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
Rethinking Governance for Development

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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 of 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.
Power Asymmetries and Why They Matter

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

**EXCLUSION**
Sideling 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
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.
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.

Intenational 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

- **RULES**
  - POWER ASYMMETRIES
  - RULES GAME

- **POlICY ARENA**

- **DEVELOPMENT OUTCOMES**
  - POWER ASYMMETRIES
  - OUTCOME GAME
What Does This Mean in Practice?

**DIAGNOSE**
What is the functional problem?
- Commitment
- Coordination
- Cooperation

**ASSESS**
What is the nature of power asymmetries in the policy arena?

**TARGET**
How can the policy arena be re-shaped?
- Contestability
- Incentives
- Preferences/Beliefs

**IMPLEMENT**
Who are the key actors to engage?
- Elites
- Citizens
- International

**DESIGN**
What is the best intervention mechanism?
- R1
- R2
- R3

**EVALUATE AND ADAPT**