ‘What is law?’” ² This World Development Report (WDR) uses the term “law” or “formal law” to mean state law—that is, laws that are officially on the books of a given state, whether they were passed by a legislature, enacted by fiat, or otherwise. Law here means the de jure arrangements.

![Figure 3.1 Multiple, overlapping legal and social orders]

**Source:** WDR 2017 team.

**Note:** EU=European Union; WTO=World Trade Organization; AU= African Union; WBG=World Bank Group.

3.5 But, traditions of positivism, socio-legal studies, and the vast literature on social norms all suggest that law defined in these narrow terms is only one of multiple normative orders in any given state that may determine behavior and outcomes, as depicted in figure 3.1.³ The phenomenon of “legal pluralism”—the co-existence of multiple legal systems within a given community or sociopolitical space—is well recognized in the context of colonial legacies in which western legal systems were created for elites while traditional systems were maintained for the indigenous population. That traditional, or customary law still dominates social regulation, dispute resolution and land governance in Africa and other parts of the developing world is well documented.⁴ Perhaps less recognized is the normative pluralism generated by today’s globally interconnected world, in which a range of international and regional organizations diffuse rules about everything from trade, labor, public financial management, intellectual property, procurement, utility regulation and rights, which shape, reinforce, and/or compete with state law to govern public and

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³ William Twining offers a definition of law that encompasses all the orders depicted in figure 3.1: “Law is a species of practice that is oriented to ordering relations between subjects at one or more levels of relations and of ordering.” (Twining 2009:117). Brian Tamanaha rejects the idea of defining law (“law is what people say it is”); he urges a focus instead on the function it plays (Tamanaha 2001, 2008). To avoid confusion, this Report uses the narrow definition of law and uses the terms “normative orders” or “social norms” to refer to all other types of law that fit into Twining’s definition.
⁴ Tamanaha, Sage, and Woolcock 2012.
private spaces. Also influential is the global reach of private multinational companies and the role of contract provisions in governing, for example, large tracts of land, labor and even security. A third form of normative pluralism comes from the less visible, but highly influential role of social norms—generally accepted rules of behavior within a given social grouping. A vast literature documents how norms derived from identity groups, professional associations, business practices and the like can be stronger determinants of behavior than state law.

3.6 It is the complex and shifting interplay between these orders and their related power structures that ultimately determines behavior and consequent development outcomes. As Eric Posner (2002) states: “Desirability of a proposed legal rule, then, does not depend only on the existence of a collective action problem on the one hand, and competently operated legal institutions on the other hand. It also depends on the way non-legal systems always already address that collective action problem and the extent to which legal intervention would interfere with those non-legal systems.”

Section 3. How do laws and norms work?

It is often assumed that the lack of implementation of state law is due to a lack of capacity to enforce that law, but this is an overly simplistic assumption. This section examines why people obey the law, focusing on three functions law plays: incentivizing through sanction and reward; coordinating expectations; and upholding legitimate order. Social norms and alternative legal orders work very much the same way. By analyzing the extent to which introduced laws perform these functions, and/or compete with other normative orders to do so, implementation failures and unintended consequences can be better understood.

3.7 While laws may enjoy primacy by virtue of their association with the state, in fact law and social norms operate in very similar ways. A rich body of literature explains how law—and norms—provide order even in the absence of a strong or effective state. These explanations are important to understanding why “good laws” fail, and under what conditions the introduction of new laws can be effective.

3.8 Direct power: sanctions, rewards and the limitation of options. Perhaps the most obvious reason that people obey the law is out of fear of sanction. This logic turns on the existence of a credible threat of being caught and punished. Another way of explaining this is to say that the direct power of law shapes the options available to people by changing the payoff function. The traditional law and economics approach thus uses a cost-benefit analysis: people will obey the law as long as the costs of being caught (factoring in the likelihood of being caught) are higher than compliance. Thus state bureaucrats will refrain from accepting bribes if the cost and likelihood of being caught are higher than the benefit of accepting the bribe. Manufacturing companies will comply with environmental regulations if there is a high likelihood of being fined an amount greater than their profit margin from noncompliance. The converse holds true as well, as in the case of a law that generates a credible reward for compliance, for example, a law requiring one to register for an identity card in order to get access to welfare benefits. Or in the case of a state entity,

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5 Tamanaha, Sage, and Woolcock 2012; Jayasuriya 2012.
6 Porter 2012.
compliance with the regulations of the European Union, World Trade Organization or the World Bank Group depends on the belief that the rewards of membership will outweigh the alternative.

3.9 Importantly, this theory works for non-legal normative orders as well, substituting social sanctions for legal penalties. Within socio-economically interdependent communities, the sanction of ostracism is a powerful means of inducing adherence to community rules and norms. For instance, Maghribi traders in the Middle Ages operating outside the bounds of state legal systems developed a form of credible sanction through a coalition of traders based on a reputation mechanism. Agents who cheated would be shunned from further business with members of the coalition. Informal contract enforcement mechanisms based on reputation, reciprocity and repeated transactions are common and effective today.

3.10 **Declarative power: beliefs and expectations.** The direct power of laws and norms is only effective if sanction (or reward) is credible—that is, there is capability to deliver the sanction (or reward) and expectation that it will be delivered. Critics of the traditional law and economics approach point out that law alone is not capable of changing the payoff calculation precisely because passage of a law does not guarantee that it will be enforced. Aside from the question of capacity to enforce is the question of whether the actors charged with enforcement will find it in their interests to enforce. Some argue that law does not change behavior by changing the payoff, but rather by changing people’s beliefs about what others may or may not do. This role of law as a focal point that coordinates expectations is similar to what legal theorists call the declarative power, or expressive power of law. To the extent law expresses a position that is line with the interests of its subjects and does not clash with more dominant social norms or legal orders, it serves as a simple coordination device. But if the law calls for behavior not in the interest of the subject, or different from that called for by social norms, it serves as a cooperation device, requiring something more to shift underlying interests and norms. Laws in India aimed at reducing discrimination against girls are ample, but implementation has lagged far behind since it challenges dominant social norms. This logic also works in the context of norms in the absence of the state.

3.11 **Normative power.** Legal and social philosophers including Joseph Raz, Ronald Dworkin and Jurgen Habermas emphasize the normative power of law, that is, law serves the function of upholding broadly accepted notions of morality and fairness. People comply with the law then, because “it is the right thing to do.” This is not the same as saying that compliance with a particular law is in the direct interest of the subject, but rather that compliance generally is seen to uphold a legitimate order. This may be the case where compliance with a particular law, for example, not stealing, is widely regarded as necessary for a fair and secure society. It also relates to the legitimacy of the process through which the law was produced. Thus an individual may not agree with a law that, for example, requires stores to be closed on Sundays, but may nonetheless comply in order to uphold what she considers to be a legitimate order, that is, belief in the legitimacy of

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8 Greif 1993.
9 Coate and Ravallion 1993.
10 Basu 2015.
11 McAdams 2015.
12 UNFPA 2013.
the means by which the law was enacted and the adequacy of legal channels to contest or change the law. Legal transplants bypass this process, undermining their ability to induce compliance.

**Box 3.1 The role of “justice institutions”**

State justice institutions—most basically made up of courts, police, and corrections—are obviously critical players with respect to each of the three functions of law discussed here. They are intended to serve a critical commitment function, signaling capability and intention of enforcing the law. They thereby contribute to the requirement of a credible threat for direct power. They also coordinate expectations through predictability and certainty. In addition, they can legitimate law when they act as an effective limitation on power and channel for accountability and contestation. These roles are not to be taken for granted. While every country has these institutions in some form, their ability to perform these functions is determined by the elements of this Report’s framework—power, incentives, norms, and capacity. In many countries, these functions may in fact be served by a range of other authorities and forms, such as customary authorities, executive authorities, community or religious authorities, business associations, or international actors.

3.12 In reality, any given law or social norm may work through a combination of these three functions: incentivizing through sanctions or reward, coordinating expectations and upholding legitimate order. To the extent it does not perform any of these effectively, it will fail. The reality of legal and normative pluralism described in section 2 adds complicating factors. Laws and norms do not operate in isolation; in performing their functions they are interacting, reinforcing and/or competing with a variety of other laws and norms. The following example illustrates how various configurations of norms, laws and functions can lead to different results.

3.13 **Land laws interact with customary law and power.** In an effort to improve the productivity of land by committing to honor property rights for those who use land for productive use, Senegal and Côte d’Ivoire adopted “land to the tiller” laws. In Senegal, the law further sought to establish a legitimate process through which rural councils would then allocate land according to productivity. While the law met with some success, it also yielded three unintended results. In some cases rural councils were never established and land governance continued to be exercised by customary authorities. In other cases, rural councils became a vehicle for patronage and elite capture, leading to land grabs by elites. Land governance became dysfunctional in some areas as preexisting customary systems, rural councils, and district government authorities overlapped, with inconsistent outcomes. In Côte d’Ivoire, land to the tiller laws were introduced to encourage labor migration to cocoa producing areas. Migrants and natives initially established mechanisms to respect customary land arrangements, such that migrants (allogenes) were granted use rights by the natives (autochtones) who deemed themselves customary owners. But when land became scarce, fueled by mass unemployment that drove autochtone youth back to rural areas, migrants began claiming exclusive rights under land to the tiller laws. These tensions were fueled by polarizing identity politics of the elites, contributing to tragic violence in the western part of the country.

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14 Merry 2012; Jayasuriya 2012.
15 Hesseling 2009.
16 Allouche, Anderson, and Zadi 2013.
3.14 This section will draw out further examples of how “good laws” fail to perform functions and/or are overcome by other normative orders across the three domains of ordering governance: social and economic regulation; public administration; and allocation of power.

Section 4. Explaining change: What role do law and norms play in promoting change in governance?

Law can be effective in shifting dominant norms and the allocation of power, in cases where legal change is accompanied by other forms of contest and mobilization that change underlying incentives and the internalization of norms.

3.15 The focus so far has been on how, at any given time, the effectiveness of law is mediated by the broader configuration of norms, beliefs, and alternative legal orderings. This section turns to the more dynamic processes through which actors use laws and norms to shift incentives and beliefs, and the way that power is exercised and allocated. Legal historian Lauren Benton describes how, since the time of early empires, individuals and groups have used law associated with a range of authorities to promote their interests, mobilize constituencies, and exercise and contest power. Imperial regimes used “jurisdictional politics” to exert power, and suppress and/or coopt challengers by subjecting them to imperial law, granting space for local, religious, or native legal authority (albeit reshaped through recognition) or handing out fiefdoms of power. But law has also been cleverly instrumentalized as a tool of positioning and contestation by individuals and groups, including those marginalized and suppressed.17 The profusion of law, norms, and authorities in today’s interconnected world makes it a rich playing field for both the exercise and contestation of power.18

3.12 Changed circumstances that create new logics of demand and compliance. As seen in the previous section, law’s direct power works by incentivizing behavior through rewards and sanctions. In doing so, however, it is constrained by the need to establish incentives that are meaningful in light of existing social, economic and power relations. Law can be a powerful tool where it used to lock in new incentive structures as underlying conditions change. Thus, for example, common law developed principles of predictable, impersonal contract enforcement rules as the nature of business transactions demanded so. Hadfield and Weingast sum up these phenomena as the micro-foundations of law in operation, that is, law emerges to solve the collective action problems of its subjects.19 Tom Ginsburg discusses how elites even in autocratic settings agree to submit themselves to judicial review as a form of “insurance” in the event of their being out of power.20

3.13 Magnets and posturing. Across society, interests and norms evolve in asymmetric ways. Rather than wait for the emergence of new demands and focal points, law can be used to foster these shifts. For example, in the context of the introduction of an inheritance law in Ghana that was not in line with customary systems, the introduction of formal laws has resulted in the slow

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17 Benton 2012.
19 Hadfield and Weingast 2014.
20 Ginsburg 2009.
evolution of custom and social change, even if people do not appeal their cases to formal courts.\textsuperscript{21} This is because the formal law can act as a “magnet” to change custom by providing people an “outside option” that increases their bargaining power, even if they do not necessarily use this opportunity.

3.14 **Vernacularization.** Another way that law serves to shift norms and even the allocation of power is in conjunction with social mobilization and efforts to translate and appropriate new norms and legal ideals into local contexts of power and meaning. For example, Sally Engle Merry describes the process of “vernacularization” of international human rights, culminating in the landmark establishment of “nari adalat,” an informal women’s court for matters of divorce, domestic violence, and family conflicts, in Gujarat, India. Through demonstration effects, local women embraced this shift, internalized new norms about their relative power, which in turn enabled further legal mobilization.\textsuperscript{22}

3.15 **Legal, social, and political mobilization.** While the top down hegemonic power of law is strong, it is also a critical tool for bottom up, grassroots movements to contest that hegemony. Legal strategies are frequently used alongside political mobilization and transnational advocacy networks by civil society groups seeking to change power relations and the definition of rights. Indigenous groups in Latin America mobilized to establish international treaty recognition of collective indigenous rights; local communities subject to extractive industries achieved international adoption of “free prior informed consent” standards as best practice; and in Tanzania women’s advocacy groups succeeded in making joint common property for married couples the legal default. These legal changes—while not a panacea—can have a significant impact in shifting relative power dynamics by creating spaces for previously marginalized groups to contest more equitably.\textsuperscript{23}

\textsuperscript{21} Aldashev and others 2012.
\textsuperscript{22} Merry 2006, 2012.
\textsuperscript{23} Santos and Rodriguez-Garavito 2005.
References


Part II
Governance, institutions, and development
Chapter 4  Governance and growth

This chapter first discusses which types of commitment and collective action challenges can hamper economic growth. It then discusses how factors such as limited state capacity, the influence of powerful groups and norms constraint the ability of society to address such governance challenges, and why successful policy reform must identify and tackle specific constraints along these dimensions. This discussion will also examine practical questions such as which growth strategies are suitable and implementable given the constraints on governance, and how to transition from one growth strategy to another.

Since this is a chapter on a potentially vast topic, it will focus on analyzing select growth topics (farm and industrial land rights; business regulation; trade; innovation) using the Report’s key motivating questions and analytical framework.

Section 1. Why governance matters in addressing commitment and collective action challenges for economic growth

This section describes the fundamental commitment and collective action problems that societies must address in order to achieve faster economic growth.

4.1 In Akwapim, a region in southern Ghana, land for cultivation is allocated to farmers by the traditional local leadership. Individual claims on the land are often complex, ambiguous, and subject to dispute. Those who hold positions of social or political power in the local hierarchy are much more confident about the security of their land rights than ordinary farmers—so much so that they keep their land fallow for significantly longer periods. Since fallowing helps restore land fertility, individuals who feel more secure against expropriation have more productive farms.1

4.2 This example illustrates one type of commitment problem that can hamper economic growth: a failure to provide secure, well-defined rights to a productive asset, which dampens incentives to invest. In this context, good governance entails a system under which all farmers feel secure in their right to what they grow on their land, and to sell the land if needed. This section will describe such fundamental growth problems and why governance matters to addressing them. In terms of methodology, while the importance of solving commitment problems such as insecure property rights is underscored by suggestive evidence from cross-country studies,2 it is theory and a growing micro-empirical literature which explain the underlying mechanisms and their nuance with more rigor.3 Hence, this section will focus largely on theory and micro-economic evidence.

4.3 The difficulty of conducting economic transactions when there is scope for opportunistic behavior is another major commitment problem which this section will explain. Governments can help here through the enforcement of contracts, ideally through impersonal, impartial judiciary and

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1 Goldstein and Udry 2008.
2 Acemoglu, Johnson, and Robinson 2001; Hall and Jones 1999.
3 See Besley and Ghatak (2010) for theory; Johnson, McMillan, and Woodruff (2002) and Field (2007) for evidence at the firm-level and household-level, respectively.
corporate governance institutions. Studies find positive effects of improved contract enforcement on international trade, access to finance, and delegation in firms.4

4.4 While needed to enforce commitment between citizens, sometime the state itself cannot credibly commit to citizens that it will implement policies impartially and consistently. An extreme case is when the state itself cannot be trusted not to expropriate private property.5 More commonly, policy design and implementation can get unduly influenced by powerful groups, or reversed for political reasons, creating uncertainty for investors.6 This type of commitment problem will also be discussed in this section.

4.5 Besides commitment problems, collective action problems such as coordination failures can constrain economic growth. Coordination failures in investment may occur when the individual incentive for investing is higher when others make some complementary investment.7 For example, suppose a firm is considering starting a factory that makes computer chips for exports, and realizes that such a factory will not be profitable unless there is ample supply of technicians with certain specific skill sets. Local workers, however, will not find it worthwhile to invest in acquiring those skills unless they are certain that this factory will be built. Absent some coordination, each party will keep waiting for the other to act first. Thus, countries (or regions within countries) can remain trapped at low levels of industrialization because it is difficult to coordinate investment across interlinked sectors.8

4.6 The state can also play a role in enhancing economic coordination in other cases where market forces alone are not guaranteed to lead to the best outcome. For instance, private firms may underinvest in Research and Development (R&D), or in exploring new sectors of the economy, because they do not take into account public gains from the knowledge generated by their efforts.9

4.7 Cooperation for public investment is another fundamental collective action problem for growth. Public health facilities, schools, and roads matter for growth. Their efficient provision requires some form of cooperative behavior because of individual incentives to ride freely on others’ investments. State institutions support cooperation through fiscal policy, local public service provision, and regulation.10

4.8 Often, what the state should do to address a particular type of commitment or collective action problem seems clear enough; it is the implementation that is the issue. Going back to the

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5 Acemoglu and Robinson (2012) discuss a number of studies of such cases in history.  
6 There is empirical evidence that uncertainty about policy changes can lower investment (see, for example, Baker, Bloom, and Davis 2013).  
7 Hoff 2001.  
8 There are several theoretical models of specific types of coordination needed for economic growth (Hoff 2001) and Cooper (1999) review such theories). Moreover, experimental evidence from laboratories suggest that people do find it difficult to coordinate their actions (see Cooper 1999 for a review). That said, it is not easy to rigorously identify the impacts of specific coordination failures using economic data, and hence there is only limited empirical evidence on the extent or the impact of such failures (for example, Graham and Temple 2006).  
9 Hausmann and Rodrik (2003) discuss how lack of coordination can limit the exploration of new sectors by private firms.  
10 Because chapter 5 deals more exhaustively with issues of fiscal policy and local service provision, this chapter will largely focus on commitment, coordination, and regulatory issues.
example on land rights from Akwapim, it would seem that a system of well-defined, transferrable formal land titles enforced by the state could lead to more efficient investment in farmland than the current system based on land allocation by the traditional leadership. But how can governments operating with limited capacity, in a setting such as Akwapim where traditions and local power are so salient, be effective in implementing such solutions? In order to answer this question, would help to examine how such problems have been “solved” in practice, and how factors such as power and social norms affect such solutions. These are the main themes addressed in the rest of this chapter.

Section 2. Informal solutions to commitment and collective action problems, and trade-offs

Commitment and collective actions problems can be “solved” with no (or limited) state involvement. There are tradeoffs to such arrangements, however, and an arrangement that worked well in one stage of growth might not work well in another.

4.9 As the study on Akwapim shows, a traditional system can fill in for the state by providing a semblance of property rights. Indeed, informal answers to commitment problems have existed in the past, and some survive. Consider how the Maghribi traders of the 11th century solved a contract enforcement problem. They needed to employ overseas agents, but what was to prevent the agents from cheating them? The merchants evolved a coalition where social networks were used to transmit information and monitor agents. The coalition also had a rule of punishing suspected cheaters, giving agents the incentive to adhere to their contract. Industry associations sometimes still play the role of contract enforcers.

4.10 Another imperfect “solution” to commitment problems is a relationship-based arrangement between individuals, or even between the state and elite groups. They solve commitment problems between selective groups and can deliver some investment leading to growth.

4.11 A typical example is the selective protection of property rights that existed in Mexico during the presidency of Porfirio Diaz (1876–1911), a general turned politician who came to power after decades of coups and countercoups. In effect, Diaz “specified and protected the property rights of a select group of asset holders, and used the rents generated from this selective protection to subdue or seduce his political opponents”. While there is no counterfactual for what would have happened in the absence of this system, estimates suggest that the economy grew faster than in previous decades. Indeed, some cross-country growth studies suggest that less-than-perfect commitment to property rights and contract enforcement does not preclude significant episodes of growth acceleration.

4.12 But the Mexican example also shows that relationship-based elite-elite arrangement are inherently inefficient, and based on cronynism. The Diaz government had to create entry barriers for ordinary entrepreneurs so that economic rents could be generated for the power-sharing elite.

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12 See, for example, Bernstein (1992) on the diamond industry.
13 Haber, Maurer, and Razo 2003: 44.
14 For example, Hausmann, Pritchett, and Rodrik 2005.
Firms connected to the elite, in contrast, could stay in business even if they were not efficient. Such inefficiencies and entry barriers could have grave consequences for long-term economic growth.

4.13 A particular concern arises when countries try to transition to high income levels from low-income or lower middle-income status, but do not have broadly enforced, impartial commitment to property rights and contracts. Both theory and empirical evidence suggests that as countries make this transition, the volume of investment increasingly matters less for growth than efficiency and innovation. Recent empirical firm-level studies, for example, suggest that inefficiencies in resource allocation across firms account for a significant part of the income gap between higher-income and developing countries.\(^{15}\) And in terms of theory, models which explain innovation-led growth stress the centrality of competition between firms, and firm entry and exit. Such “creative destruction” is ultimately incompatible with narrow elite-elite commitment.\(^{16}\) This type of evidence will be reviewed to illustrate the long-term growth tradeoffs involved in informal solutions to commitment and collective action problems.

4.14 This section will also make the point that in seeking to move toward greater efficiency, policymakers should take care to not undermine existing arrangements without offering credible substitutes. To give an example, in Rwanda’s coffee industry, mill owners and farmers use relationship-based contracts to compensate for weak formal enforcement. Increased market competition could threaten the viability of such contracts by reducing the profits that can be shared between mill owners and farmers tied to each other.\(^{17}\) Policies to increase competition could therefore hurt the coffee industry if not complemented by reforms to legal contract enforcement.

4.15 The pervious examples from Ghana (land rights) and Mexico (investors’ property rights) also show that traditional or relationship-based arrangements are not only inefficient from the point of view of long-term growth, but often also inequitable. This tradeoff is developed further in chapter 5 of this Report.

4.16 Finally, the Mexican example illustrates another type of tradeoff: namely, that between feasibility (credibility) and efficiency. For a commitment arrangement to be credible, it must be compatible with the incentives of powerful groups. This involves some system of accountability between the power-sharing elites. The Mexican economic elite, for instance, were given a way to monitor the government by integrating them into the policy-making process. A more efficient inclusive commitment to property rights might not have been feasible in this situation, given the possibility that some dissatisfied elite coalition could overthrow the fragile government. This tradeoff is further examined in section 3.

\(^{15}\) See, for example, Hsieh and Klenow 2009.
\(^{16}\) Aghion, Akcigit, and Howitt 2014.
\(^{17}\) Macchiavello and Morjaria 2015.
Section 3. How capacity, power, and norms affect the state’s effectiveness

This section will explain how the influence of powerful groups and norms interact with the formal rules, staff capacity, and accountability systems of state organs to constrain their effectiveness in solving commitment and collective action problems.

4.17 Governance reforms often involve changing rules and building the capability of relevant state organs (such as regulatory agencies and the judiciary) through meritocratic selection, training, and good management (efficient organization, and aligning the incentives of officials). There is much that is useful and practical in this approach, and various recent empirical studies show that some such interventions can have an impact. For example, experimental or quasi-experimental studies on corruption find that improving the organization of bureaucracies (such as reducing overlapping layers) and the incentives within them (such as better internal monitoring systems) reduce the extent of bribery and distorted policy implementation.18

4.18 But questions remain about how well such interventions translate across contexts, and about the sustainability of their impacts. This Report argues that in approaching these questions, two key factors to consider are the distribution of power, and norms.

4.19 Regulatory reform is a case in point. Many developing countries have changed formal business regulation so that ordinary firms experience better property rights, contract enforcement, and business procedures. Firm-level data, however, suggest that reality differs for ordinary and politically-connected firms.19 Connected firms could be manipulating the design and enforcement of business regulation in their favor.20

4.20 The coherence of policy implementation with existing norms also matters. Norms affect how officials behave; for instance, how well diplomats respect traffic laws is affected by norms in their home country.21 Likewise, in lab experiments, subjects have been observed to make efforts to enforce a social norm between other players, even without monetary incentives.22 This empirical and experimental evidence suggests that policy failure is likelier when implementation requires officials to act against prevailing norms.

4.21 Sometimes, a policy in place may seem inimical to growth, but might in fact be compensating for a deleterious norm. In such cases, one-dimensional reform could backfire. For example, heavy regulation of firms’ activities may seem inefficient, but it could be compensating for the lack of trust and civic norms,23 which matter to growth.24

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18 Pande and Olken 2012.
19 Fisman 2001; Faccio 2006; Hallward-Driemeier and Pritchett 2011.
20 See, for example. Rijkers, Freund, and Nucifora 2014; Purbasari and Mobarak 2014.
21 Fisman and Miguel 2007.
22 Fehr and Fischbacher 2004.
23 Aghion and others 2010.
24 Algan and Cahuc 2014.
Section 4. Implications for sustainable reform

Cases of success and failure will be examined to begin identifying general principles for reform (a topic that will be taken up in depth in Part 3 of the Report).

4.22 Often, the persistence of certain cultural factors or of the power of groups with an interest in maintaining the status quo can subvert reforms which were mean to improve the implementation of policies addressing commitment and collective action problems. This section will first illustrate such persistence through historical examples. By examining such cases of failure or persistence, this section intends to illustrate into the pitfalls to reforms when compatibility with political economy or norms is missing.

4.23 In medieval Venice, for example, merchants who stood to benefit from the growth of long-distance trade first pushed for institutional reforms that would enable such trade, namely strengthening property rights and contract enforcement. But once enriched, and realizing they no longer needed inclusive arrangements for securing property rights and contracts, a small group of merchants started pushing for greater barriers to economic and political competition and managed to block further steps towards better governance for over a century.\(^{25}\) There are several other examples of stagnation in reforms.\(^{26}\)

4.24 Historical forms of governance too can have a persistent effect. For instance, there is evidence to suggest that even today, historical differences in state capacity affect village administration in Vietnam. Local governments and civil society together are more effective at generating public investment in those parts of Vietnam that were historically ruled by a state which had a capable central bureaucracy, and was structured with the village as a key administrative unit.\(^{27}\) While all of Vietnam has the same formal systems of governance today, their effectiveness is lower in parts of the country that lack this history of capable governance.

4.25 This section will also discuss some cases of successful policy implementation to gain insight into how such compatibility can be ensured through marginal changes to norms and political incentives.\(^{28}\)

4.26 One emerging message is that policy implementation is more likely to be compatible with the political economy if those in charge of implementation are truly made “accountable” to those who stand to gain from the policy, while also endowed with the relevant capacity and autonomy. For instance, industrial coordination policies have often been implemented poorly because this balance is difficult to achieve. Successful coordination requires a lot of information on the coordinator’s part. Extensive interaction between the coordinating agency and the private sector may be the best way to gather such information (this is the relevant type of “accountability” in such cases). However, fearing undue influence from powerful firms, governments are often wary of allowing too much interaction between a state agency and firms. East Asia may have avoided

\(^{25}\) Puga and Trefler (2014) document how this negative dynamic played out over the entire 14th century.
\(^{26}\) Acemoglu and Robinson (2012) review many such cases.
\(^{27}\) Dell, Lane, and Querubin 2015.
\(^{28}\) Part 3 of this Report will delve further into specific mechanisms of change.
this trap by building bureaucracies which while capable and autonomous, also kept open multiple, deep channels of interaction with a broad segment of firms.\footnote{Evans 1995.}

4.27 To give another example, when China set out on market-oriented reforms in the 1980s, it had to achieve a balance between having enough capacity to enforce property rights, and enough accountability to private investors to ensure them of credible committed to honoring those rights. The central government undoubtedly had the capacity to enforce property rights, but precisely because it was so strong, non-state investors could have had concerns about its consistency in honoring such rights. To achieve the needed balance, China took advantage of the relatively strong administrative capacity already existing at the local (“township-village”) level, and defined property rights at the level of Township-Village Enterprises (TVEs). Local governments were given enough autonomy from central government so as to make them credibly accountable to their TVEs.\footnote{Qian and Weingast 1997.}

4.28 Finally, this section will discuss success cases which show how it is possible to signal credible commitment and align incentives by leveraging exogenous circumstances, including international treaties. As described in the main body of this Concept Note, Mexico’s signing of the North America Free Trade Agreement (NAFTA) signaled a commitment to market liberalization and to preserving investors’ rights. By improving access to external markets, it also increased the influence of firms that supported such liberalization.\footnote{Tornell and Hernández 1997.}
References


Chapter 5 Governance and equity

Section 1 Why Equity-enhancing reforms on paper do not always succeed

This section will start by presenting some puzzles on the relationship between governance and equity. It will discuss why reforms that, on paper, aim to improve equity by improving accountability do not always succeed, despite theoretical expectations to the contrary. It will argue that in order to understand the relationship between governance and equity, there is need to consider how the different elements of governance—in particular, de facto powers and norms—affect the capacity of the state to perform its functions to improve equity.

5.1 In an equitable society, all individuals have the opportunity to participate economically and socially, and pursue a life of their choosing. To be able to participate, individuals need to have a minimum standard of living, and they need to hold and use assets: human, physical, financial, social, and natural. Inequality in income and in access to assets matters particularly, but not only, when it is due to circumstances beyond an individual’s control.¹

5.2 Despite the common belief in a strong link between governance—in particular, accountability—and poverty and inequality, the empirical evidence on this link is mixed, from the contrasted success of reforms aiming to increase accountability de jure (through community-driven development, for example) as well as from cross-country correlations.² The common belief stems from economic theory as well as from historical and anthropological accounts. Demands for changes in taxation or redistribution played a key role in historic events, such as the French Revolution and the American Independence, which deeply changed political institutions. Anthropological accounts link the emergence of formal institutions to increases in inequality: formal institutions for enforcement of cooperation are rare in low-inequality communities of foragers. The explanation for this is that the need for formal institutions is limited, as cooperation can be sustained in low-inequality settings, since the pay-off from looting another individual is low.³ At the same time, once formal institutions are set up, economic theory indicates that they should lead to lower inequality when accountability mechanisms are in place to represent disadvantaged groups, since their preferences need to be taken into account by politicians.⁴ By contrast to these accounts and to theory, the empirical link between accountability de jure and poverty and inequality can be weak.⁵

5.3 This weak empirical link illustrates the need to revisit the relationship between governance and equity. First, other aspects of governance matter, in particular capacity: increased accountability to disadvantaged groups—where accountability is defined as the capacity of different groups to be part of the decision-making process and contest decisions—

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¹ This suggested definition builds on the definition of the 2006 WDR on Equity and Development (page 2): “By equity we mean that individuals should have equal opportunities to pursue a life of their choosing and be spared from extreme deprivation in outcomes.”
² Mansuri and Rao 2013.
³ This explanation is also provided in game theory: Axelrod and Hamilton 1984; Boix 2015.
⁴ Meltzer and Richard 1981.
⁵ Acemoglu and others (2014) review the literature pointing opposite directions in the relationship between democracy and inequality.
may not increase equity if the state lacks the capacity to effectively perform its functions.\textsuperscript{6} More crucially, the existence and effectiveness of equity-enhancing reforms are, to a large extent, determined by other components of governance: norms and de facto powers.\textsuperscript{7} Even when de jure reforms take place to reflect a change in political power, de facto powers may adopt countervailing measures that offset the reforms. While this is true of governance reforms in general, it is particularly true of reforms that aim to improve equity outcomes, since de facto powers can be directly affected by the reforms and perceive them as threats to their economic or political power. This chapter will investigate how governance affects the design and implementation of more effective policies to improve equity. For the purpose of this Report, governance is defined as the process through which state and non-state actors interact, within a given set of formal and informal rules that are shaped by norms and power. Governance functions that need to be performed are: (a) supporting consistent policies over time to make sure promises are delivered (commitment); (b) credibly signaling what is the expected behavior of others to promote a common action (coordination); and (c) changing the incentives of individuals to limit opportunistic behavior (cooperation).

5.4 Given the breadth of the links between governance and equity, the chapter will not aim to be exhaustive. Its purpose, following the framework proposed in chapter 2, is to unpack the relationship between governance and equity by illustrating how governance functions are performed to expand economic opportunities, shape taxation and public spending, as well as service delivery. In each case, the chapter will discuss: (a) how improving capacity can be a solution when performing functions is essentially a technical problem; (b) how accountability and incentives of de facto powers need to be taken into account when they may hinder reforms; and (c) how policies need to take norms into account to be effective and avoid adverse effects. The examples will be selected in a way that they both matter for equity and involve governance challenges, particularly in terms of de facto powers.

Section 2. Functions, de facto powers, and norms: Challenges for sustainable equity reforms

This section will unpack the relationship between governance and equity by examining whether and how power and norms affect the governance functions for: economic opportunities in adulthood; taxation and public spending; and service delivery to expand human capital and opportunities in the next generation. It will argue that the main challenge of state institutions to lead to sustainable welfare outcomes and allow more individuals to participate in society is to decrease the inertia stemming from de facto powers and social norms.

\textsuperscript{6} Accountability can take many different forms, but it comprises two key attributes: answerability and responsiveness. Answerability means that decision makers can be called into question through formal or informal means, and that decisions have consequences for those who made them. Responsiveness means that decision makers must reflect the interest of all individuals and groups in their decision-making process.

\textsuperscript{7} Power is defined as the capacity of one actor or group of actors to make others behave in alignment to their own interests, or to bring about specific outcomes. Power can be de jure or de facto. De jure refers to power that it is conferred by formal rules. De facto refers to the actual power to influence other actors, whether or not it is formally conferred by law. Norms are defined as ideas about how the world works and one’s place on it that influence behavior. This includes ideas about what others think, expect, and do (social norms, in the language of the World Development Report 2015). It also includes concepts that reflect the shared understandings of one’s community (mental models, in the language of World Development Report 2015).
Economic opportunities

This subsection will illustrate how governance affects economic opportunities in adulthood by shaping access to, use of, and returns to assets. Some of the examples that will be developed are about how the interaction between state institutions, de facto powers, and norms affects equity in access to assets this is given particular importance since access to some of these assets also determines the intensity with which individuals can use a key asset, human capital. Finally, the section will discuss how the interaction between state institutions and norms affects all of access to, use of, and returns to assets.

5.5 There is large variation across countries in the inclusiveness of growth. The ability of individuals to contribute to and benefit from growth depends on their ability to access and use assets, as well the returns to these assets. ⁸

5.6 The livelihoods of a vast proportion of the populations in developing countries depend on their access to and use of land. Customary land management systems, which this Report classifies as norms, do not always provide secure rights for disadvantaged groups. Furthermore, de facto powers, such as village chiefs in Ghana, may have more secure rights. ⁹ Formal land administration can improve security compared to customary systems, but land titling reforms have sometimes led to adverse consequences because of: (a) lack of capacity when designing or implementing the reforms; (b) poor integration of customary laws in reform design; and (c) de facto powers, such as village elites, using the reforms to their advantage. The pitfalls of early land-titling reforms illustrate how ill-designed policies that provided land titles only to household heads—typically men—and did not understand customary systems well, in fact reduced women’s access to land. ¹⁰ In Rwanda, land titling reforms improved women’s tenure security compared to customary systems. A possible hypothesis for this success might be the existence of women quotas in parliament, social mobilization to change norms regarding women’s land rights, as well efforts for the piloting of the reforms. ¹¹ The chapter will discuss how changes in accountability—for instance, through more representation of disadvantaged groups in elected councils—together with effective implementation, can lead to policies that bring about better access to productive assets for disadvantaged groups.

5.7 Another form of capital that may constrain the ability of poorer and disadvantaged individuals to generate income is social capital, such as informal labor networks. Human capital is often the main asset of the poor. Individuals can be limited in their use of human capital by the degree of cooperation of informal labor networks, which can be organized along predetermined circumstances such as gender, ethnic ties, or parental background. ¹² Across the world, and more saliently during the Arab Spring, the discontent expressed with respect to limited employment opportunities has been related to a general dissatisfaction with the state as well as prevailing de facto powers: individuals perceive that “connections,” either in the public sector or with

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⁹ Goldstein and Udry 2008.
¹¹ Ali and others 2015.
economic elites, are critical to finding a job or that effort or hard work are not rewarded in the labor market. Informal business and labor networks can be seen as non-state institutions that help their members find employment by solving commitment problems as well as market failures linked to information asymmetries. However, they can be perceived as unfair and can generate negative externalities if they decrease the incentives of individuals outside of the networks to invest in human capital. Reforms can improve the capacity of state institutions to build more inclusive labor markets by solving the functions that informal labor networks solve, all the while being more inclusive: for example, by improving commitment to enforce contracts, improving labor market information, or implementing anti-discrimination laws. However, in order to increase economic participation, deeper reforms may be needed to address the incentives of de facto powers and reduce privilege.

5.8 Indeed, to improve economic opportunities sustainably, de jure reforms are not enough. A clear example is the contrast between the very limited improvements for the black population in the U.S. South after the end of the Civil War in 1865, and the deep changes in Great Britain after the Glorious Revolution of 1688. Even if significant de jure institutional reforms are adopted, de facto powers can adopt countervailing measures to decrease their impact. In both the US South after the Civil War and Great Britain after the Glorious Revolution, major political changes occurred: abolition of slavery in the United States; dethroning of the Stuart monarchy and increased role of the Parliament in Great Britain. However, in the U.S. South, little else was changed and the white elites adopted measures to maintain low wages and restricted mobility for black workers. A measure to grant each freed slave 40 acres of land failed to pass. By contrast, in Great Britain, other measures were adopted that changed de facto economic and political power: for instance the abolition of trading monopolies.

5.9 Policies that aim to improve economic participation of disadvantaged groups may not succeed if they do not address norms. Norms can affect access to, use of, and returns to assets. They are by definition slow to change but there are successes in shaping norms that are conducive to more equity. A successful example to shape norms is that of the reservation policy in India, a large policy experiment that mandated female representation in village councils in a random sample of villages starting from 1993. A study conducted in West Bengal finds that this reform changed aspirations as well as public policies. Exposure to women as political leaders, as a result of the reservation policy prompted a reduction of gender gap in aspirations for parents and adolescents, and closed the gender gap in adolescent educational attainment.

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13 Bussolo and Lopez-Calva (2014) in Europe and Central Asia; Gatti and others (2013) and World Bank (Forthcoming-a), in the Middle East and North Africa.
14 Review in Munshi 2011.
15 Discussed in Acemoglu and Robinson 2008.
17 Wiener 1978.
18 Beaman and others 2012.
5.10 The ability of the state to shape economic opportunities partly depends on the size of informal markets, which is itself driven by private actors’ assessment of the cost and benefit of becoming formal, given, among other things, taxation and redistribution.¹⁹

**Taxation and public spending**

This section will analyze how a better understanding of governance enables more effective fiscal policy reforms to improve equity. The section will first discuss the key role of taxation to allow the state to act and to build accountability to citizens. It will argue in particular for the need to induce cooperation to raise taxes. It will discuss the challenges for reforms in redistribution posed by de facto interests, since redistribution reforms can directly affect their payoffs.

5.11 This section will start by highlighting the key role, historically, for taxation and public spending both to reduce poverty and inequality and to build the relationship between the state and the citizens. No high-income country has achieved improvements in terms of equity without significant taxation and public spending to (a) protect individuals against shocks (such as illness, unemployment, old age), and (b) reduce welfare disparities within and across generations.²⁰

5.12 Low-income countries face a particular challenge because of their limited ability to levy direct taxes given their income distributions. This not only affects governance through weakening state capacity, but it may also affect the state’s accountability to citizens, given that it does not rely on them for resources. For instance, not taxing citizens may decrease the need to commit to investments that foster economic activity, such as public goods.²¹ It is unclear whether other sources of revenues that developing countries use, such as aid, trade taxes, or natural resources, help build accountability.

5.13 This section will then discuss reforms that improve the capacity of low- and middle-income countries to increase taxation and redistribution, beginning with commitment. Incorporating commitment devices to ensure that taxation proceeds will be used as promised can help increase citizens’ buy-in. Earmarking may be one strategy, as documented by recent research in Sierra Leone, and by the examples of Ghana and Brazil for the financing of universal health coverage.²²

5.14 Inducing cooperation is a key challenge for taxation and redistribution: targeted transfers or decentralization can be adopted when cooperation is low, while changing norms can help increase cooperation over time. In societies where divisions are entrenched, and the state fails in inducing cooperation, public spending is low and takes more often the form of narrowly targeted transfers, such as conditional cash transfers (CCTs) in Latin America, rather than comprehensive social safety nets. Successful redistribution can in turn improve cooperation. A field experiment in Colombia finds that individuals exposed to a CCT program are more likely to cooperate by contributing more to the public good and are more likely to vote in elections.²³

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¹⁹ The state also shapes outcomes in the informal market, for example, with minimum wage laws: there is evidence that the minimum wage raises wages even in the informal sector (review in Freeman 2010).
²⁰ On the definition of the role of the welfare state, see, for instance, Barr 2001; Lindert 2004.
²¹ Di John 2009; Collier 2006; McGuirk 2013.
²² Jibao and Prichard (2013) on Sierra Leone; Reich and others (2015) on Ghana and Brazil.
and community participation have been advocated as means to induce cooperation by better matching public goods provision with communities’ preferences.24 This section will use the Report’s framework to analyze under what circumstances decentralization and community participation improve equity.25

5.15 However, fiscal policy is rarely only a problem of capacity to perform functions: it may be resisted by de facto powers if resources are redistributed away from them. Inequality in the distribution of incomes and in the distribution of wealth, particularly at the very top of the distribution, may make it difficult to implement reforms aimed at enhancing equity.26

5.16 In such cases, the way in which reforms are announced and communicated matters, including to emphasize accountability to all citizens as opposed to accountability only to de facto powers. A recent example is provided by Uruguay: relatively low levels of inequality, the absence of a unified economic elite, strong bureaucratic capacity, and integrity of the tax administration agency all combined for a reform to make taxation more progressive. In December 2006, Uruguay introduced a broad and revenue-neutral tax reform, with the purpose of increasing the efficiency and the progressivity of its fiscal system.27 The government was able to limit opposition to the reform coming from the middle and top of the income distribution by offering transparent information about the principle of the reforms and simultaneously sending the signal of a commitment to fight and punish evasion. The absence of a unified opposing voice from the economic elite may have helped pass the reform. On the other hand, the same government coalition was not able to implement a new progressive tax on land because of the rapid, organized, and cohesive opposition of the affected group.28

Service delivery

Using the proceeds of taxation to organize and regulate the deliver services is one of the main roles of the state. In particular, in the case of equity, providing services for investment in human capital—education and health—is the main way to improve outcomes for the next generation. This section will examine how institutions shape service delivery, taking into account in particular the difficulty of policy makers to credibly commit to non-clientelist policies.

5.17 This section will argue that the inability of politicians to credibly commit to public policies undermines their ability to monitor service delivery once they are elected and become policy makers. It will build on the 2004 WDR, Making Services Work for Poor People, in describing service delivery as a principal-agent problem, but it will emphasize the role of de facto powers in the election of policy makers. The 2004 WDR describes two routes for service delivery. In the long route, policy makers are the agents of citizen-voters, as well as the principals of providers.29 In the short route, citizens are principals who more directly monitor the

24 Mansuri and Rao 2013.
26 Atkinson, Piketty, and Saez 2011; Atkinson 2015; Bussolo and Lopez-Calva 2014; Lindert 2004; and Ravallion (2015) describe changes in spending on the Poor Laws in the United Kingdom under the changing influence and incentives of rural landholders and urban middle class.
27 OECD/ECLAC 2014.
28 Rius 2013.
providers. However, policy makers are first political candidates. In order to be elected, given their difficulty in credibly committing to broad public policies that are difficult to monitor, political candidates commit to targeted patronage.\textsuperscript{30}

5.18 Indeed, to be elected, politicians engage in clientelist relationships—exchanging political support for material benefits—making them not only the agents of citizens but also the agents of the providers: evidence indicates that political connections matter in the behavior of service providers. In a sense, policy makers are not only the agents of “citizen-voters”; they can be the agents of multiple principals—citizens as well as providers, when the latter are organized.\textsuperscript{31} Public sector employment can be a means to reward individuals or groups, such as unions, for their support. When the reward is based on the expectations to extract rents, for instance through direct corruption or through absenteeism, it is difficult to establish monitoring mechanisms, after the election. There is evidence in Pakistan, for example, that more politically connected doctors are more likely to be absent and that their connections get in the way of sanctioning their absences.\textsuperscript{32}

5.19 The existence of patronage or clientelism does not mean that there is no room for learning from improving capacity, including through better management practices or the adoption of new norms, as recent research indicates. Even in cases described as cases of “poor governance,” with high corruption, there is large variation in the performance of bureaucrats and providers.\textsuperscript{33} To help identify “pockets of good governance,” this section will aim to compare the quality of different services in the same country and will also examine service delivery at the subnational level, data permitting.

5.20 The same commitment problem provides the basis for clientelism with “citizen-voters”: citizens may not engage in monitoring policy makers if they are in fact obtaining targeted benefits. The chapter will examine how citizen engagement and transparency can help improve the commitment of policy makers to providing public goods.\textsuperscript{34}

\textsuperscript{30} Besley and Coate 1997; Alesina 1988; Robinson and Verdier 2013; Stokes and others 2013.
\textsuperscript{31} Grossman and Helpman 2001.
\textsuperscript{32} Callen and others 2013.
\textsuperscript{33} Rasul and Roggery 2015.
\textsuperscript{34} World Bank (Forthcoming-b).
References


Chapter 6  Governance, conflict, and the absence of violence

“Little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism, but peace, easy taxes, and a tolerable administration of justice.”

—Adam Smith, Lectures on Jurisprudence, 1763

The nonviolent resolution of conflict and contract enforcement is a prerequisite and a constitutive element of development. This chapter delves into the links between governance, security, conflict, and violence, applying the framework introduced in part 1. Security is a public good, and its under-provision represents a cooperation problem. Norms and culture can shape behavior in ways that make violence persist. When this happens, changing beliefs about the way power is exercised and disputes settled becomes crucial: this is a coordination problem. Finally, the nonviolent resolution of conflicts implies a commitment capacity on the part of individuals and the state to make enforcement credible.

Section 1. Understanding how resources, identity, and shocks precipitate conflict but not necessarily violence

This section probes the conceptual linkages between security, conflict, and violence. It also identifies the main non-institutional precipitants of conflict.

6.1  Security—the security of people—is defined as freedom from danger and threat. It is a first-order, intrinsic dimension of well-being. Threats to people’s lives, livelihoods, and property can come from a variety of sources, such as food shortages, climate change, or violence. This chapter discusses only threats from violence, whether it is violence from war, gang activity, organized crime, or civil strife, or interpersonal violence.\(^1\) Violence, the behavior involving the use of physical force, threatened or actual, intended to hurt, damage, or kill someone or something, can result in injury, death, psychological harm, and loss.\(^2\) In addition to being an important value in itself, security is also instrumental for welfare, because violence disrupts economic activity; diverts and destroys goods and resources; increases uncertainty and transaction costs; and affects the productive capacities of individuals and societies.\(^3\)

6.2  This chapter addresses interpersonal and collective forms of violence and violent conflict. Not all conflict is necessarily violent, or even negative. Conflict, which is defined in this Report as an active disagreement, can be a major force for positive social change. It exists in all societies at all times, and arises when two or more individuals or groups believe that their interests, needs, or concerns are incompatible. Peaceful protests, strikes, boycotts, or mass resignations are all examples of nonviolent manifestations of conflict. This distinction marks a departure from the WDR 2011, which defined conflict as violent conflict only.

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\(^1\) The particular threat this chapter discusses—violence—means that the definition of security used is broader than “citizen security,” where the threat is violence, but mainly stemming from crime, yet narrower than “human security,” where threats are multiple, from loss of income to food shortages, infectious diseases, and environmental threats.

\(^2\) Dahlberg and Krug 2002.

\(^3\) World Bank 2010; Collier and Hoeffler 2004.
6.3 The WDR 2011 identified a range of factors associated with violent conflict. It referred to them as internal and external “stresses,” whether economic, security-related, or political, adding that “they can combine and precipitate actual violence.” WDR 2017 borrows this term and calls a subset of these factors “precipitants” of conflict, but shows instead that they drive all conflicts, not only violent ones. The reason this Report calls them “precipitants,” rather than “causes” of conflict, is first, because causality is often difficult to establish, and second, because WDR 2017 argues that the presence of other factors is necessary for conflict, whether violent or nonviolent, to occur. Precipitants of conflict fall under four broad categories: identity and ideology; resources and territory; shocks; and the unevenness of the development process. In combination or on their own, they increase the likelihood of the onset of conflict, and affect its duration or its intensity.

6.4 *Identity* encompasses ethnicity, race, language, caste, gender, sexual orientation, religion, belief, and potentially all “markers” of difference between human beings. Identity carries the seeds of conflict in its womb: those who share the same identity are part of the “in-group,” those who don’t are the “out-group”—the others. When people acquire a strong and exclusive sense of belonging to a single group, the stage is set for conflict, Amartya Sen notes.

6.5 *Resources* include natural resources such as oil, minerals, and gemstones; common-pool resources such as fisheries, forests, lakes, or wildlife; as well as private resources such as land or cattle. A rich literature associates natural resources with the onset of violent conflict, and at least in the case of oil, the causality is clearly established. Additionally, rents accruing from resources can be used to fuel and sustain conflict. The collective action problem known as the Tragedy of the Commons is a classic illustration of conflict arising from the mismanagement and overuse of finite common-pool resources. Conflict over resources can arise whether they are scarce or abundant.

6.6 In the same vein, conflict is also associated with economic and other shocks, where an external event, such as a drought or a hike in commodity prices disrupts a stable situation by introducing tension for the control of scarce or expanding resources. Finally, an expanding literature looks at the associations between conflict and other outcomes of the development process, such as poverty; income inequality; and socioeconomic polarization, often in combination with identity, along ethnic lines. Chapter 5 on governance and equity addresses some of these associations.

6.7 Yet examples abound of these factors driving conflict without necessarily resulting in outbreaks of violence. Both Canada and Norway are rich in oil, the natural resource most prone to sparking violent conflict, yet neither has experienced violent conflict in generations. Switzerland and Singapore are ethnically, religiously, and linguistically diverse, but enjoy some of the lowest

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4 Basu 2005.
5 Sen 2006.
6 Ross 2015.
7 Besley and Persson 2011.
8 Bardhan 2005.
9 Collier and Hoeffler 1998.
levels of violence anywhere. Belgium recently experienced acute conflict between organizations representing its two main ethno-linguistic components, including nine months with no central government, but no violence erupted. In Canada, a protracted conflict between francophone Quebec and the rest of the country nearly led—twice in fifteen years—to Quebec’s secession, but at no time was violence or the threat of it ever an option. How come?

Section 2. Understanding how institutions work (or fail) to prevent, resolve, and end conflict

This section establishes the centrality of state institutions for preventing conflicts from occurring in the first place, for resolving conflicts in nonviolent ways, and for ending violent conflict, suggesting three institutional pathways for ensuring security. Each pathway to security is contingent on state institutions effectively playing certain “functions” that solve specific collective action problems.

6.8 In the absence of institutions, violence becomes the main channel for the control and accumulation of wealth and resources, and the source of power. For development to occur, violence must be constrained. Institutions, as humanly devised constraints on social behavior, can prevent and restrain violence. This chapter focuses only on state institutions, but the same argument can certainly be extended to non-state institutions, as well.

6.9 WDR 2011 provided empirical and conceptual analysis of the importance of legitimate state institutions for preventing criminal violence, organized crime, and armed conflict in the long term. Its framework illustrates how precipitants of conflict—“stresses”—combine with malfunctioning state institutions to cause violent conflict. Recent empirical work bolsters this hypothesis. For example, analyses of the relationship between ethnicity and violent conflict, using new the Ethnic Power Relations (EPR) dataset, show that it is “ethnic exclusion that increases the risk for violent conflict while variations in ethno-linguistic diversity have no impact on conflict.”

Such findings make the point that outbreaks of violence are contingent on institutions in some way—in this case, lack of access to the state.

6.10 This chapter shows how state institutions can work to ensure security and the absence of violence along three junctures, from conflict to violent conflict to violence traps, outlining three possible pathways to security (figure 6.1). Each pathway to security is contingent on certain state institutions effectively performing certain “functions” that solve specific collective action problems at each juncture.

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13 Hobbes and Curley 1994; North 1990; North, Wallis, and Weingast 2009. Institutions can also trigger, organize, and sustain violence, such as in the cases of honor killings, apartheid, or concentration camps, but this Report does not deal with these instances.
14 Wimmer, Cederman, and Min 2009.
6.11 The first possible pathway to security is before any conflict occurs. Here, **institutions can ensure security and the absence of violence by removing incentives to engage in conflict in the first place**. For instance, the existence of well-defined property rights, and the state’s **commitment** to protecting them, including by way of the existence of sanctions that deter would-be violators, minimizes the incidence of conflict over assets and resources. To be credible and elicit broad compliance, such commitment by the state needs to rest on a number of governance pre-requisites introduced in chapters 2 and 3: clear and clearly communicated legislation and regulatory procedures; a **bureaucracy** capable and willing to explain and implement the law, and process the transactions associated with the state’s protection of property, whether by enacting inspections, issuing patents and titles, or levying service fees; and **accountability** mechanisms to remove residual incentives for noncompliance and shirking. These consist of formal sanctions in the form of penalties and penal sanctions, as well as informal sanctions by other complying individuals, such as shaming or ostracizing those who do not comply.

6.12 Repeated positive interactions of this type increase the predictability of transactions, build people’s confidence in the ability of the state to credibly commit to the protection of property rights, and eventually induce more people to play by the rules, eliciting further **coordination**. For instance, individuals collectively respect property rights because they observe others respecting them and gaining from doing so; the cost of not respecting them becomes higher, including from informal sanctions. That individuals make mutually consistent decisions means that no conflicts arise between them. Of course, as shown by the example of issuing formal land titles to Peruvian poor in chapter 4, the protection of property rights primarily serves the purpose of fueling economic activity and growth, not avoiding conflict. Yet in this case, it is possible to argue that increased security of people and a reduced incidence of conflict were positive byproducts of the reform.

6.13 The second possible pathway to security is after a conflict has occurred, but before violence can erupt. **When a conflict occurs, state institutions can prevent this conflict from turning violent.** Conflict arises daily over any of the precipitants cited in the first section because of the
6.14 The nonviolent resolution of conflict, once it is expressed, is contingent on two functions: the state’s commitment to resolving conflict peacefully, and individuals and groups believing that this commitment is credible and adjusting their perceptions and expectations (coordination). People believe that the state’s commitment to the nonviolent resolution of conflicts and disputes is credible when they trust the state institutions that provide the authorizing environment to air and pursue their grievances and conflicting interests, and state institutions that mediate and settle these disputes. In such instances, people bestow legitimacy upon governing institutions, where legitimacy is the degree to which people willingly comply with the state’s rules and institutions. When people trust state institutions to resolve conflict and believe they are legitimate, nonviolent conflict resolution becomes the “only game in town”; deviation from the rules by engaging in violence is sanctioned and costly, people’s expectations are coordinated, and uncertainties are reduced. Conversely, when people don’t trust their local governments to investigate and resolve local disputes about water usage rights, when they don’t trust the police to refrain from using lethal force during peaceful protests, when they don’t trust the courts to settle disputes fairly and speedily, when they don’t trust their politicians to organize free and fair elections, they either use available exit options—like turning to non-state institutions for alternative solutions, leaving the country, or withdrawing mentally and emotionally—or they resort to violence.

6.15 The choice of resorting to violence when institutions consistently fail to resolve conflicts peacefully is not automatic. There are indications that violence is the outcome of a rational decision: leaders go to war when they believe the expected benefits of a war outweigh its expected costs; and young people join gangs and rebellion movements when this option is superior to the next best opportunity foregone.

6.16 The third pathway to security is after a violent conflict has broken out. After violence has broken out, state institutions can still work to bring it to an end by addressing grievances,

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15 Trust is defined in this Report as “the belief that people have that institutional rules and procedures effectively constrain the state and make it competent and credible when acting in the best interests of the people.” This definition follows Corduneanu, Hamilton, and Masses Ferrer (2013), which in turn is based on Braithwaite and Levi (2003).

16 WDR 2011 already stressed the importance of legitimate institutions to prevent and reduce conflict, but did not elaborate on the functional underpinnings of legitimacy, nor on the governance interventions needed to build legitimacy.

17 These may predate and hinder the development of formal state institutions in some cases. See chapters 2 and 3.

18 Tilly 1978.

19 Fearon 1995.

promoting reconciliation, peace, and the restauration of order.\textsuperscript{21} Both the commitment of state institutions and the trust of the citizens are again the crucial points, especially as violent conflict weakens them, and erode the state’s monopoly over legitimate violence. In 1991, Medellin, Colombia was one of the most violent cities in the world, with a murder rate close to 400 per 100,000 residents. By the late 2000s, the crime rate in Medellin had fallen to about one-tenth the level of the early 1990s. This dramatic reduction in violent crime was the combined result of the state’s commitment and citizens’ coordination. On the one hand, the administration of President Uribe committed to reclaiming urban areas that had been completely under the control of narcotics traffickers. On the other end, the direct election of mayors and the devolution of substantial powers to provinces and municipalities made possible the implementation of a series of innovative social programs responding to the needs of poor citizens living in the Medellin’s most violent and gang-ridden neighborhoods. These initiatives helped build citizens’ trust toward state authorities, shaping incentives to cooperate in controlling violence, and changing beliefs about the recourse to violence.\textsuperscript{22}

6.17 Finally, violence and the lack of security can be persistent and self-sustaining, resulting in violence traps. The power and resources, including rents, that accrue to political elites benefiting from violent conflict prevent the rise of institutions for security and fuel more violence.\textsuperscript{23} For instance, large-scale ethnic violence can be provoked and sustained by elites seeking to gain, maintain, or increase their hold on political power. Violence can also affect people’s norms and beliefs. For example, state violence may have the effect, intended by elites, of constructing identities in more rigid ways.\textsuperscript{24} These new identities increase the support for elites who provoke violence, while favoring the continuation or escalation of violence in order to strengthen their hold of power.

\textsuperscript{21} Walter 2015.
\textsuperscript{22} Fukuyama 2014.
\textsuperscript{23} Besley and Persson 2011.
\textsuperscript{24} Besley and Persson 2011.
References


Part III
Drivers of change
Chapter 7 Citizen engagement, mobilization, and change

Section 1. What drives change? Understanding the role of citizens

This section introduces short stories of successful institutional transformation to illustrate the empirical questions to be addressed: How can citizens bring about change? What are most effective organizational structures and mobilization strategies available to the poor, marginalized groups, and ordinary citizens to act in support of their interests, and promote and sustain governance reforms? Under what conditions can the interactions between political elites and organized groups within civil society lead to inclusive and accountable state institutions? How can civil society groups build successful networks and coalitions for reform?

7.1 The rise of programmatic parties and pro-poor public policies in Brazil. The Brazilian party system is among the most fragmented in the world. As fragmentation increases, it forces presidents to form wider coalitions and reduces their ability to advance their legislative agendas, undermining the quality of public policies. These features militate against the emergence of programmatic parties, making patronage and clientelism endemic features of Brazilian politics. Despite these unfavorable conditions, the Brazilian Worker’s Party (Partido dos Trabalhadores, or PT) developed a programmatic platform around a project of social and political transformation, which demonstrated a remarkably long-term capacity to promote economic growth and re-orient public policies toward a pro-poor agenda. In 1988, the PT won the municipal governments in Brazil’s largest city (São Paulo), two other state capitals (Porto Alegre and Vitória), and several medium-sized cities. These local experiences became the trademarks of a new style of doing politics, “branding” the party’s commitment toward pro-poor public policies through expanded access to education, health, and housing; programs of popular credit; and, most of all, participatory budgeting initiatives to raise the level of citizens’ involvement in decisionmaking. In 2002, the PT won the national presidency under the leadership of Luiz Inacio (Lula) de Silva, a former labor union leader. Under Lula’s leadership, PT-led governments have continued market-liberalizing reforms began by another party with significant programmatic tendencies, the Party of Brazilian Social Democrats (PBSD). The new administration also significantly expanded the scope of successful social policies introduced under the previous administration led by Fernando Henrique Cardoso (such as the cash-transfer program, Bolsa Familia). By 2006, over 11 million household with some 46 million people—approximately one-quarter of the Brazilian population—were receiving monthly grants ranging from US$7 to US$45, depending on the number of school-age

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1 Mainwaring 1999.
2 Hagopian, Gervasoni, and Moraes 2007.
3 It is important to note, however, that initiatives like “Bolsa Familia”, which expanded education, and higher minimum wages were far from the more radical kinds of redistributive measures the PT had long advocated when it was in opposition. Indeed, as Roberts (2012) argues, the PT governments “largely built on and expanded the social programmes that Lula inherited from Cardoso. Deeper structural reforms, such as the PT’s commitment to land redistribution, were largely shelved after Lula took office, as the government did not want to disrupt a booming agri-business sector or provoke business groups by challenging property relations. Likewise, the Lula government remained relatively orthodox in its fiscal, monetary and trade policies, abandoning the PT’s early socialist rhetoric for a cautious strategy of redressing inequalities through social policies that strengthened the safety net around a market economy.”
children. The redistributive effects are remarkable both in terms of sharp reduction in poverty and reduced inequality.

7.2 Social movements and the power of information: the case of Right to Information Act in India. The Indian government had long been operating under the colonial Official Secrets Act (OSA) 1923, which justifies withholding any information from citizens as deemed appropriate by authorities. The Act had created a culture of secrecy that came to characterize not only administrative practices but also political considerations, seriously undermining the accountability of state institutions. Despite several attempts with technical working groups and Parliamentary Commissions, the OSA has never been repealed. In 1990s, a rural-based social movement emerged in Rajasthan, demanding access to information on behalf of wage workers and small farmers. The rural poor were often cheated and not paid their full wages, as they could not challenge the paymasters because they were denied access to attendance registers. The movement spread nationwide, questioning the legitimacy of established social norms and eventually leading to the formation of the National Campaign for People’s Rights to Information (NCPRI) in 1996. Members of the NCPRI built strategic alliances with other societal groups, including journalists, lawyers, and human rights activists, creating a strong constituency for reform that put demand for transparency at the forefront of the political agenda. In 2005 the Indian government passed the Right to Information Act (RTIA), generating high expectations on its potential to “change the nature of governance in India.” An estimated 4 million RTI applications were filled in 2011–12 at the central and state level.

Section 2. Bringing change through the ballot box and beyond: how information shapes citizens’ engagement making leaders accountable to voters.

Despite the world-wide diffusions of electoral institutions and growing opportunities for citizens’ engagement, the experience of many countries shows that elections often fail to hold government to account. Individual voters—especially the poor—often face strong barriers to collective action and therefore tend to support politicians who promise to provide material goods and targeted benefits, rather than uncertain programmatic policies. Under certain circumstances, however, citizens can use elections as a powerful tool to enhance the prospects of governance reforms and improve development outcomes. Building on systematic evidence of political engagement both across and within countries, this section will show how the timely provision of information—through institutional channels or media campaigns—can change voting behavior, shape the incentives of leaders, and make them accountable to citizens. Other forms of citizens’ constructive political engagement beyond elections, such as deliberative opinion polls and referenda, will also

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5 These results, however, have also generated fiscal pressures and sustainability concerns, and the middle class is now demanding better quality services and better governance in terms of transparency and accountability. How the Brazilian institutions can adapt to these new challenges will be a fundamental determinant of Brazil’s development in the next decade.
6 Mander and Joshi 1999.
7 Commissioners’ Committee (2009, 16), quoted in Alastair 2010.
8 Bari, Chand, and Singh 2015.
be analyzed to illustrate under what circumstances filling the “information gap” can help improve both the quality and the legitimacy of the decisionmaking process.

7.3 A growing body of empirical research in political science suggests that elections often fail to act as an effective tool to hold the rulers to account, especially in newly established and emerging democracies. Political rights of voters, particularly among poor people, are undermined through the practice of vote buying at election times. The offering of “gifts” or money in exchange for votes at the time of elections has been found to be widespread in poor democracies, despite the existence of secret ballots. Vote buying has been associated with lower provision of broadly delivered pro-poor public services in health and education. Where households report greater vote buying (in direct response to questions about offers of money in exchange for votes at the time of elections), village facility records show lower investment in basic health services for mothers and children; possibly as a result of lower public investments or worse performance in delivering broad services, a higher proportion of children are under-weight.

7.4 Political market imperfections are particularly important in the context of government’s incentives to serve the interests of the poor and explain why voter preferences are not always translated into government policies. These imperfections include lack of credibility of political promises to citizens and lack of information among voters about politician’s performance. On the one hand, where political competitors can make credible promises only to small segments of the electorate (such as members of their own ethnic group), governments prefer to pursue clientelistic policies, high targeted spending, high rent seeking, and low public good provision. Young and poor democracies are more likely to pursue these types of policies, because in these settings political competitors are less able to make credible commitments to broad groups of citizens. On the other hand, imperfect information about politician’s individual performance and contribution to social service improvements undermines government incentives to provide basic social services. The poor might be particularly disadvantaged in accessing information, because of illiteracy, limited mobility, and underdeveloped media for mass communications, creating pace for organized lobbying and informed special interests to purchase narrowly targeted policies at the expense of the majority.

7.5 Access to information can be a powerful force to overcome clientelistic politics and shift the distribution of vote shares towards better performing politicians in a variety of institutional contexts. Evidence suggests that information can increase the likelihood of removing from office those leaders against whom there is evidence of corruption. Information-induced changes happen even in contexts where a dominant party has been entrenched for some time, or among sections of citizens whose inclination to participate was initially low. For example, in Brazil’s municipalities, voters change their voting choice when audit reports disclose information about corrupt practices. Corrupt mayors are punished at the polls, while mayors with no irregularities are rewarded. These effects have been stronger in municipalities in which local radio is present to diffuse this information. Similar results are found in Puerto Rico, using information disclosed in audit

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11 Khemani 2015.
15 Ferraz and Finan 2008.
reports;\textsuperscript{16} and in Mexico, using audit information.\textsuperscript{17} The case-study of Mexico also that voters punish the party of malfeasant mayors, but only in precincts covered by local media stations, pointing to the strategic role played by the media to amplify the transformative power of information.

7.6 Providing information on specific policy issues can also change citizens’ views and act as an important input mechanism to improve the terms of a public debate, create more informed citizens, and open the way for future changes in public policies. Deliberative Polling represents a relatively new approach to ascertain informed, thoughtful, and representative public views on complex issues.\textsuperscript{18} This process has been employed in several countries around the world, ranging from the United States and the United Kingdom to Brazil, Bulgaria, China, Ghana, Greece, Japan, Italy, Macau SAR, China, Poland, and Uganda. Results have led to real-world changes in a surprisingly large number of instances. For example, in Zeguo, China, a city of about 250,000 inhabitants, DP helped channel public spending from high-visibility public works to more basic environmental projects, including a sewage treatment plant. Zeguo has continued DP for budget and infrastructure on a nearly annual basis since 2005. DP has spread to other areas of China and has been praised in the 18th Party Congress as a fruitful area for grassroots democratic experimentation.

Section 3. The politics of pro-poor reforms: The role of programmatic political parties

Political parties are the most important agents of political representation in modern societies. They choose which voters to mobilize and how to mobilize them. Which strategies parties choose to appeal to voters matters for governance and development. In emerging democracies, political parties tend to offer voters cash payments, patronage jobs, or pork barrel projects for their communities,\textsuperscript{19} leading to weakly institutionalized party systems and under-provision of public goods. This in turns undermines the legitimacy of the democratic process and can trigger discontent, protests, and instability. Under certain circumstances, however, political parties might sharpen their identity over key policy issues and adopt a programmatic strategy to attract a specific share of the electoral market.

This section will analyzes contemporary cases in which programmatic parties have emerged in environments otherwise dominated by patronage, to understand what factors can facilitate their appearance and under what conditions they can enable poor and marginalized groups to act collectively in their interest and promote changes in the quality of state institutions for better development outcomes. It will also shows how the logic of electoral competition can induce systemic changes once programmatic parties emerge, shaping incentives for other parties to overcome clientelist practices and start competing on new grounds.

\textsuperscript{16} Bobonis, Cámara Fuertes, and Schwabe 2015.
\textsuperscript{17} Larreguy, Marshall, and Snyder 2015.
\textsuperscript{18} Revived, refined, and applied in a wide variety of settings since the mid-1990s, Deliberative Polling is designed to reveal what a scientific, random sample of people think about an issue when provided an opportunity to learn about and discuss it with others under conditions favorable to making informed decisions (Fishkin 2011).
\textsuperscript{19} The term pork barrel politics usually refers to spending which is intended to benefit constituents of a politician in return for their political support. Typically, “pork” involves funding for government programs whose economic or service benefits are concentrated in a particular area but whose costs are spread among all taxpayers. Public works projects, certain national defense spending projects, and agricultural subsidies are the most commonly cited examples.
7.7  The role of political parties in solving collective action problems has long been recognized. In mass democracies with a universal franchise, individuals require “intermediary vehicles of coordination that help them to overcome collective action problems.” Parties solve voters’ collective action problem of trying to hold multiple politicians jointly accountable for their actions. Parties as can also improve cooperation among legislators.

7.8  Political parties vary significantly in the degree to which they facilitate collective action. Specifically, the organizational characteristics of political parties shape the incentives of politicians to pursue public policies. The types of political parties that have attracted the most scholarly attention include: programmatic parties, which mobilize electoral support through appeals based on a policy platform or ideological program; machine parties, whose electoral strategies depend on targeted, party-mediated transfers to supporters; and patron-client parties, which gain support through targeted transfers mediated by candidates themselves rather than by the party.

7.9  The nature of linkage strategies between political parties and voters has been explained by the structural conditions of a given society, and in particular its stage of development. At early stages of modernization, poor voters tend to reward the provision of material goods and targeted benefits rather than supporting uncertain programmatic platforms. As a result, “parties and party systems are clientelist, patronage oriented, and localist.” As societies become more developed, political parties shift to programmatic appeals because demands from voters become more sophisticated and costly, and monitoring their behavior becomes more difficult with the domestic migrations associated with the urbanization process.

7.10 Yet structural explanations can account better for existing types of party-voter linkages than for identifying how and why they change over time. Structural explanations, in short, cannot explain why some political parties operating within a clientelistic environment might adopt programmatic strategies instead. Nor can they explain why parties in countries at similar levels of economic development exhibit significant variation in their programmatic efforts. Finally, the same political party can also make clientelist appeals in some parts of a country and programmatic appeals elsewhere.

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20 Kitschelt and Wilkinson 2007, 525.
22 Cox and McCubbins 1994.
23 Keefer 2013.
24 Political parties do not fall into neat divisions of ‘programmatic’ or ‘not programmatic’. Rather, they are located along a broad spectrum, and might even display different strategies simultaneously. The focus is, therefore, on the extent to which programmatic strategies prevail over competing party mobilization strategies. Following Kitschelt and Wang (2014): “At a minimum a programmatic partisan effort requires (1) internal unity of policy purpose, (2) salience of that policy purpose for the party’s activities, and (3) distinction of its policy purpose from those of its competitors. This is just the minimum requirement for programmatic appeals. For those appeals to be credible to voters, parties may need to stick to them over repeated rounds of competition, practically pursue them as government parties, but even express them as opposition party within the legislative arena, and possibly build organizational structures as mechanisms of self-commitment that make it hard to withdraw from these policy commitments”.
25 Kitschelt 2000, 856.
27 Hagopian 2007.
The development effects of political party organizations are significant: empirical studies suggest that there is a strong association between the presence of parties organized to sustain a programmatic reputation and better development outcomes. For example, secondary school enrollment and other public services are significantly higher in countries that exhibit programmatic political parties, even after controlling for income and the presence of competitive elections. Programmatic parties are also associated with higher bureaucratic quality, lower levels of corruption and higher service delivery outcomes, capturing significant variations both across and within regime-types. Moreover, countries that lack programmatic parties are also less likely to adopt institutional arrangements inside the bureaucracy that support better bureaucratic quality and lower corruption, such as transparent public sector financial management practices and meritocratic civil service recruitment.

The case of Brazil’s Workers’ Party (PT) discussed above illustrates this point. One might contend that the spread of social programs was not a Brazilian phenomenon, and instead related to the process of democratization occurring in Latin America in the mid-1980s, and later on, to the major shift away from the politics of market-based structural adjustments. While the PT cannot claim exclusive credit for declining inequality in the country—also due to the combined effect of technological change and greater access to higher education—there is little doubt that the rise of a programmatic party has been instrumental in raising the salience of redistributive issues, getting the poor politically organized, and repoliticizing Brazil’s entrenched inequalities. Moreover, the nature of Brazilian political and electoral institutions militated against the emergence of disciplined and programmatic parties, making the PT a least-likely case within a patronage-oriented party system.

Launched in 1979 from a social movement coalition of labor activists, rural landless workers, and Christian-based communities, the PT emerged as a disciplined and programmatic party with high rates of cohesion and loyalty among its members. Focusing on promoting the party agenda more than maximizing electoral considerations, the PT followed a very restricting policy in forging electoral alliances. While penalizing the party in the short term, this political strategy forged the PT’s distinctive political profile and helped it retain an alternative organizational structure linked to a radical project of social and political transformation. According to many observers, this programmatic orientation and strong links with grassroots movements was the driving force of PT’s early success in municipal elections. PT-led municipal government developed a host of innovative social programs—the most prominent arguably being participatory budgeting—that elevated the party’s visibility and appealed to broad sector of the electorate. By the time Lula was elected President in 2002, the PT had developed into Latin America’s largest and most organized programmatic political party. According to some observers, the transformative effect of PT went beyond the party itself, inducing other parties to become more programmatic and generating systemic changes in national politics.

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29 Cruz and Keefer 2008).
30 Roberts 2012.
31 López-Calva and Lustig 2010.
33 Hunter 2006.
34 Rosas and Zechmeister 2000.
7.14 The experience of PT is not unique. In Brazil, Partido da Social Democracia Brasileira (PSDB, or the Brazilian Social Democratic Party) has also pursued significant programmatic efforts. Other paradigmatic cases in the region include the National Action Party (PAN) and Revolutionary Democratic Party (PRD) in Mexico, the Frente Amplio in Uruguay, and the Farabundo Martí National Liberation Front in El Salvador. In Bolivia, policies of redistribution took hold in 2005 when the rural party movement (the MAP) led to the election of Evo Morales.

7.15 Programmatic political parties are, in short, critical in allowing the poor to solve the collective action problem they face in being adequately represented and influence public policies. Building on recent empirical research on this subject, this section will investigate what it takes for political parties to make a credible programmatic appeal to voters, and seek to identify what factors can facilitate the process. Factors include: (a) “enablers” (structural conditions such as urbanization, economic development, or institutional capacities that shape the choices faced by politicians and voters); (b) “triggers” (opportunities to overcome otherwise unfavorable settings for programmatic orientation); (c) “lockers” (institutional reforms that might contribute to secure programmatic gains that already have been produced); and (d) “agents” (political entrepreneurs whose purpose and deliberate actions drive programmatic strategies).  

**Section 4. Contentious politics and the quest for more inclusive and just societies:**

**The role of social movements**

Routine processes of political engagement, such as elections, directed toward elected officials and policymakers are often not sufficient to promote meaningful reforms. Sometimes, ordinary citizens and interests groups mobilize and engage on “contentious politics,” understood as disruptive actions to make political claims, challenge the status quo and prevailing social norms, and promote institutional reforms. This section will explore the conditions under which social movements and interest groups—including business associations, professional networks, labor unions, people with disabilities, and women’s organizations—have been successful in promoting more accountable, transparent, inclusive, and just societies.

7.16 “Contentious politics” can take many forms and have different manifestations, including social movements, strikes, protests, riots, civil disobedience, and even terrorism and revolutions. Collective action becomes “contentious” when it is used by people who lack regular access to representative institutions, promote new claims or contested issues, and behave in ways that fundamentally challenge existing norms. Innovation and the ability to credibly commit are critical, and leadership plays a key role in inventing or adapting contentious strategies to gain support from followers.

7.17 The nature of the political settlement shapes the political opportunity structures in which social movements operate, affecting their strategic choices as well as their chances of success. “Political opportunity structures are consistent dimensions of the political environment that provide incentive for or constraints on people undertaking collective action.”  

36 Tarrow 1998.
society, triggering social mobilization and political change. Moreover, in a globalized world, social movements navigate an environment where domestic and international opportunity structures interact. This two-level political opportunity structure questions the classic assumption of social movement theorists that the state’s capacity or propensity for repression will diminish domestic social movement activity, enabling new forms of contention.

7.18 The politics of transparency and right to information reforms: India passed its pioneering Right to Information Act (RTIA) in 2005. While important shortcomings in implementation remain due to administrative barriers and lack of awareness—particularly among marginalized groups—the RTIA has proven to be a powerful instrument for curbing corruption, deterring malfeasance in government, improving systems and processes, and empowering citizens more broadly. Many advocacy groups have integrated RTIA into their campaigns for improved delivery of services to the poor. In the Orissa state, for example, two nongovernmental organizations (NGOs) have used the RTIA to reveal that government officials and businessmen had stolen four million kilograms of rice intended for distribution to the poor. The information was used to mobilize protests and eventually restore the supply of rice. In New Delhi, information obtained under the RTI revealed that the shopkeepers and food grain officers siphoned off 87 percent of wheat and 94 percent of rice meant for the poor.

7.19 A recent field experiment on the process of obtaining ration cards from one of New Delhi’s Food and Civil Supplies offices demonstrates that the RTI is almost as good as bribery in helping the poor secure access to a basic public service. Specifically, the study found that almost all the applicants who sought recourse through the RTIA were able to obtain ration cards within 120 days (compared with 82 days for those who submitted a bribe with their application), where the standard application process took almost 11 months. A related field experiment on voting registration reported similar findings, showing that filing an RTI request resulted in dramatically faster processing times than the standard application procedure, and rivaling bribery as a way to cut through bureaucratic red tape in India. Applications facilitated by bribes got registered in 140 days for the poor. Those using RTI received their approval in 164 days. Without the standard application procedures, the time lag was more than 300 days. Moreover, the results suggest that recourse to information has the power to erase social, cultural, and economic differences. This is remarkable, given the persistency of hierarchical norms and behaviors within Indian society.

7.20 Since the adoption of the RTIA in India, the level of public and governmental interest in improving transparency and accountability has increased dramatically in South Asia, particularly through right to information (RTI) legislation. Today most countries in the region have such legislation in place or are on the verge of enacting it. This section will explore how transparency regimes evolved in India and elsewhere in South Asia, and identify the factors that ultimately led

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37 Castaneda 2011.
39 Alastair 2010.
40 Kejriwal 2006.
41 Peisakhin and Pinto 2010.
42 Peisakhin 2012.
to the adoption and implementation of RTI legislation. Successful cases from other regions will also be discussed. The goal is to document the long-term processes that influence the growth of new ideas, their assimilation by state institutions, and the responses of national authorities. A more comprehensive understanding of these experiences can help other societies establish or strengthen their own transparency regimes.

7.21 Civic mobilization and Progressive Policy Change: the case of women’s movements. When the new women’s movement appeared in the United States in the mid-1960s, many observers regarded it as “a transitory phenomenon, imitating the black civil rights movements, but without the movements’ capacity to endure”. Despite these expectations, the movement grew steadily in strength and political relevance, with a variety of organizational forms including autonomous feminist groups and growing female activisms in existing institutions such as the Catholic Church, the armed forces and the unions. Membership in major feminist organizations grew to about 250,000 by the 1980s, promoting attitudinal changes and shifting prevailing norms. Between 1965 and 1975, press coverage of women’s event in general and of their protest in particular increased significantly. This helped activists to advocate for a ‘gender gap’ in the electorate, creating incentives for politicians to respond to women’s issues by changing their electoral campaigns. Results of this social and political process included growth in the number of women elected to office and sharp increase in congressional bills of interest to women as a percentage of total bills introduced in Congress.

7.22 The experience of US women’s movement is not unique and reflects a broader set of societal mechanisms identified as critical to promote women’s rights and policy change across the developing world. A global comparative analysis of state policies on violence against women (VAW) over the 1975–2005 period shows that the presence of strong and autonomous mobilization of feminists in domestic and transnational contexts is the driving force accounting for “progressive policy change”, measured as the degree to which government adopt VAW policies. Women’s social mobilization is critical to promote changes in social policy by articulating the collective interests of marginalized groups, challenging existing norms and practices, and demanding institutional changes that encode their ideas and claims. Over time, the new ideas promoted by feminist movements become encoded in new institutions such as international agreements and declarations. These institutions then play a critical role in spreading new norms across the world and promote institutional reform. However, the impact of global norms on domestic policymaking is often conditional on the presence of feminists’ activisms, which tend to magnify the effects of international norms. Studies on the politics of human rights point at similar causal dynamics, showing how international treaties can alter the expectations of domestic actors and provide them with powerful legitimating devices to increase pressures on their national governments and promote institutional and policy reforms.

43 Costain and Costain 1987.
44 Katzenstein 1998.
45 Costain and Costain 1987; Costain 1992; Freeman 1987.
46 “Progressive social policies” are distinguished by the specific intention of empowering or improving the status of groups that have been historically marginalized, excluded, and/or stigmatized. Policies on VAW are progressive because they challenge social norms establishing male dominance in sexuality, the family and the broader society (Htun and Weldon 2012: 552).
References


Chapter 8 National elites, bargaining, and adaptation

Section 1. Elements of successful institutional change and developmental progress

This section introduces the concept of elite adaptation and argues that reforms of formal institutions initiated by elites acting in their own interests can lead to transformative change. The key questions the chapter will seek to answer are: why do elites choose to tie their own hands and when is this developmental?

8.1 As laid out in part 2, when powerful political actors resist change, governance institutions with detrimental developmental logic can persist. Yet cases of institutional change and developmental progress do occur. Indeed, many countries have sustained rapid economic growth over long periods of time while also reducing violence and improving health and education outcomes. Many of these countries also experienced large governance improvements. These successful cases all overcame developmental “traps” that afflict many low- and middle-income countries: they overcame conflict traps by ensuring peace and political stability, and they exhibited adaptability in transitioning between different growth models, such as making the middle-income transition from accumulation-based growth to Schumpeterian “creative destruction.”

8.2 These countries achieved success by reforming institutions to overcome new development challenges through a process of repeated adjustment. Although development outcomes often reinforce existing norms and patterns of power distribution, these dynamics of persistence may come under pressure from exogenous shocks (such as financial crises or natural disasters) or endogenous structural or norms-based changes (such as demographic shifts, urbanization, discovery or depletion of natural resources, cumulative grievances from perceptions of injustice). These pressures serve as triggers for change that alter the de facto power distribution and shift norms and actor preferences. To generate sustained development improvements, successive proactive and reactive changes are necessary. To generate and sustain growth, these changes need not be large, but they must be self-reinforcing.

8.3 This chapter highlights the circumstances under which elite actors adapt to changing circumstances by reforming the formal institutional rules that define how power is allocated and exercised. Regimes in low- and middle-income countries are surprisingly tenuous: on average, these countries experience violent transitions every eight years. Leaders sensitive to political stability will tend to make incremental changes that reflect deliberative compromise in order to maintain stability. In this sense, decisionmaking elites “improve” institutions to strengthen their grasp on power or increase their rents.

8.4 Elite actors and “the state” are not monolithic, but rather a reflection of bargaining outcomes among groups of empowered economic and political actors. All regimes have some sort of power sharing, whether they are dominant or competitive, and even in many regimes seemingly

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1 Gill and Kharas 2015.
3 Cox, North, and Weingast 2015.
4 Lindblom 1965.
5 Bueno de Mesquita and others 2003.
dominated by a single individual, the ethnic compositions of ministerial cabinets are inclusive and proportional to the population, reflecting political bargaining rather than “Big Man” rule. Institutional changes must benefit these varied interests in order to be implemented and sustained.

Section 2. Institutional change through elite adaptation

This section describes why elites bind their own hands through institutional reforms. Although political elites change formal rules for reasons of self-interest, new institutional dynamics may change payoffs. That is, reforms may take on lives of their own and lead to larger unintended changes in institutions and development outcomes.

8.5 Elites reform institutional rules to maintain and strengthen power or to increase rents, often in response to exogenous and endogenous pressures for change. Three general elite strategies exist:

1. Increasing the power of the state to strengthen the position of elites.
2. Elite bargaining to co-opt opponents and distribute rents and policy concessions.
3. Introducing rules for accountability and responsiveness to preempt citizen demands.

8.6 Adaptive institutional changes may become self-reinforcing and have unintended consequences. The discussion below, grouped into the three categories of politically logical mechanisms described above, highlights the transformational changes that can result from adaptive reform when these reforms take on lives of their own.

Increasing the power of the state to strengthen the position of elites

8.7 Decision-making elites reform formal institutions to strengthen the state by making the exercise of existing power more effective or by directly building bureaucratic capacity. For instance, nation-building efforts have increased cooperation in many countries with successful development experiences, many of which did not all begin as ethnically homogenous united nations. Ideological nation-building efforts can create political and social stability and identity that can lead to greater trust, cooperation, and commitment to ethnically neutral policies. In Indonesia, President Sukarno introduced the Five Pillars (Pancasila) to unite disparate elements of society during the process of state formation; the concept survived a military coup as well as the transition to democracy, helping to maintain a coherent national state during destabilizing times. In Singapore, housing policies promoting ethnic integration created the basis for societal cooperation through buy-in to the national project. Giving people “a commitment to Singapore as an independent country in which they had a stake” facilitated wage restraints and other labor policies that helped improve the efficacy of industrial policy.

8.8 Elite actors often find it in their interest to strengthen the state through bureaucratic and civil service reforms. Reforms to limit patronage can arise from top-down initiatives, elite accommodation, or competition among political parties seeking electoral support. In Botswana,
increased bureaucratic influence resulted from the shared socioeconomic background of civil servants and politicians and the fact that most politicians rose from the civil servant ranks; the bureaucracy was empowered because doing so empowered individuals who supported regime goals. In China, Deng Xiaoping’s “Four General Principles” of cadre management calling for more revolutionary, younger, more professional, and more educated cadres was a politically motivated and politically savvy move: the inclusion of a “revolutionary” (geminghua) requirement made the reform difficult to oppose among older Party elites, while also enabling Deng to force into retirement older cadres who often formed the political opposition to his intended reforms.

8.9 Bureaucratic reforms often enhance institutional functions and growth, as described in chapter 4, but these reforms are not a one-off process. Rather, successive reforms must adapt to changing circumstances, as the specific qualities of bureaucratic capacity important at different levels of development may differ. For instance, bureaucratic quality seems to grow the most for successful countries while they are low income; countries that go on to escape middle-income traps already have higher bureaucratic quality than middle-income countries that do not experience economic convergence. The Republic of Korea, often assumed to have a long “meritocratic tradition,” undertook massive improvements in bureaucratic quality during the 1960s and 1970s. During the Syngman Rhee era, the bureaucracy was legally meritocratic, but between 1949 and 1961 only 336 bureaucrats passed the High Civil Service Examination, while 8,263 received “special appointments.” Until the late 1960s, Korea’s bureaucrats were sent for training to Pakistan and the Philippines. At higher levels of income, measures of bureaucratic autonomy and embeddedness may become more important than quality as measured by resources and meritocracy. For instance, in Japan, the autonomy of competing agencies was an important element of success for coordinating with business and resisting capture.

Elite bargaining to co-opt opponents and distribute rents and policy concessions

8.10 Many institutional reforms result from bargains among elites. To maintain their own power, existing elites may provide pay-offs to other elites or co-opt opposition through the creation of formal mechanisms to oppose other interests and channel their own preferences. Sustaining coalitions requires that elites provide benefits to coalition partners. Despite a preference for keeping coalitions small, politicians may broaden coalitions when social conflict is intense, for instance in early stages of state formation. Elite reform strategies that take into account effects not only on development outcomes, but also on the interests of the associated economic winners and losers, may become self-reinforcing. These strategies either compensate economic losers or create powerful new coalitions of economic winners.

8.11 In certain circumstances, rent distribution itself may create and strengthen institutions of governance. For instance, during the conflict between the English parliament and the monarchy

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13 Chang and Evans 2005.
14 Embeddedness is the degree to which the state is anchored in a “concrete set of social ties that binds the state to society and provides institutional channels for the continual negotiation and renegotiation of goals and policies” (Evans 1995, 12).
15 Johnson 1982.
16 Riker 1962.
during the 17th century civil war, traders introduced financial assets and provided shares to parliamentary moderates who lacked mercantile interests, creating a broad parliamentary majority that overcame monarchic rule and changed the mechanisms by which parliament operated. In Korea and Japan governments not only successfully picked winners, but prevented these winners from being able to completely modify the system in their favor and prevent further reform by distributing the rents created through market distortions in a way designed to sustain political coalitions that would support the further extension of these policies.

8.12 Co-optation of opposing elites takes many forms and can be done both within existing formal institutions and through the creation of new institutions. For instance, the Communist Party of China (CPC) has evolved considerably as it has co-opted various segments of society. Most notably, the CPC in the 1990s and early 2000s co-opted the private sector through the “Three Represents.” Adding entrepreneurs to the CPC’s ranks signaled an increased commitment to the private sector, helping to spur subsequent growth. Elites may also co-opt existing informal institutions into more formal structures; this is an important mechanism for co-opting local or communal elites. Botswana provides a successful case of grafting traditional institutions onto modern institutions, in contrast to Mozambique, which eliminated traditional institutions, and also in contrast to Ghana, Lesotho, and Uganda, where the persistent power of traditional institutions impeded policy making and implementation. As these cases show, co-optation is a two-way street. Decision-making elites likely see co-optation solely as a means of staying off opposition demands, rather than as a means of changing the balance of power within the settlement, but both processes inevitably occur.

8.13 Policymaking elites also introduce formal institutional “checks” in order to maintain power. For example, constitutions foster stability by serving as signals of commitment; they are not often introduced with the explicit purpose of constraining elite behavior, but they rarely serve as mere window dressing once adopted. Similarly, efforts to strengthen political parties are often intended simply to make clientelistic politics and patron-based rent distribution more effective. However, there is evidence that party capacity to deploy clientelistic policies is based on organizational form: informal delegation to local elites is more effective for clientelistic policies than formal policy networks. This pattern implies that formalization of party networks, even in pursuit of greater clientelism, may in fact undermine these clientelistic relations and lead to more programmatic policies. Further, formality solves the commitment problem of programmatic parties by constraining leader behavior. In one-party systems, the institutionalization of the party facilitates collective action by regime supporters, helping lead to credible commitments and greater private investment.

8.14 Even in authoritarian regimes, ruling elites have a political logic for introducing de jure checks on their behavior. Authoritarian legislatures are not mere window dressing: they provide

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17 Jha 2015.
18 Wade 1990.
19 Sebudubud and Molutsi 2009.
20 Ginsburg and Simpser 2013.
21 Lupu and Riedl 2013.
22 Panebianco 1988.
23 Gehlbach and Keefer 2012.
opportunities for contestation as a safety valve to vent political pressures; they co-opt opposition; they signal regime strength; they help regimes withstand leadership transitions; and they distribute rents. However, authoritarian legislatures not only serve the political purposes that spawn their creation, but also often lead to positive feedback loops. For example, the existence of legislatures in authoritarian regimes increases investment by raising the cost of expropriation, helping to foster negotiations between private actors, and providing useful policy information that improves allocation.

**Introducing rules for accountability and responsiveness to preempt citizen demands**

8.15 Chapter 7 introduced the concepts of contentious politics and citizen mobilization; when these bottom-up forces threaten elite interests, elites may introduce mechanisms to respond to societal demands before such pressure reaches a tipping point. For instance, the “systematic vulnerability” thesis argues that in several East Asian countries, governments introduced land reform to ward off rural rebellion in areas with significant communist influence. These reforms led to greater stability in the short term, as well as major institutional changes over the decades that followed. Indeed, some authors see the lack of inclusive rural policies in Africa as a result of the absence of class-based threats.

**Section 3. How solving some problems may create others**

*As elites adapt to changing circumstances, trade-offs often arise; solving some problems (such as growth) may directly cause other problems (such as corruption). This section argues that although in some cases elite adaptation will suffice for dealing with new challenges, at other times the bargains struck by elites break down and larger institutional redesign becomes necessary.*

8.16 Elite adaptation in response to growing pressure may not be enough to overcome certain circumstances or surmount certain pressures that arise during the developmental process. Endogenous processes and exogenous shocks can raise the costs of repression and lead to legitimacy crises stemming from underperformance, increased corruption, rising inequality, and other potentially destabilizing phenomena. When mobilization is repressed, regimes become more insulated from civil society, leading to regime “narrowing.” Moreover, legitimacy reduces the costs of repression, while illegitimacy raises them, so these two phenomena (rising costs of repression and growing illegitimacy) often occur simultaneously and reinforce one another.

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24 Malesky and Schuler 2010.
26 Geddes 2006.
27 Ezrow and Frantz 2011.
28 Lust-Okar 2006.
29 Wright 2008; Gandhi 2009.
30 Jensen, Malesky, and Weymouth 2014.
31 Boix and Svolik 2013.
32 Campos and Root 1996.
33 Wade 1990.
34 Bates 1981.
36 Gurr 1970.
8.17 Legitimacy crises can come from many sources. When legitimacy is based on growth, an inability to switch to new growth-enhancing institutions can undermine regimes. This growth-based delegitimization process is helpful for understanding the fall of the Suharto regime in Indonesia, which occurred following the Asian Financial Crisis as the country was transitioning from a low-income to a lower-middle-income country. Legitimacy crises may also arise from perceptions of inequality and injustice. For instance, in a process Albert Hirschman has called the “tunnel effect,” unequal growth at initial stages may please everyone, but when some groups continue to grow while others stagnate, discontent may rise. Even effective growth policies may alienate the population if public voice in the policy process is lacking. Alternatively, publics may be alienated by violations of rights, such as the repression of student and labor organizations in pursuit of effective developmental states. They may also become alienated by high levels of corruption as a consequence of the tight relationship among politicians, bureaucrats, and firms.

8.18 The logic behind these delegitimization processes is that certain governance institutions may be useful for generating early growth, but these same institutions may be incapable of further adaptation. For instance, low- and lower-middle income countries that “escape” income traps tend to experience smaller increases in political participation (as measured by the Vanhanen Participation Index) than countries stuck at these income levels, but upper-middle-income countries that grow to high-income status reverse this trend, implying a switch to more accountable institutions that can generate competition and greater growth. In terms of corruption, although successful countries in terms of economic growth tend not to have cleaner governments than comparator countries at similar income levels, upper-middle-income countries that grow to high-income levels experience a sharp decline in perceived corruption relative to those that stay stuck at middle incomes. The question in these cases is whether elites can continue to adapt, or whether growing societal demands will outpace the ability of elites to introduce institutional reforms.

38 The Participation Index comes from Tatu Vanhanen’s database, now called the Polyarchy Dataset and maintained by the International Peace Research Institute (PRIO) in Oslo, Norway. The index focuses on electoral participation.
References


Chapter 9  International influence for change

This chapter will examine the features of today’s interconnected, globalized world and the mechanisms through which they influence governance at the state and local levels. It will set out an analytical framework for understanding how these mechanisms shape laws and norms, how they affect bargaining power in the policy arena and how they influence functional capacity to translate policies into outcomes. Subsequent sections will examine these dynamics in the context of three critical domains: regional integration and trade; the movement of capital (foreign direct investment and illicit financial flows); and ideas (human rights).

Section 1. Governance in an interconnected and globalized world

9.1 The dynamics of development, contestation, and mobilization do not occur solely within the boundaries of nation-states. As the vast literature on globalization demonstrates, the past few decades have been characterized by the unprecedented intensity and velocity of transnational flows of capital, goods, people, technology, information, and ideas. These flows have had profound direct effects on governance dynamics at the national and local levels. At the same time they have given rise to a vast proliferation of global, regional, and transnational instruments aimed at regulating these flows through a dense web of binding laws (so-called hard law, including treaties and conventions); soft law (voluntary guidelines, standards, principles) and a plethora of organizations and public and private actors. The domains subject to what has been called global administrative law, or global governance, go far beyond relations among nation-states to reach deep into the way national state and nonstate actors govern in many areas, including business, labor, crime, information, public financial management, intellectual property, procurement, utility regulation, human rights, food and safety standards, and environmental sustainability.

9.2 The dynamics and impact of these globalized flows and instruments operate in much the same way as this Report’s governance framework (chapter 2), although at a more complex and multilayered scale. The literature on global governance, global administrative law, and transnational legal ordering shows that the process of shaping supranational legal and normative regimes is characterized by (a) power dynamics; (b) the contestation of principles; (c) complex networks of actors in the public and private, local, national and international, realms; (d) fragmentation; and (e) recursivity. In short, the formation of transnational governance regimes is the product of contests between multiple actors that is shaped by power, interests, and norms/ideas, which in turn are shaped and reshaped by the outcomes of the flows they regulate (capital, goods, ideas, information, people, and technology).

9.3 This chapter will identify and trace the ways in which these globalized flows and instruments shape governance dynamics at the national and local levels. Naturally, specific mechanisms vary in relation to the subject matter, the actors, time, and spatial dimensions (including nations, regions, and international areas). But this chapter argues that as a general matter, they act by shaping three key elements: domestic laws and norms; power as it plays out in the policymaking arena; and the capacity to perform the governance functions. The impact of this

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1 Appadurai 1990; Halliday and Osinsky 2006.
2 Kingsbury 2009; Braithwaite and Drahos 2000; Halliday and Shaffer 2015.
influence can lead to improved governance arrangements able to deliver better outcomes. But it can also lead to perverse or unintended effects.

Table 9.1 Mapping international factors: Illustrative actors, instruments and mechanisms of influencing governance

<table>
<thead>
<tr>
<th>ACTORS</th>
<th>INSTRUMENTS</th>
<th>MECHANISMS</th>
</tr>
</thead>
<tbody>
<tr>
<td>International governmental organizations</td>
<td>International treaties and conventions</td>
<td>Coercion (economic, military, political)</td>
</tr>
<tr>
<td>• United Nations (multiple agencies)</td>
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<td></td>
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<tr>
<td>• International Financial Institutions</td>
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<tr>
<td>• World Trade Organization</td>
<td>International and regional standards, principles, guidelines</td>
<td>Rewards</td>
</tr>
<tr>
<td>• International courts and tribunals</td>
<td></td>
<td>Persuasion</td>
</tr>
<tr>
<td>Regional organizations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• European Union</td>
<td>Voluntary association rules, ‘clubs’</td>
<td>Reciprocity</td>
</tr>
<tr>
<td>• African Union</td>
<td>Bi-lateral treaties</td>
<td>Knowledge and capacity transfer</td>
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<tr>
<td>• ASEAN</td>
<td></td>
<td></td>
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<td>• OECD</td>
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<tr>
<td>International non-governmental organizations</td>
<td>Model laws and regulations</td>
<td>Co-production and substitution</td>
</tr>
<tr>
<td>• Multinational corporations</td>
<td>Contracts</td>
<td>Modelling</td>
</tr>
<tr>
<td>• International professional associations</td>
<td>National legal regimes</td>
<td>Transnational advocacy networks</td>
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<tr>
<td>• International advocacy organizations</td>
<td></td>
<td></td>
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<tr>
<td>• Epistemic communities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic actors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Governments (departments, ministries and agencies)</td>
<td></td>
<td>Socialization</td>
</tr>
<tr>
<td>• Political actors</td>
<td></td>
<td></td>
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<tr>
<td>• Private sector actors</td>
<td></td>
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<tr>
<td>• Local civil society groups</td>
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<td>• Grassroots organizations</td>
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</table>
| 9.4 Laws and norms. The growing regime of international law—both hard and soft—aims to shape or supersede domestic legislation around a broad set of issues. The chapter will lay out the mechanisms through which this adoption and adaptation takes place, including coercion, persuasion, tactical concessions, and modelling. It will further analyze the mechanisms through which adopted laws are—or are not—implemented, in ways that change behavior, norms and ultimately development outcomes. It will deepen understanding and critiques of the concepts of transplants by examining how legal adaptation relates to internal power struggles.

9.5 Bargaining power. International elements affect the policymaking arena by shaping the relative bargaining power of domestic actors, for example, by enabling collective action around a particular framing of the problem; creating links to transnational networks; and/or leveraging the power and influence of a broad range of external actors. They further shape the arena in which policymaking and contestation occur, for example by providing—or closing off—alternative forums for political actors to promote their interests, such as international organizations, and

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3 Braithwaite and Drahos 2000.
regional and international courts. Thus, for example, workers at a Nike factory in Mexico succeeded in unionizing by leveraging transnational advocacy networks to put pressure on management and government to comply with labor regulations.\(^5\) Appealing to courts in Australia enabled Papua New Guineans affected by the toxic waste of a mining company to negotiate new agreements reallocating the benefits and costs of the mine.\(^6\)

### 9.6 Governance functions

International elements shape the translation of policies into development outcomes by enhancing—or displacing or even undermining—domestic governance arrangements to perform the functions. The means by which this is done is often through efforts to transfer knowledge, expertise, and technologies, including by supporting, co-producing with, or substituting for national actors. This can serve to enhance the ability to commit, coordinate, and cooperate to advance development outcomes, but can also serve to disrupt these functions by confusing expectations, competing with social norms, and undermining citizen-state accountability.

### 9.7 The sections that follow examine these processes in detail in the context of three domains: regional integration and trade (European Union, World Trade Organization, regional trade regimes); the movement of capital (foreign direct investment and illicit financial flows); and ideas (human rights). These are by no means meant to be comprehensive; rather they are illustrative of the agency, structure and mechanisms of change deriving from the features of globalization.

#### Section 2. Regional integration and trade

*This section will examine the process of regional and trade integration as a force affecting domestic governance dynamics. It will look at the particular experience of the EU integration process to analyze the mechanisms and strategies of actors involved, the reasons for success, challenges, and limitations. It will also look at the way international and regional trade regimes have affected governance, both from a top-down perspective and as channel for civil society interest groups.*

#### Section 3. Capital: the governance impact of foreign direct investment

*This section will examine how the rules around the movement of capital frame national governance dynamics, in particular who has the agency to participate in contests over the impacts of capital inflows; whether capital is framed in terms of fiscal transfer or a series of social and political goods; and where contests can take place. It will focus on case studies on the impact of foreign direct investment, particularly related to natural resources, on governance at the national and local levels. It may also examine efforts to regulate illicit financial flows.*

### 9.8 Resource-rich countries are frequently dependent on foreign investment in extractive industries as a driver of growth. While much has been written about the “resource curse” and its impact on state-level governance, this discussion will examine the impact on governance dynamics at the local level. Investment is often focused around very specific physical sites, such as mines, oil rigs, and plantations, and the physical infrastructure from those sites that transports resources.

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\(^5\) Rodríguez-Garavito 2005.

\(^6\) Kirsch 2006.
These sites are governed by local institutional arrangements—local councils, chiefly domains, customary land tenure, local civil society organizations, local labor and traders’ groups, and the like. At the same time, a host of other institutional arrangements govern these sites, from national land titling and cadastral regimes, to state mining legislation and regulatory agencies, to bilateral investment treaties and global standards (such as the Extractive Industries Transparency Initiative), to the company’s own internal conduct policies and its fiduciary obligations to its shareholders regarding the purpose and value of investment.

9.9 An example from Sierra Leone illustrates the profound impacts foreign direct investment (FDI) can have on rules, power, and governance functions. In 2009, Sierra Leone passed new mining legislation mandating that communities and companies produce a Community Development Agreement (CDA). This required that a certain percentage of annual revenue would go to the relevant community, moving capital directly to the local level. This immediately kicked up a series of contests about the rules, participants, scope, and beneficiaries of these agreements. The contest over the direction of the CDA was itself framed by other contests that situated the CDA as one of many means of governing the movement of capital from mining activities down to the local level. Attempts to harmonize the CDA with corporate social responsibility (CSR) standards and the local development planning process are ongoing, which entail contests between the different participants and their differential power in all three of those processes (the local council, for example, is a much stronger player when it comes to local development plans than CSR). At the same time, the amount of the CDA is determined as a percentage of gross revenue, meaning that it is framed by global revenue accounting standards for mining companies, as well as the standards of the Extractive Industries Transparency Initiative (EITI) and their domestic application. Finally, this pluralization of players, problems, and venues is contingent on the basic rules governing corporate personhood. One mining company went bankrupt and ceased operating in Sierra Leone. Any claims that might arise out of the CDA over extant revenues will be governed in no small part by the bankruptcy laws of the company’s home state.

Section 4. Ideas: international laws and transnational advocacy networks for human rights

This section will examine the mechanisms through which normative standards and international human rights laws influence domestic dynamics by shifting bargaining power, potentially changing prevailing social and cultural norms, and effectively empowering domestic political actors. It will seek to address two main questions: (a) Why national states and political elites choose to commit themselves to international human rights treaties in the first place? (b) Once they commit, what conditions and processes account for their compliance and actual changes in state behavior? Building on global quantitative analysis and comparative case-studies on the politics of human rights protection, this section will show that international laws and norms reflect politics but they also shape political behavior, setting the stage for new political alliances, empowering domestic actors and promoting policy changes and institutional reforms.

9.10 There is literature in international organization theories, historical sociology and political science has explored the origins of international norms and the mechanisms through which norms influence state and nonstate behavior. While multiple actors and strategies may be involved in those processes, it is possible to identify dominant players at different stages: norm entrepreneurs and activists tend play a crucial role at early stages, creating new international norms, while
international organizations and networks become increasingly relevant as norms spread and their acceptance increases across the globe. Finally, professional experts and national bureaucracies become important to internalize norms as the new ‘rules of the game’.

9.11 The case of women’s citizenship rights illustrates this point. The early historical cases of social mobilization for women’s rights were characterized by protracted national struggles, such as the ‘suffragettes’ movements in USA and UK in the late 19th century. However, by the 1930s localized national movements and their organizational infrastructure were overshadowed by transnational influences that eventually dictated a particular model of gender-neutral political citizenship in which universal suffrage was the central norm. Universal franchise came to be strongly associated with struggles for national independence and the birth of the nation-state. After 1945, there is not a single instance of a newly independent state that extended franchise only to men and not to women: a new norm of political citizenship was institutionalized. Historical experiences also show that international and transitional organizations tended to play a greater role relatively to domestic factors (presence of social movements for women’s rights).  

9.12 Once international norms are in place and start being adopted, they empower and legitimate the transnational networks and domestic coalitions that promote them. Often domestic nonstate actors and interest groups that are otherwise weak can exploit the legitimacy inherent in international norms to construct transnational advocacy networks, challenge prevailing social norms, legitimate their claims and put pressures on governments to transform state institutions and policies. Historical and contemporary dynamics connecting international human rights laws with domestic political processes illustrate this point, and help to account for the observed variations in state compliance vis-à-vis human rights treaties.

9.13 Since the passage of the Universal Declaration of Human Rights in 1948, human rights have been increasingly regulated and specified in international treaties, institutions, and organizations. The growth of transnational human rights activism is directly linked to the growth of such institutions. However, global trends show that systematic direct effects on state behavior remain weak on average. The rising gap between states’ propensity to join the international human rights regime and to bring their human practice into compliance with that regime challenges the efficacy of international law and questions the authenticity of states’ legal commitments to protect the rights of their citizens, leading some to conclude that human rights laws are just empty promises. Guatemala, for example, ratified its first global human rights treaty protecting women against discrimination in 1982, a period in which the government was reported to practice extensive political imprisonment, execution, and political murder and detention for political views. By 1992, the government had ratified all six of the most important human rights treaties. However, cross-country statistical analysis testing direct effect often fails to capture more complex

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8 Transnational advocacy networks are the most informal configuration of nonstate actors. Networks are sets of actors linked across country boundaries, bound together by shared values, dense exchange of information and services, and common discourses (Keck and Sikking 1999). While some networks are formalized, most are based on informal contacts.
10 Hafner-Burton and Tsutsui (2005)
causal mechanisms. International treaties create stakeholders domestically. The real politics of change is therefore likely to occur at the domestic level.

9.14 Once signed, international laws and processes make it possible to build new alliances across national borders, creating new opportunities for nonstate actors to influence state policies. Indeed, states that initially resist international pressures risk generating a “boomerang effect,”11 as domestic activists enter into powerful transnational alliances to support their claims. This process, however, is not deterministic. The extent to which the international diffusion of human rights norms generate domestic effects and induce state’s compliance is still contested among scholars.12 More often than not, the influence is indirect and mediated by domestic factors.13 Evidence suggests that state compliance and behavioral change often depend on the ability of social movements to move beyond contentious claims and build alliances and coalitions with other groups within societies, including members of the ruling elites, taking advantage of existing divisions and factions within the elite.14

9.15 The “boomerang effect” also applies to transnational judicial relations: faced with a climate of impunity for certain elites domestically, some nationals turn to foreign courts for justice. The publicity of foreign trials, in turn, can produce unexpected effects back home. In Guatemala, for example, appeals to universal jurisdiction have been critical to empowering domestic indigenous groups and support their quest for justice. Indigenous activists have campaigned against human rights violations committed by the Guatemalan armed forces during the country’s civil war, which lasted from 1960-96, calling for prosecutions and trials of key members of the Guatemalan political and military establishment. After having their access to justice blocked in Guatemala, Mayan indigenous groups (including Nobel Peace Prize winner Rigoberta Menchú) took their case to Spanish courts in 1999. It took over a decade, but along the way an emerging recognition of universal jurisdiction gave victims vital access to a legal forum where they could make their claims. In 2011, former General Mario López Fuentes was arrested and sent to trial for genocide and crimes against humanity, including massacres of Mayan peasants in the 1980s. This was the first time in the country’s history that a member of the armed forces was tried for genocide.

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11 Keck and Sikking 1999.
14 Tarrow 1998; Castaneda 2011.
References


