

GOVERNANCE *and* THE LAW

WORLD DEVELOPMENT REPORT 2017



TRADITIONAL APPROACH

Invest in the right **forms** of institutions

Build **capacity** of those institutions to implement policies

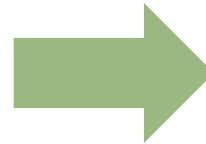
Strengthen the **rule of law institutions** to ensure applications of policies and rules

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REFOCUS

Strengthen the institutional **functions**

Addressing the **power asymmetries** that impede policy adoption and implementation

Understanding the **roles of law** in shaping power, behavior and contestation

What are the Main Findings?

1 Three key institutional functions matter for policy effectiveness

Institutions need to enable ***commitment***, enhance ***coordination***, and induce ***cooperation***

2 Power asymmetries in the policy arena affect institutional functions

Power asymmetries can manifest in ***exclusion***, ***capture*** and ***clientelism***

3 Changes in the policy arena can expand the set of implementable policies

Elites, citizens, and international actors can reshape the policy arena by changing ***incentives***, reshaping ***preferences***, and increasing the ***contestability*** of the decision making process

Determinants of Policy Effectiveness

Do agreements among actors in the policy arena enable institutions to perform three key functions?



Ensure credible
COMMITMENT
to policies in the face
changing circumstances



Enhance
COORDINATION
to change expectations
and elicit socially
desirable actions by all

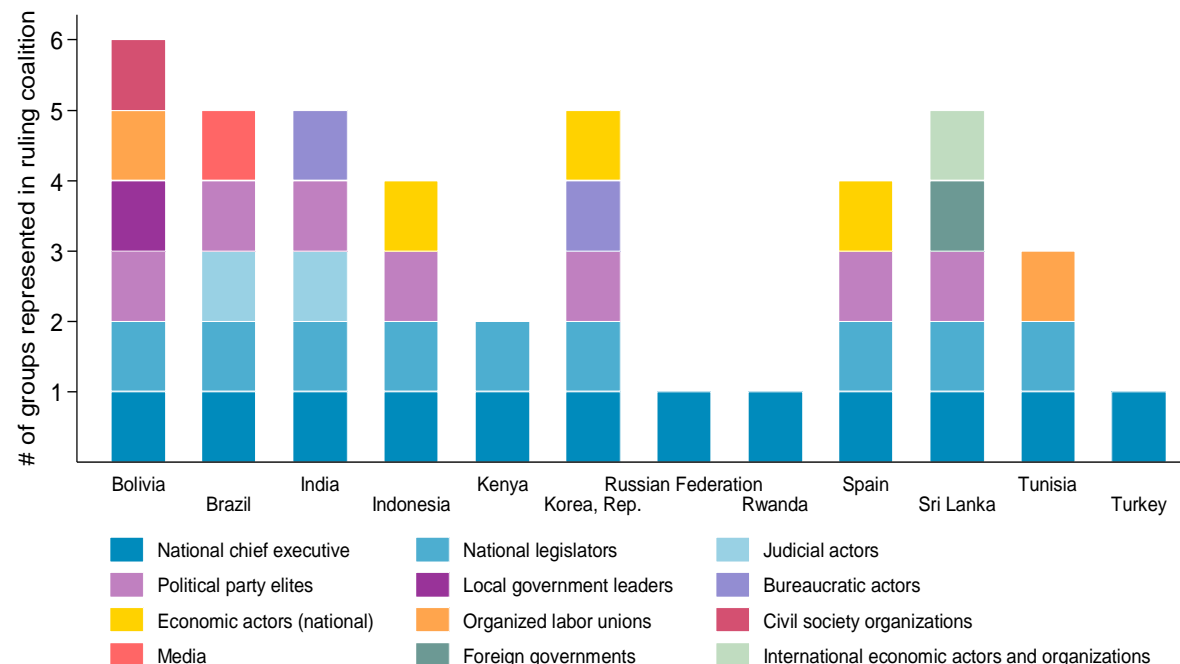


Induce
COOPERATION
to prevent free riding
and limit opportunistic
behavior

Designing and Implementing Policies

The distribution of power in the policy arena (**power asymmetries**) is one critical determinant of whether or not these functions are performed in a way that promotes better development outcomes

Actors with direct influence in the policy arena (elites) vary greatly across countries (2015)



Source: WDR 2017 team and V-Dem.



Good policies may be bad politics and bad policies may be good politics due to power asymmetries

EXCLUSION

Sidelining those who do not share the same preferences

CAPTURE

The ability of influential groups to make policies serve their narrow interest

CLIENTELISM

Selling short term individual benefits at the cost of long term, socially desirable, gains

Is Change Possible?

WHAT ARE THE ENTRY POINTS FOR CHANGE?

Change incentives

Change the cost of action or inaction

Reshape preferences and beliefs

Change objectives of actors in policy arena

Increase contestability

Reduce barriers of entry in policy arena

WHAT KIND OF RULES CAN BE CHANGED?

R1 (Low-level rules)

Specific policies - i.e. budgetary allocations and restrictions

R2 (Mid-level rules)

Organizational forms – i.e. central bank independence

R3 (High-level rules)

“Rules about changing rules”- i.e. constitutional and electoral norms

How Can Change Be Brought About?

Elite bargains

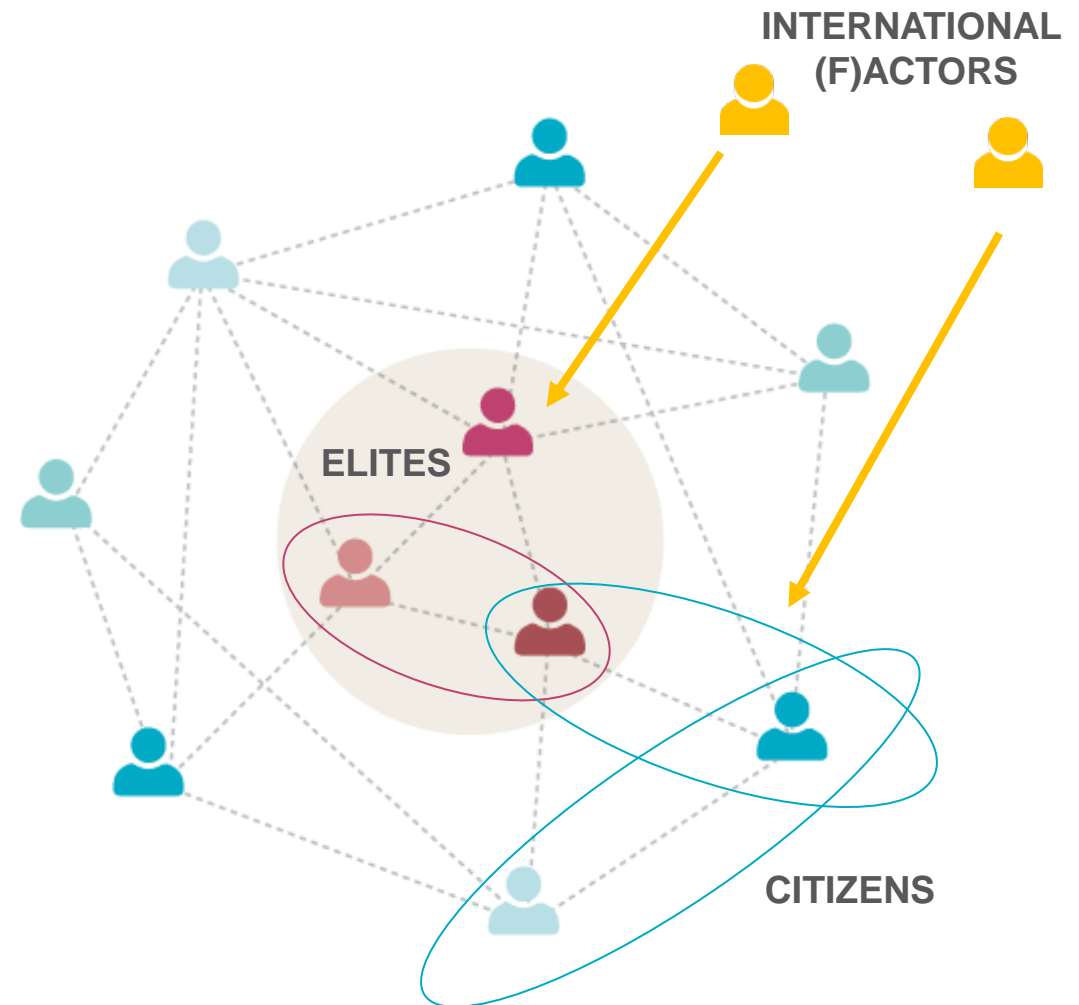
Agreements among decision makers to restrict their own power

Citizen engagement

Coalitions to change the incentives of those who make decisions

International interventions

Indirect influence to change the relative power of domestic reformers



How Elites Can Bring About Change

Why would **elites** voluntarily agree to limit their power and institutionalize increasingly broad commitments to one another – “binding their own hands”?

To strengthen their authority in the long term

- Broaden coalition to improve stability when the potential for conflict rises
- Strengthen accountability to citizens in response to mounting social pressure

To provide insurance against a future loss of power

- Introduce rules to bind potential successors
- Increases with the likelihood that the incumbent will be replaced (i.e. level of competition, relative power of opposition party)

How Citizens Can Bring About Change

To strengthen their influence in the policy arena, **citizens** need to engage through multiple mechanisms designed to solve collective action problems.

Voting

Political
organization

Social
organization

Public
deliberation

Since all these mechanisms are imperfect, it is their **strategic combination** that maximizes the chances to successfully promote change

How Citizens Can Bring About Change (Cont)

Strengthening transparency and publicity are important steps to achieve accountability

Transparency

Increasing the availability of reliable information
(i.e. evidence on performance of officials)

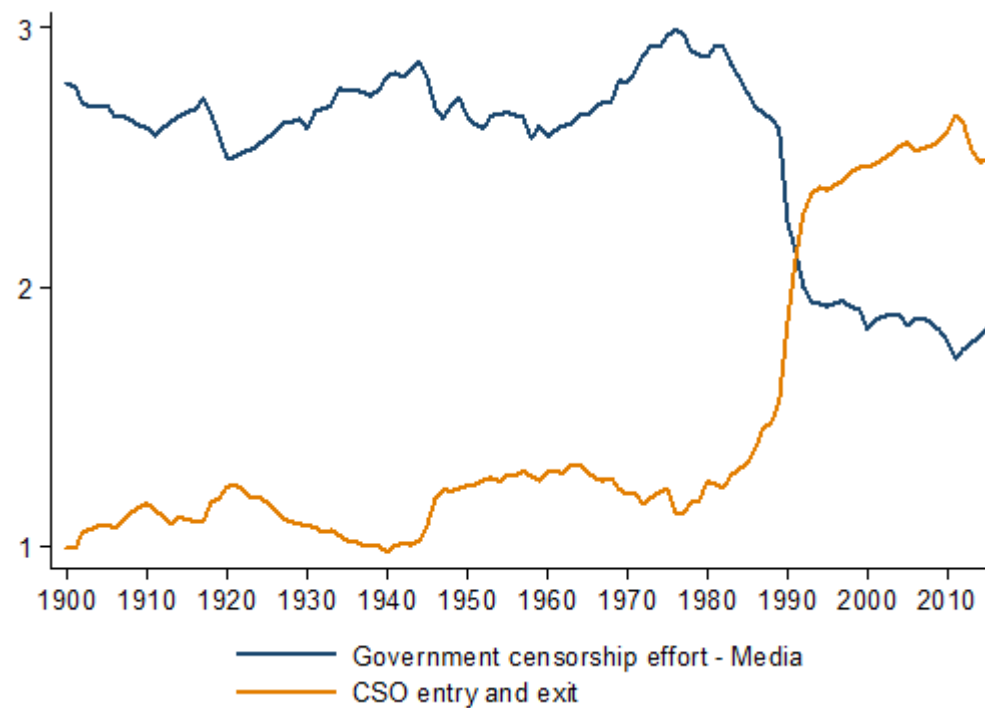
Publicity

Increasing the accessibility of information
(i.e. independence of media, targeting of information)

Accountability

Increasing the cost of inaction of public officials
(i.e. being voted out of office, facing sanctions)

After a continuous expansion over the last decades, civic space is shrinking



Source: WDR 2017 team based on V-Dem 2016

How International (F)actors Can Bring About Change

While **international actors** cannot engineer development from the outside, transnational flows play an important role in influencing the domestic bargaining dynamics by weakening or strengthening local reform coalitions.

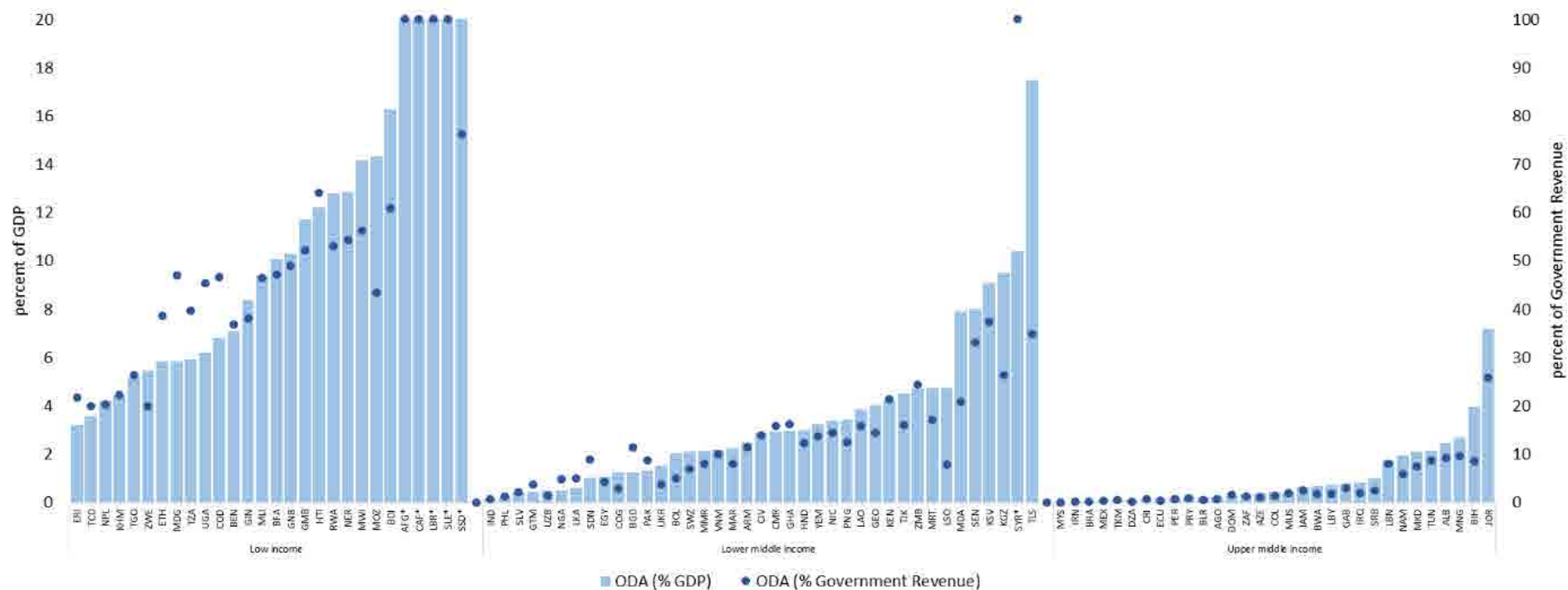
International actors can...

- Enter into the policy arena directly (i.e. Multinational corporations, transnational NGOs)
- Provide alternative sites for contestation (i.e. ICSID)
- Shape incentives by providing resources or other inducements to commit to reforms (i.e. foreign aid, regional integration)
- Shift the ideas and beliefs of actors (i.e. human rights)

How International (F)actors Can Bring About Change (Cont)

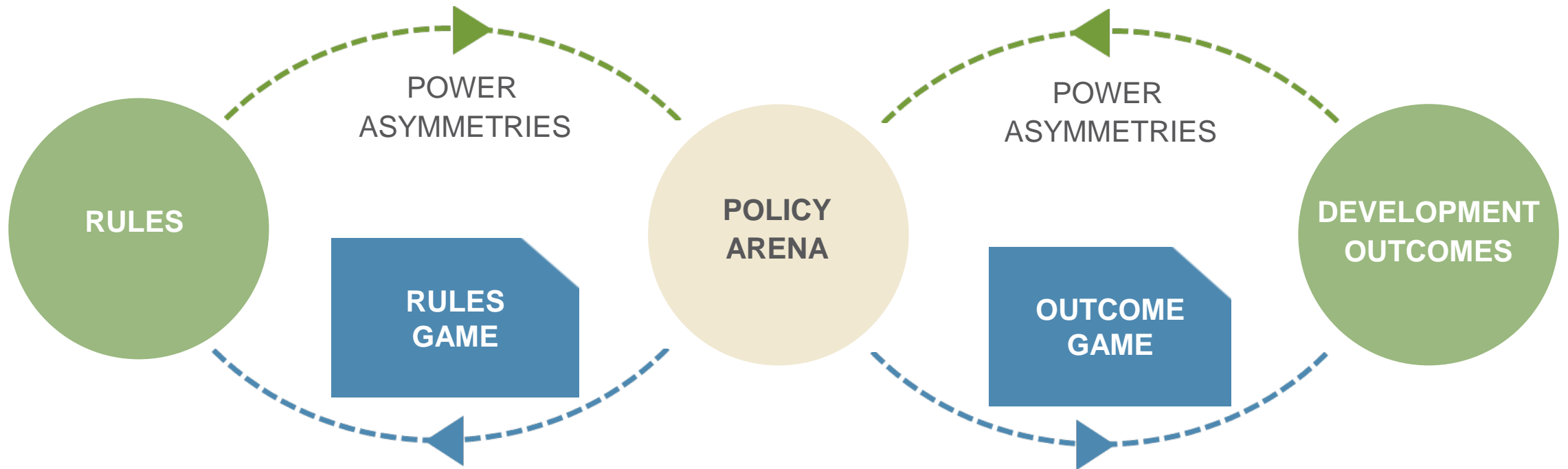
Whether or not interventions lead to positive or negative development outcomes depends on how they interact with prevailing power relations and affect domestic governance

Foreign aid is an important source of funding to complement domestic resource mobilization in many countries, but it can also face risks of undermining state-citizen accountability



Source: WDR2017 Team on OECD data (ODA) and IMF, Economic Outlook, for General Government Revenue

Visual Synthesis of the Conceptual Framework



What Does This Mean in Practice?

