Overview

Too often, government leaders fail to adopt and implement policies that they know are necessary for sustained economic development. They are encumbered by **adverse political incentives**, which prevent them from selecting good policies, and they run the risk of losing office should they try to do the right thing. Even when technically sound policies are selected by leaders, implementation can run into **perverse behavioral norms** among public officials and citizens, who seek to extract private benefits from the public sector. Such behavior might be supported by widespread beliefs that corruption is the norm.[1] Even countries with low corruption and strong institutions experience problems of political incentives and behavior that prevent the public sector from solving shared problems. Ideological polarization among citizens and capture by special interests can lead to policy gridlock and the failure of the state to provide public goods, even in advanced economies.[2] Even educated citizens can hold ideological beliefs about the role of public policy that lead them to deny technical evidence contrary to these beliefs.[3]

Harnessing citizen engagement and transparency to address government failures

This report is about addressing government failures, such as the ones described in box O.1, by making politics work for development rather than against it. It draws on research about how political markets function in determining which citizens become leaders and what

incentives they have for using their powers when in government. It distills lessons for how a variety of policy actors—from sovereign governments to international development partners and civil society organizations—can harness political markets to serve the goals of economic development.

Two forces—citizen engagement and transparency—are shaping how political markets function across and within countries. The report brings together dispersed strands of research and forges connections between them to gain an understanding of their implications. Research shows how citizen engagement and transparency in the political process shape incentives and behavioral norms in the public sector, with profound consequences for economic development. These lessons yield implications for policy actors who want to build effective public sector institutions that can deliver the public goods and services needed for development.

Box 0.1   Examples of adverse political incentives and perverse behavioral norms in the public sector

- The Treasury Secretary of a country in Africa prepares a budget that allocates a substantial share of spending to increase the salaries of public school teachers. But these teachers are known to be absent frequently and exert little effort at teaching even when present.[a] The secretary is well aware of the problem from his department's gathering of forensic evidence in the field, as well as from a body of international research (Chaudhury et al. 2006; World Bank 2004). Yet political forces in the country prevent the secretary from taking up technically sound policy recommendations to address absenteeism. These forces range from the power of organized teachers unions to popular demand from citizens at large for jobs in the public sector. The secretary poses the following questions: *Can research help reform leaders understand why politics yields such inefficient outcomes, not just in education but* *across the board? What can leaders do through the power of their office, even when encumbered by political constraints, to change things? Will budget transparency help, as is being advocated, especially for countries where the public coffers are swelling with natural resource wealth but where politics is an impediment to spending that money wisely?*

- Bureaucrats leading India's National Rural Health Mission identified absenteeism by frontline public health workers as a significant problem.[b] The bureaucrats responded with a technological innovation to enforce attendance: a biometric monitoring system to digitally capture the thumbprint of each staff member at the start and end of the working day. Researchers invited to evaluate the impact of this initiative found a significant increase in the attendance and improvements in health outcomes. However, the results suggested that

(continued)

Box 0.1   continued

other forms of malfeasance, such as the diversion of patients to private practice and reductions in benefits to which patients are entitled, may have been substituted for absenteeism. Furthermore, the researchers encountered low motivation for taking up the policy and implementing it effectively. The researchers noted that locally elected politicians, whom they thought would have better incentives than the bureaucrats to monitor the provision of health services (because the politicians could be voted out of office if services were not provided), did not think absenteeism or service delivery were problems. Similar questions arise from this example: *Why are there weak incentives and motivation in the public sector to take up and effectively implement sound technical solutions to delivery problems? How can information and mobilization campaigns to engage "ordinary" citizens, who hold no public office, help solve the delivery problem when powerful technocrats and political leaders are not solving it?*

• Establishing and building the capacity of anti-corruption agencies raises similarly difficult questions. Instituting anticorruption agencies and building their capacity often fail to make a dent in corruption in the absence of political incentives to reduce corruption (Maor 2004; Meagher 2005). These agencies can even be deliberately designed to be ineffective or can face political resistance when trying to fulfill their mandate. *How can policy actors complement investments in building state capacity with investments in strengthening incentives and behavioral norms among public officials to use that capacity to deliver public goods?*

• Widespread corruption and poor quality of public services can diminish the legitimacy of the state in the eyes of citizens, who respond with disrespect for state institutions, with disregard for the law, and even with violent conflict (World Bank 2011). Citizens can take other actions that, although not as tragic as violent conflict, can nevertheless contribute to problems in the public sector, such as throwing garbage in the streets or stealing electricity from public utilities. Citizens can regard theft from the public sector as "legitimate" when they believe that others, including powerful leaders, are stealing from the state. *How do changes in citizens' behavior come about? What role can transparency play?*

a. This example is drawn from an actual conversation between the Treasury Secretary and one of the authors of this report.

b. This example is drawn from Dhaliwal and Hanna (2014) and pertains to the state of Karnataka in India.

Growing space for political engagement

A global shift in political institutions is providing space for greater citizen engagement in the political process—or political engagement. **Political engagement is defined as the participation of citizens in selecting and sanctioning the leaders who wield power in government, including by entering themselves as contenders for leadership**. The dramatic spread of elections at national and at local levels, even within countries with authoritarian national political institutions, has created unprecedented opportunities for citizens to influence governance. Citizens are engaging in the political process as individual voters and as contenders for political office.[4]

Figure O.1   Global shift toward democratic institutions for political engagement, 1980–2013
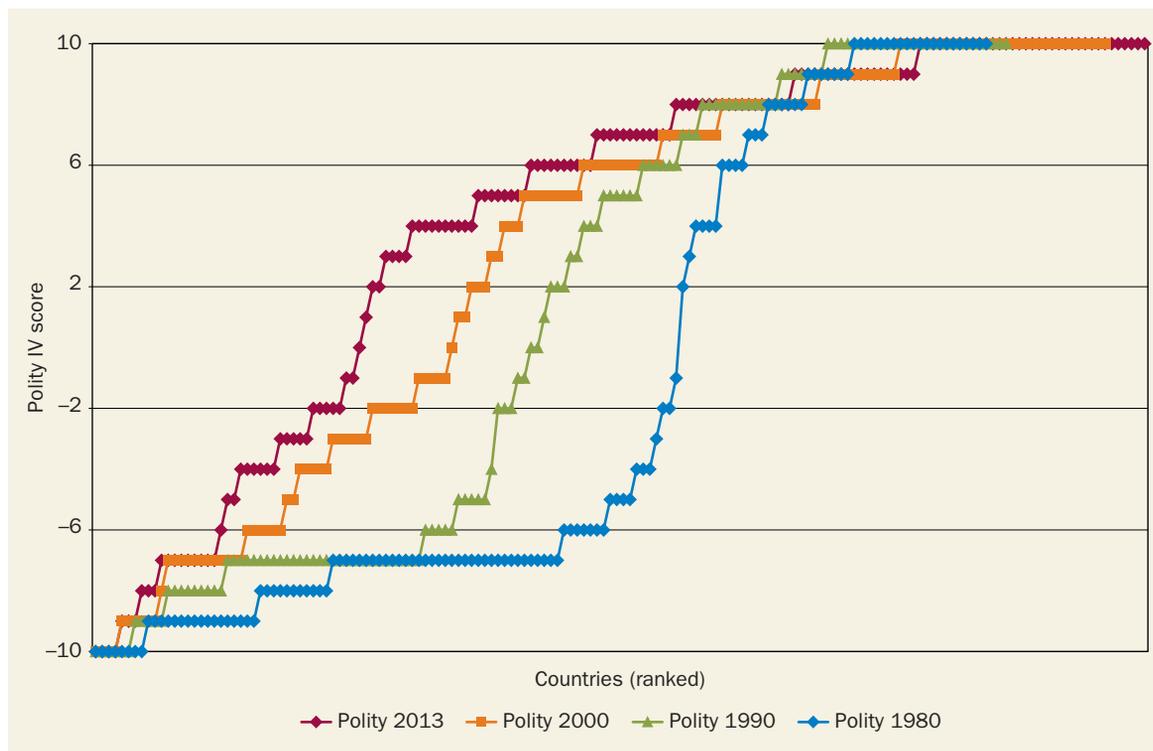
Source: Data from the Polity IV project.
Note: The Polity IV Score is a measure of state authority that is widely used in research, varying on a 21-point scale ranging from −10 (which corresponds to hereditary monarchy) to +10 (which corresponds to the Polity IV view of consolidated democracy). Higher values are associated with more democratic institutions.

Figure O.1 plots the distribution of countries ranked by the Polity IV measure of democracy, with higher values corresponding to greater space for political engagement by citizens.[5] During the past three and a half decades, the overall distribution of political institutions across countries has steadily shifted toward those institutions that allow greater political engagement. Although some individual countries have experienced reversals to more autocratic institutions or seen little change, the trend overall has been toward greater opportunities for political engagement.

### Distinguishing political from non-political citizen engagement

This report emphasizes the crucial role of citizens' political engagement, distinguishing it from other non-political forms of citizen engagement.

Political engagement is a means for citizens to improve the quality of public goods they receive by selecting and sanctioning political leaders. These leaders in turn exert great influence—for good or for ill—through the many public service institutions that are responsible for providing public goods. Non-political forms of citizen engagement seek to bypass the political process. Some forms try to make public officials and frontline providers more accountable to citizens for the public goods and services they provide. Others try to increase direct citizen participation in managing public budgets and organizing service delivery. This report will argue that such forms of non-political citizen engagement can only have limited benefits when they do not address fundamental failures in the political process. Indeed, even when such forms of non-political citizen engagement improve service delivery outcomes, they may do so by letting political leaders, public officials, and frontline service providers "off the hook" and, in effect, require citizens to provide public goods for themselves.

Growing space for transparency across different institutional contexts

At the same time, greater political engagement has been supported by **greater transparency, defined as citizen access to publicly available information about the actions of those in government and the consequences of these actions.** Public disclosure policies are bringing out greater information about the functioning of government and the actions of those in power. Greater information is available not only due to disclosure by governments, but also by non-government agents, such as investigative journalists and civil society groups. New media technologies broadcast information about government performance at all levels.[6]

Established democracies tend to have independent media, but nascent and emerging democracies, as well as autocracies, are also experiencing greater media freedom. Figure O.2 shows that countries that have more democratic institutions, as measured by Polity IV indicators, also tend to have more independent media, as measured by Freedom House.[7] At the same time, even autocracies allow some degree of independence or perhaps are unable to fully control media. Indeed, new information and communications technologies (ICTs), such as high-speed Internet access, have been described as a "dictator's dilemma" (World Bank 2016). On the one hand, ICTs are important to facilitating economic growth and attracting investments, but on the other hand, these technologies increase access

Figure 0.2 Media independence across countries with different measures of democracy
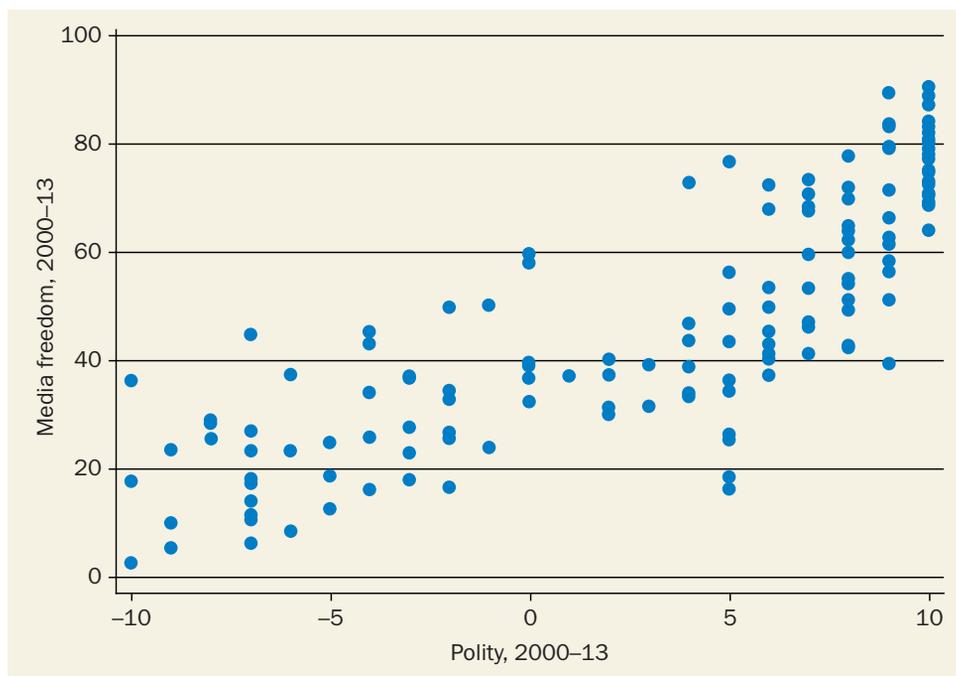
Sources: Polity IV Project for measures of democracy and Freedom House for measures of media freedom.
Note: The Polity IV measures of democracy and the Freedom House measures of media freedom are averaged over the period 2000–13.

to information and foster debate and discussion among citizens that can weaken the dictator's grip on power.

Applying research across institutional contexts

Cross-country research has examined whether national electoral institutions are correlated with better economic outcomes. While this correlation is much debated, recent research reports a robust positive association.[8] On average, this evidence suggests that political engagement through electoral institutions leads to better development outcomes. Yet clear examples can be pointed to where autocracies outperform democracies.[9] Research examining these differences in outcomes concludes that the key question that applies to both autocracies and democracies is whether leaders are selected and sanctioned on the basis of performance in delivering public goods (Besley and Kudamatsu 2008). This report is *not* about whether democratic institutions are better or worse than other institutions. It moves beyond cross-country evidence on the effects of national political systems to focus on within-country evidence on the nuances

of political engagement within the same formal context and how its specific characteristics matter for governance and for development outcomes.

Political engagement happens in every institutional context, from democracies to autocracies, albeit in different ways. The main contrast examined in the literature is when there is scope for greater political engagement by a larger number of individual citizens acting as voters, and as contenders for leadership, because of electoral institutions, versus when they do not; that is, when power over leaders is instead concentrated among elites or organized groups of citizens such as political parties. The report reviews the available research to draw lessons about citizens' and leaders' political behavior and how they respond to transparency across a variety of institutional contexts. Policy makers can use this knowledge to shape public sector governance in ways that are suited to their institutional contexts. For example, national leaders across the political spectrum are concerned about monitoring and managing public officials at the local level, who are often on the front lines of service delivery. National leaders even in authoritarian regimes are considering how best to use citizen engagement and transparency to solve this "last-mile" problem, including through local elections.

The analysis in this report points to the benefits of relaxing political constraints to the adoption of technically sound policies, as opposed to choosing "second-best" solutions that are available when these constraints are taken as given. This report recommends a shift in development policy advice from one in which technical experts seek to bypass politics or lower expectations when it is a problem, to one in which they confront politics and incorporate it into the search for technical solutions to development problems. This approach does not mean prioritizing attention to political incentives or waiting until problems of politics are solved. Instead, the suggested approach opens up avenues for development practitioners to harness the current forces of political engagement and transparency, which are emergent everywhere, for better development outcomes.

Main messages

Message 1: Government failures are a consequence of "unhealthy" political engagement

The examples of government failures in box O.1, above, can be understood in the context of research on **"unhealthy" political engagement: when leaders are selected and sanctioned on the basis of their provision of private benefits rather than public goods**.[10] Unhealthy political

engagement can take many forms. For example, electoral competition can involve violence, fraud, vote buying, and patronage targeted to specific groups.[11] Vote buying and fielding of candidates against whom there are serious allegations of criminality undermine the ability of citizens to use elections to hold leaders accountable for public goods provision (Khemani 2015; Prakash, Rockmore, and Uppal 2014).

Unhealthy political engagement can also result from distributive conflict among citizens. Special interest groups can mobilize to extract private benefits from public policies at the expense of the broader public interest (Grossman and Helpman 2001). Ideological beliefs among citizens about specific public policies, such as energy subsidies or immigration, can be difficult to shift with technical evidence on the costs and benefits of different policy options (Kahan et al. 2013). Distributive conflict and entrenched beliefs can lead to the selection of leaders who further polarize citizens and nurture ideological constituencies, rather than trying to find common ground to address shared problems. Polarizing leaders can prevent reformers from gaining power and pursuing appropriate public policies. Such unhealthy political engagement can occur in weak as well as strong institutional environments, and in poor as well as rich countries.

Unhealthy political engagement casts a long shadow. It not only shapes the incentives of elected leaders in adverse ways, but also the behavior of unelected public officials and of citizens. Leaders directly influence incentives and norms within public bureaucracies through the management policies they select. For example, when political leaders provide jobs in the government as political patronage, they prevent the professionalization of bureaucracies. A growing body of research provides evidence on the behavior of officials in the public sector that is consistent with the implications of such patronage politics. For example, doctors with connections to political leaders are more likely to be absent from public health clinics, and the public officials who manage these doctors are more likely to report political interference when trying to apply sanctions (Callen et al. 2014).

Unhealthy political engagement undermines the legitimacy of leaders, weakening their ability to manage complex organizations and effectively implement policies (Akerlof 2015). For example, leaders can use new technologies to monitor frontline providers, reducing opportunities for graft (Banerjee, Duflo, and Glennerster 2008; Muralidharan, Niehaus, and Sukhtankar 2014; World Bank 2016). But when leaders lack legitimacy, they may face resistance from frontline public providers to take up these technologies. For example, the time stamp machines that were installed to monitor staff attendance in public health clinics in India were sabotaged by the staff

(Banerjee, Duflo, and Glennerster 2008). Widespread electricity theft and non-payment of dues to public electric utilities in the developing world are further examples of the lack of legitimacy of the state in environments of unhealthy political engagement (Min 2015; Min and Golden 2014).

Message 2: Political engagement also functions in "healthy" ways that hold the key to addressing government failures

While unhealthy political engagement explains government failures, the solutions to these failures lie in fostering "healthy" political engagement and not in circumventing or suppressing political engagement. **Political engagement happens in "healthy" ways when leaders are selected and sanctioned on the basis of performance in providing public goods**. Healthy political engagement enables citizens to play a role in overcoming government failures by holding leaders accountable and by selecting better-quality leaders.[12] For example, corruption is lower when political leaders face reelection incentives (Ferraz and Finan 2011). Poverty is lower when political leaders come from social groups that have historically experienced greater poverty and economic discrimination (Chin and Prakash 2011). Greater political competition is associated with the selection of better-quality leaders who contribute to economic growth (Besley, Persson, and Sturm 2005).

The evidence on the adverse effects of unhealthy political engagement does *not* imply that authoritarian institutions that bypass or suppress political engagement would necessarily improve outcomes. For example, one study finds that ethnic favoritism led to distortions in public resource allocation even under authoritarian regimes in Kenya, and that periods of transition to multiparty electoral competition were in fact associated with *reductions* in these ethnicity-based policy distortions (Burgess et al. 2015). Other factors that explain unhealthy political engagement, such as the ability of political elites to punish voters through economic sanctions, violence, and coercion, can also prevent autocratic arrangements from being successful (Acemoglu and Robinson 2006; Besley and Kudamatsu 2008).

The diversity of successful institutions around the globe might tempt reform leaders to find ways of bypassing the messiness of electoral politics rather than improving it. It may even be interpreted as evidence in favor of restricting political engagement and establishing institutions run by benevolent dictators and organized elites. For example, some have attributed the East Asian growth "miracle" to institutions that restricted citizen engagement, allowing leaders to select and implement policies on technical merit.[13] This view, however, begs the question of where benevolent dictators and elites come

from and whether the "miracle" can be replicated in other countries. Societies in which elites do not sanction poor leaders or where elites benefit from poorly performing leaders remaining in office, are unlikely to be successful autocracies (Besley and Kudamatsu 2008). Why are some autocratic settings successful in selecting and sanctioning leaders on the basis of competence and performance, and others disastrous at it? There is little research available to guide us on this question and even less on whether messy democracies can eschew elections, however flawed they may be, and become well-functioning autocracies. Overall, however, the evidence from a large variety of institutional contexts is clear that fostering healthy political engagement rather than suppressing it is more likely to result in better development outcomes.

Table O.1 provides a typology of healthy and unhealthy forms of political engagement and behavior in the public sector. It also distinguishes between actions by individual citizens, such as voting, and actions by organized groups of citizens, such as political parties or civil society organizations.

Table 0.1 Typology of political behavior
Examples of different types of political engagement and behavior in the public sector

	Individual action	Organized group action
Unhealthy: *Actions for* **Private Benefits, at the Expense of Public Goods**	• Voting on the basis of targeted benefits, such as vote buying and ethnic identity politics • Popular demand for costly policies, such as subsidies, without regard to the costs of those policies • Noncooperative behavior, such as asking for and giving bribes to avoid public interest rules and regulations	• Political parties organized around ethnic identity, or fielding criminal and corrupt candidates • Special interest groups that capture policies for their group benefit, at the expense of the larger public interest
	◄ **Interact/Reinforce** ►	
Healthy: *Actions for* the **Public Good**	• Voting on the basis of good performance • Entry of "good" citizens as candidates for leadership • Norms of cooperative behavior in the public sector, such as abiding by public interest rules and regulations	• Local collective action to improve local public services such as at a school or health clinic • Civil society organization and programmatic political parties, such as on anticorruption platforms

Previous work has focused on the role of citizen action through groups to solve collective action problems (Grandvoinnet, Aslam, and Raha 2015; Keefer, forthcoming). This report emphasizes the role of individual citizen actions, such as voting, in solving collective action problems. Political engagement involves the interaction of both individual and organized group action. Together, individual and group actions work through political institutions to shape the incentives and quality of leaders, as well as the political beliefs and behavioral norms of citizens and public officials.

Individual citizen actions, such as voting or working through political markets, play a critical role in whether political engagement functions in healthy or unhealthy ways. Although it is an enduring puzzle to economists why people vote at all (Feddersen 2004), the evidence presented in this report suggests that citizens perceive the costs of voting as low and the potential benefits as high.[14] However, beyond the act of voting, citizens can vary in how they vote: for example, whether they are influenced by policy issues or by vote buying when deciding whether to support or evict leaders. Political leaders, both incumbents and challengers, can use different strategies, including unhealthy ones such as vote buying and violence, to influence and manipulate the votes of citizens.

The impact of organized groups such as political parties, special interests, and civil society, depends in part upon their ability to influence individual actions such as voting. Most of the available research provides examples of unhealthy organized group action that worsens the incentives and selection of leaders. For example, Satyanath, Voigtlaender, and Voth (2013) show how social groups in Germany enabled the Nazi party to mobilize voters, gain office, and subsequently subvert democracy. Research suggests that groups that can effectively organize collective action—by preventing "free-riding" by group members and by enforcing group-prescribed actions for individual members—are more likely to emerge to extract private group benefits rather than to work for the broad public interest.[15]

Well-intentioned civil society leaders can try to organize to pressure government for public goods, but for that organization to have real impact, they need strategies that work with the political incentives of government leaders to respond. There is little evidence and understanding about the impact of civil society organizations in contexts where elections are marred by vote buying or captured by special interests. However, a recent example suggests that civil society groups can make an impact when they are able to shift voting behavior. Some of the leaders of an anticorruption civil society movement in India turned their organization into a political party to contest and

win elections on an anticorruption platform.[16] Such a development can improve governance by strengthening the incentives of all political parties to demonstrate competence and performance in controlling corruption, that is, by shifting the issues of political competition toward public goods.

The incentives of special interests or organized elites can become aligned with public goods when the costs of government failure become too large for these groups. When this happens, history suggests that they contribute to strengthening political incentives by increasing space for political engagement by individual citizens. For example, research suggests that a rise in demand for urban public health goods among the elite in the United Kingdom after the Industrial Revolution contributed to the movement to expand the franchise toward universal male suffrage (Lizzeri and Persico 2004). Research on the origins of state capacity has identified the emergence of citizens' demand for common-interest public goods as a driving factor (Besley and Persson 2009). When elite business groups and civil society organizations demand broad public goods, they can advance their goals by using transparency initiatives to cultivate better quality of political engagement by individual citizens.[17]

Message 3: Transparency can support political engagement in order to overcome government failures. In contrast, transparency initiatives that do not improve political engagement are unlikely to be effective

Transparency can cultivate and improve the quality of political engagement in a variety of institutional contexts.[18] Even where corruption is rampant, concrete information on the extent of corruption, as revealed by public audits of government spending, can increase the likelihood that corrupt leaders are removed from office (Ferraz and Finan 2008). Where ethnic favoritism and vote-buying practices are widespread, the use of these clientelist practices to win office by providing private benefits at the expense of public goods, can be reduced by providing greater information about the quality of leaders and their performance in delivering public services (Banerjee et al. 2011; Casey 2015; Fujiwara and Wantchekon 2013; Keefer and Khemani 2014).

Transparency, in the form of greater information and better means of communicating it, can improve what citizens demand from leaders, can influence what issues they consider when assessing candidates for leadership, and can help them determine whether to enter political markets as contenders for leadership (Campante, Durante, and Sobbrio 2013). However, in contexts in which political engagement is unhealthy, there is

no clear evidence on whether transparency's impact is sufficient to get leaders to respond with sustainable or long-term improvements in outcomes, using the powers of their office to strengthen institutions.

The design of transparency is important—the nature and credibility of sources of information, and media through which it is communicated—all matter.[19] For example, a growing body of evidence, primarily from the United States, shows how the intersection of media markets and political markets shapes governance outcomes (Campante and Do 2014; Campante and Hojman 2013; Snyder and Strömberg 2010). When media markets coincide with political jurisdictions, citizens have better access to information on the actions of local leaders and their consequences for local outcomes that can be used to assess the leaders they choose. Leaders, in turn, have been found to play a role in credibly communicating information to citizens, persuading them to change their prior and typically entrenched beliefs (Glaeser and Sunstein 2013). That is, transparency as information provision alone is not enough—it needs to interact with political engagement, and the leaders selected through it, to shift behavior and beliefs.

Evidence from developing countries indicates that leaders and mass media do play the same role here as well, for example, in causing social norms related to the role of women to shift (Beaman et al. 2009; Beaman et al. 2012; World Bank 2015). This finding suggests that the effects of leaders and persuasive media programming might extend to influencing political beliefs and strengthening political behavioral norms—what policies to demand, how to behave in the public sector, what issues to consider when evaluating leaders, and whether to become a contender for leadership. Available research highlights the role of mass media as a force for persuasion, and as an institution that can address coordination problems among citizens beyond information alone (Keefer and Khemani 2014; Yanagizawa-Drott 2014).[20]

While transparency can support healthy political engagement, the evidence suggests that transparency initiatives focused on citizen engagement outside the political process are less effective. For example, citizen report cards have been used as a tool to mobilize and motivate citizens to monitor and demand accountability directly from frontline public service providers, rather than from the politicans to whom the service providers ultimately report (Banerjee et al. 2010; Bjorkman, De Walque, and Svensson 2014; Bjorkman and Svensson 2009). These types of initiatives are described as *social* accountability mechanisms because they do not rely on changes in the political incentives of leaders in government to trigger better performance on the part of providers. The evidence shows that whether

a transparency initiative improves a service delivery problem depends upon the characteristics of political engagement.[21] For example, if low motivation and effort by public providers is attributable to leaders' political incentives to provide patronage jobs in the public sector, then citizen engagement for social accountability may have little effect on public service delivery (Callen et al. 2014). Consistent with this view, the evidence for the effects of citizen report cards is weakest in unhealthy political contexts.[22]

Transparency interventions, such as information campaigns about local service delivery problems, are likely to have only transient effects if they do not improve political engagement. In the absence of institutional strengthening by leaders, governance problems can be displaced to other times and other areas outside the limelight of the information campaign. For example, theft of public funds might fall when there is media coverage, only to come back with a vengeance when the news cycle is over (Bobonis, Cámara Fuertes, and Schwabe, forthcoming; Zimmerman 2014).[23] Sustained reductions in corruption and improvements in service delivery depend upon whether transparency has fundamentally changed incentives and behavioral norms in the public sector. In turn, the permanence of these changes in incentives depends upon whether leaders are selected and sanctioned on the basis of good performance.

Message 4: Building effective government institutions requires changes in political behavior—investments in formal capacity and innovative technologies are not enough. Political engagement and transparency can bring about the needed changes in political behavior

Political engagement is a blunt instrument for accountability. For example, even when they function well, elections are designed only to hold elected officials accountable. But many of the functions of government are delegated to appointed officials rather than to elected politicians. Both elected and appointed officials exercise their powers through a myriad of working-level institutions of government, ranging from ministries and agencies all the way down to local public schools and clinics. Strong institutions of internal accountability within government, such as supreme audit institutions, and checks and balances, such as through independent judiciaries, are therefore important mechanisms to complement accountability through elections and other forms of political engagement.

The problem is how to build such institutions when they are weak to begin with. A wealth of experience with efforts to strengthen institutions

has shown that programs to replicate successful rich country institutions in developing countries—by providing equipment and training to bureaucracies—often fail (Andrews, Pritchett, and Woolcock 2013; IDS 2010; Pritchett, Woolcock, and Andrews 2013). Rather, effective institutions are more likely to be homegrown, using local knowledge and tailored to local contexts (Dal Bó, Foster, and Putterman 2010; Rodrik 2000).

The literature on institutional transition in the history of nations suggests that transparency in combination with political engagement provides tipping points for change in how government institutions function (Camp, Dixit, and Stokes 2014; Glaeser and Goldin 2006; Lizzeri and Persico 2004). Working together, these forces not only can hold elected leaders more accountable, but can also improve the incentives, political beliefs, and behavioral norms of appointed officials and of citizens. Political engagement and transparency serve as "meta-institutions" for building effective homegrown institutions.[24] They influence institutional change not only by affecting the "political will" or incentives of leaders to take up formal reforms, but also by changing the informal behavioral norms in the public sector to act upon them.

In contrast, change in formal institutions alone is not sufficient to change actual behavior. Research has found that healthy and unhealthy political behaviors can coexist and vary within the same formal institutional context (Acemoglu, Reed, and Robinson 2014; Anderson, Francois, and Kotwal 2015; Banerjee, Iyer, and Somanathan 2005). The importance of informal behavior is further highlighted in research examining persistent effects of historical institutions, even when those institutions have long disappeared and been formally replaced by others.[25]

Political engagement and transparency, and the leaders selected through it, can shift political beliefs and promote cooperative behavioral norms among citizens. Leaders can play this role as "prominent agents" who signal a shift in beliefs among society at large (Acemoglu and Jackson 2015).[26] Growing experience with political engagement and the learning that comes from it, such as through frustration and indignation with bad outcomes, can contribute to endogenous changes in political behavior over time (Bidner and Francois 2013).[27]

Multiple levels for political engagement created through local electoral institutions can enable transitions to healthy political behavior by increasing the supply of leaders who have built reputations for responsible management of public resources (Myerson 2006, 2012). Both the spread of

local electoral competition and instruments for transparency, such as new communication technologies, can lower barriers to entry for new political contenders (Campante, Durante, and Sobbrio 2013). The experience of political engagement at these local levels, as voters and as contenders for leadership, can play a significant role in building effective institutions.

Local elections can also operate directly as a tool for monitoring and enforcement at the local level. The need for such monitoring has grown with greater devolution of public resources in developing countries to local government, often with weak capacity. Lack of capacity, in turn, can contribute to widespread beliefs about corruption with impunity, leading to a culture of poor performance in the public sector. Such a "culture of corruption" would stem not from values but rather from rational beliefs about how others are behaving and about the probability of detection and punishment in environments with scarce resources with which to combat corruption. Local institutions for political engagement supported by transparency can help solve this coordination failure by shifting beliefs and behavioral norms.

Innovative technologies can play an important role in monitoring and managing funds flows and reducing opportunities for graft (for example, Muralidharan, Niehaus, and Sukhtankar 2014; Sacks, Ensminger, and Clark 2014; World Bank 2016). By strengthening incentives and the quality of leaders, transparency in combination with political engagement can potentially be leveraged to complement technological solutions and increase the likelihood of their take-up. In the process, transparency and political engagement, along with innovative technological solutions, may together contribute to shifting the political beliefs that support a culture of poor performance in the public sector.

The lessons from research for solving government failures for the delivery of public goods are summarized in table O.2.

Implications for policy

Conditions in many countries where the vast majority of the poor live resemble those described in historical accounts of previous institutional transitions in advanced economies. These conditions include widespread political engagement by citizens, even the poor and less educated; broad-based demands for improvements in public services; dissatisfaction with clientelist politics; and availability of cheap and accessible mass media such

Table 0.2   How do transitions toward the public good come about?
Messages from research about citizens' political behavior and response to transparency

Individual action	Organized group action
Clear evidence that individual actions respond to information, such as voters acting to remove from office those candidates who have been revealed to be corrupt	Little theory or evidence that organized group action will respond to information. Group organization is shaped by the concentration of benefits for group members and the group's ability to exclude non-members from these benefits.
Potential for targeting transparency initiatives to influence individual citizen action and to serve as a coordination device, such as through focusing voter demand on good-quality candidates who compete on platforms of providing public goods	Impact of civil society organizations that want to promote the public good depends on whether they can sufficiently influence individual actions such as voting that are aggregated by political markets. Well-intentioned civil society can undercut the power of special interests by mobilizing and coordinating the actions of individual voters on the basis of public goods.

When political engagement is unhealthy to begin with, transitions toward the public good come about:

Through political engagement
- Growing experience with unhealthy aspects of political engagement and the learning that comes from it, such as through frustration and indignation with bad outcomes, can contribute to endogenous changes toward healthy political behavior over time.
- Changing formal institutions is not sufficient: unhealthy behaviors can persist.
- Technical capacity building is not sufficient when political engagement is unhealthy.

Through transparency that nurtures healthy political engagement
- Political engagement, particularly by individuals, responds to transparency.
- Information and mass media have to interact with political engagement to change incentives, political beliefs, and behavioral norms.
- Transparency initiatives targeted only at citizen action outside the political realm are not sufficient.

as television and radio. These conditions do not guarantee good outcomes, and there are many risks of unhealthy political engagement and repressive responses by leaders. However, deliberate policy efforts for transparency targeted at helping citizens select and sanction leaders on the basis of performance in providing public goods can try to channel these forces toward the goals of economic development.

The report focuses its recommendations on leveraging transparency and citizen engagement, taking existing national political institutions as given. This pragmatic approach recognizes the difficulty of, and the political constraints to, changing fundamental political institutions in the short run. However, it does suggest opportunities to harness the power of

citizen engagement and transparency in a range of institutional settings. Targeted information enables citizens to select and sanction leaders on the basis of performance in delivering public goods, with far-reaching effects. As discussed above, it can improve the performance of political leaders who are disciplined by the threat of challengers, and it can improve behavioral norms in the public sector as a whole. It can also contribute to the reforms of other institutions of accountability in the public sector, in effective home-grown ways, by strengthening incentives of leaders to take up reforms and the behavior of public officials and citizens to support their implementation.

Policies toward transparency

Research findings suggest the following insights to inform policy actions on transparency:

- **Transparency is most effective when it supports the generation of specific, reliable, and impartial evidence on the performance of leaders tasked with the delivery of public policies.** The information provided through transparency must be specific about both policy actions and the resulting outcomes, so that citizens can use this information to select and sanction leaders. Information that is not specific in this way will erode the benefits of transparency. For example, information only on budget allocations is of limited use without information on how these allocations were spent and what the spending accomplished. Naturally, the information provided must also be reliable and must be accepted as impartial and untainted by partisan political considerations. This recommendation is supported by a body of research on the effects of providing information about the effort and performance of leaders, discussed in chapters 4 and 6.

- **Policies to strengthen the functioning of media markets can be a crucial part of governance strategies to foster healthy political engagement.** Policies in this area can promote healthy competition in media markets and can be complemented by interventions to support public interest programming that provides impartial information to cultivate citizens' political engagement. Even when media are independent from state control and markets are competitive, citizens can choose to access primarily entertaining programs that do not sufficiently inform them about public interest issues. Sponsorship of appealing programs or "infotainment" to communicate evidence on the actions of leaders and the effects of public policies, has the potential to persuade citizens to shift political beliefs in ways that strengthen demand for good leaders

and good policies. This recommendation is supported by a body of research on characteristics of political engagement and the role of media that is discussed in chapters 4, 5, and 6.

- **Policies can encourage the provision of information and the access to media to be more relevant and timely to the political process.** A key dimension of relevance is jurisdictional: information on the performance of public policies needs to be targeted to the jurisdictions in which citizens select leaders. Information on public goods provision at the local level is more relevant to voters' decisions in local elections than is information at the national level. Timeliness matters as well: performance assessments of both current incumbents and of challengers, delivered regularly during a term in office but also at the time of elections, can make it easier for citizens to use information to decide on how to vote. Information that enables citizens to assess the potential of political contenders, not just incumbents, can be useful to avoid incumbency bias. Relevant information broadcast through media that citizens actually access and pay attention to can lower barriers to entry for candidates to compete on platforms of improving public policies and government performance. This recommendation is supported by a body of research discussed in chapters 4, 5, and 6 on how transparency and political engagement need to work together to enable accountability.

- **Policies can be designed in ways that are sensitive to the nature of political institutions.** The policy implications of this report depend on the design of government jurisdictions—which tasks are assigned to which leaders and who are the citizens who select and sanction them. If government jurisdictions have clearly assigned responsibilities for public goods, then it is easier to generate data on performance that can be attributed to the leaders of those jurisdictions and to communicate that information to enable citizens to hold those leaders accountable for public goods. Most places will have a complex set of political and bureaucratic institutions that share responsibilities for the provision of public goods. Higher order transparency, such as civic education about the roles of different government jurisdictions and officials, can play a role in strengthening governance. When citizens are not empowered to select and sanction leaders of government jurisdictions, then citizens are unlikely to have the capacity to use information to exact accountability.

Policies toward citizen engagement

Research findings suggest the following insights to inform efforts to strengthen citizen engagement to address government failures:

- **Policies can be designed to be more effective when they explicitly take citizens' and leaders' political behavior into account.** The success of policy initiatives to engage citizens to improve service delivery depends upon the political characteristics of the environment in which those services are delivered. If citizens are asked to monitor and provide feedback on the performance of powerful local elites who control service delivery, citizens are unlikely to act without credible assurance that they will be protected from retaliation. For example, if beneficiary feedback is solicited through local elites who are the ones capturing public resources, then citizens are unlikely to respond by providing reliable feedback to reduce local capture (Olken 2007). In contrast, when beneficiaries are informed with the purpose of strengthening their bargaining power vis-à-vis local elites, then they are more likely to demand their entitlements and complain about poor performance (Banerjee et al. 2015).

- **Policies to improve local service delivery can use local political engagement and transparency.** A number of social accountability initiatives that seek to work outside the political realm rely on catalyzing group action by citizens. They use transparency campaigns to trigger action by committees charged with monitoring public schools, health clinics, or other public spending programs. However, there is little evidence that transparency alone encourages group action through such committees. Survey evidence that these committees are typically inactive suggests that organized group action of this type can be costly for citizens. Theory suggests that this is because groups rarely organize to pursue broadly shared public goods. In contrast, individual actions of political engagement, such as voting, respond to transparency. In pursuing the engagement of citizens to hold local officials accountable, higher-tier policy makers even in authoritarian national systems may consider local elections to be the mechanism through which citizens are empowered to do so. The research findings of the responsiveness of voting behavior to transparency suggests that policy makers can craft transparency policies, such as public disclosure of local government audits and strengthening of local media markets, to improve local political engagement as the mechanism of holding local officials accountable.

Who will take up these recommendations?

In making these recommendations, this report is mindful of the fundamental dilemma that motivates the report: too often, leaders with the power to choose technically sound policies are encumbered by political constraints that prevent them from doing so. The same problem naturally applies to the recommendations here aimed at harnessing transparency and citizen engagement to strengthen governance.

Nevertheless, different policy messages considered in the report may appeal to the comparative advantage of a diverse range of policy actors, including reform leaders within government, as well as non-government agents such as civil society and international development partners, whose incentives may be more aligned with development objectives.[28] External agents can play potentially transformative roles in contexts in which they are most needed to address political impediments to development. For example, the policy messages from research emphasize the importance of relevance, credibility, and impartiality of information about the performance of leaders and their policy actions. External agents might offer these attributes when they have technical capacity to generate meaningful information from large data and when they are regarded as politically independent and non-partisan.

Structure of the report

The first part of this report, comprising chapters 1–3, discusses the main themes that motivate the report: government failures, political engagement, and transparency. Each chapter presents trends and provides the context for policy action on the basis of the research covered in the subsequent chapters.

Chapter 1 on the theme of governance describes government failures in the provision of public goods. It presents examples and evidence from research on how political incentives and norms of political behavior can be at the root of government failures.

Chapter 2 on the theme of political engagement discusses growth in the participation of citizens in selecting and sanctioning leaders. It relies on public opinion surveys as well as other sources to provide evidence on citizens' perceptions of and participation in elections. Citizens, especially the poor and less educated, report active participation in elections across a variety of institutional contexts. Even where electoral violence and fraud,

vote buying, and ethnic conflict are common, citizens nevertheless express beliefs that elections matter for beneficial change, that through their vote they can improve their lives.

Chapter 3 discusses the emergence of transparency, defined as citizen access to publicly available information about the actions of those in government, and the consequences of these actions. Transparency has grown through deliberate policy efforts to improve governance by providing information about government actions and their consequences. For example, the public disclosure of information about government budgets has been proposed as a condition for international development assistance. Civil society organizations have also been making efforts to generate new information to monitor and evaluate government service provision. Finally, transparency has grown as a result of technological forces that allow different news media to generate and broadcast information about government performance. Established democracies tend to be more transparent, but there is also evidence of growing transparency in nascent or emerging democracies, as well as in autocracies, because of domestic and international pressures.

The second part of this report, comprising chapters 4–6, presents the lessons from research on how political engagement and transparency work together to improve governance. Each chapter contains different pieces of the theoretical and empirical research that come together in the messages summarized in this Overview.

Chapter 4 provides the conceptual framework for how political engagement is fundamental to incentives and behavioral norms within government. It shows how disciplining leaders and also selecting different types of leaders matters for governance and development outcomes. Transparency about both policy actions and policy consequences is essential. When information about policy consequences is lacking, transparency about policy actions may be counterproductive, leading to pandering and populism by politicians seeking to please uninformed citizens. In contrast, information about policy consequences can strengthen the ability of citizens to hold leaders accountable for outcomes.

Citizen beliefs about politicians, the political process, and public policies are relevant. Political norms that ingrain expectations of low performance perpetuate underperformance, be it corruption, shirking, or pandering. In addition, pandering is more likely when politicians are not trusted, which would occur when corruption is high. Thus, by creating a culture of distrust,

corruption has the indirect effect of fostering pandering. Political engagement and the leaders selected through it can help shift political beliefs and norms of political behavior among citizens, potentially enabling societies to escape low-performance traps to improve governance in the public sector.

Chapter 5 presents lessons from the empirical evidence on the impact of political engagement. A large literature provides consistent evidence across a variety of contexts that political engagement matters for governance, policy selection, and development outcomes in highly nuanced ways. Both individual citizen action through electoral institutions and organized group action can assume either healthy or unhealthy forms.

Political engagement can improve outcomes by changing incentives and encouraging the selection of better-quality leaders. Much of the available empirical evidence focuses on testing the impact of political engagement through elections. Relatively less evidence is available on the impact of political engagement by civil society organizations outside of elections, but it suggests that the impact of organized groups has important interactions with and can work through the mechanisms of electoral institutions.

By connecting and interpreting a large literature on the impact of historical institutions on development, the chapter shows how beliefs and behavioral norms can vary within the same formal institutions and persist even when formal institutions change. Persistence in political beliefs and norms regardless of changes in formal institutions has implications for how to think about the transition from weak to strong institutions of governance. Building the capacity of formal institutions is not sufficient. Improvements in the quality of political behavior are crucial for improving governance.

Chapter 6 presents lessons from the empirical evidence on the impact of transparency. It shows how different types of information and means of communication influence the actions, beliefs, and behavior of citizens and leaders. Substantial evidence shows that political engagement responds to transparency within and across a variety of institutional contexts. Citizens and leaders change their actions in response to new information. Citizens are influenced by the framing of issues and messages broadcast by mass media. The specific design of transparency interventions matters—the nature and credibility of the information and media of communication all matter.

In contrast to the potentially transformative role of transparency when targeted at improving the quality of political engagement, other evidence

on the impact of transparency initiatives outside the political realm suggests that it is not enough. The impact of transparency initiatives targeted at engaging citizens to take actions to improve service delivery really depends upon political incentives. Taken together, the pattern of evidence when transparency initiatives improve service delivery outcomes and reduce corruption, and when they do not, points to the important role of healthy political engagement.

The final part of the report (chapter 7) discusses the implications of the report's findings for policy actors. In doing so, it confronts the dilemma discussed above: too often those with the power to pursue policies that are good for development are constrained from doing so because of politics, and the same constraints may prevent actions to strengthen transparency and citizen engagement.

The bulk of development work occurs in imperfect governance environments where things need to get done and get done quickly. Still, development practitioners may not want to discount political economy analysis as a luxury or a distraction because politics has profound consequences for economic development. They may also not want to treat political constraints only as something to navigate using stealth and cunning. Treating perverse political incentives solely as fixed constraints that have to be navigated rather than relaxed may lead to second-best solutions that are not solutions at all, doing little to tackle the fundamental problems of development. The alternative approach recommended here on the basis of research on the emergent forces of transparency and political engagement is to find ways to tackle political constraints head on, harnessing these forces to relax the constraints such that "first-best" solutions are more likely to be sustainably implemented. Policy actors can target transparency to nourish the growing forces of political engagement and thereby complement other efforts to establish effective public sector institutions that avert and solve government failures.

The report has assembled a jigsaw puzzle from dispersed pieces of research to see what picture emerges and what the missing areas look like to understand and fix government failures. The co-evolution of transparency and political engagement in developing countries have implications for the design of appropriate public institutions in these environments that are likely to be distinct from the designs adopted by the rich world in its different development trajectory.[29] There are large areas of future work, building upon the

findings of this report, that are highlighted as the contours of the missing pieces of the jigsaw puzzle in the following chapters. The understanding of the political behavior of citizens, frontline public officials, and leaders that is offered in this report can be used to address government failures and build public sector institutions that are capable of tackling public goods problems.

Perhaps more important than offering ideas for specific policy action (which may indeed not work in the face of insurmountable political problems), the report aims to influence how development practitioners think about politics. Practitioners may then be able to make greater contributions to incremental change by more effectively using the levers available to them to overcome political impediments. This approach includes not just getting governments to adopt good policies, but designing implementation arrangements that are more likely to succeed, based on a better understanding of political incentives and behavioral norms in the public sector. The hope in preparing this report is that it will invite future debate and policy experiments by applying the lessons here to make politics work for development rather than against it.

Notes

1. Chapter 1 on the report's theme of governance provides a discussion of corruption as a norm.
2. A series of papers focused on policy making in the United States provide evidence of how ideological polarization among citizens can lead to policy failures (Bishop 2008; Glaeser and Sunstein 2013; Kahan et al. 2013; Sunstein 2009). Gilens and Page (2014) and Grossman and Helpman (2001) focus on the role of special interests in the United States.
3. For example, various papers from the Cultural Cognition Project at Yale Law School (reviewed in chapter 1) show how citizens' previous beliefs make them resist scientific evidence. The availability of detailed evidence from the United States on citizens' beliefs regarding public policies provides lessons for understanding political impediments to the selection of good policies in developing countries.
4. Chapter 2 documents trends in political engagement.
5. Details about the Polity IV measures are available at their website: http://www.systemicpeace.org/polityproject.html. These measures, along with another from Freedom House (which is discussed in chapter 2) are widely used in the economics research literature on the role of political institutions in economic development. Acemoglu et al. (2014) and Besley and Kudamatsu (2008) are important examples and provide a review of how measures of democracy compiled by Polity IV and Freedom House are used as such in research.
6. Chapter 3 contains evidence of the trends in transparency.

7. A study by Egorov, Guriev, and Sonin (2009) is acknowledged as the source of the idea to analyze the correlation between the Polity IV and Freedom House indicators.

8. Acemoglu et al. (2014) review the past research and provide new evidence to support their argument that democratic institutions lead to greater growth in the long run, using data from both Freedom House and Polity IV. Rodrik and Wacziarg (2005) find a positive association between democratic transitions and growth. Mobarak (2005) finds a positive correlation between democracy and economic stability (measured as lower volatility).

9. Besley and Kudamatsu (2008) discuss examples of autocracies that have experienced steady and high growth.

10. Chapter 4 provides the conceptual framework for understanding government failure as a consequence of unhealthy political engagement.

11. Chapter 2 reports survey evidence on a variety of electoral malpractices. Chapter 5 reviews the evidence on the impact of unhealthy political engagement.

12. Chapter 5 reviews the evidence on the positive impact of political engagement on incentives and selection of leaders.

13. Isham, Kaufmann, and Pritchett (1997) suggest that this is the argument in a World Bank report on the growth performance of East Asian countries.

14. Chapter 2 presents evidence from public opinion surveys on trends in and attitudes toward voting. León (2011) provides evidence that the propensity to vote is quite inelastic to voting costs.

15. Grossman and Helpman (2001); Lowi (1972); Olson (1965); and Wilson (1973) focus on the role of special interests in the United States. Rajan and Ramcharan (2012) provide evidence of regulatory capture by well-organized elites, even in a country with accountable political institutions. Bardhan and Mookherjee (2000) examine the role of elite capture in developing countries that is conceptually similar to the analysis of special interests in the United States.

16. "India's Left-Leaning, Anti-Graft Party Made A Stunning Debut," *The Economist*, December 14, 2013, http://www.businessinsider.in/Indias-Left-Leaning-Anti-Graft-Party-Made-A-Stunning-Debut/articleshow/27328073.cms.

17. Chapter 2 provides examples of transparency initiatives and voter education campaigns undertaken by civil society organizations. Chapter 6 discusses the ipaidabribe.com initiative that is championed by business leaders in India.

18. Chapter 6 provides an extensive discussion of this evidence.

19. Chapter 6 draws these conclusions about the importance of the design of transparency by making connections across dispersed pieces of evidence.

20. The role of mass media in enabling coordination is examined by Yanagizawa-Drott (2014), albeit for the tragic outcomes of the Rwandan genocide.

21. See chapter 6 for a more in-depth discussion.

22. Grandvoinnet, Aslam, and Raha (2015) review the evidence and conclude that political context matters.

23. Burgess et al. (2012) show how local rent-seeking by public officials and politicians is substitutable across different activities.

24. Rodrik (2000, 3) writes: "Democracy is a meta-institution for building good institutions." Baland, Moene, and Robinson (2010, 1) write: "Understanding

how to improve governance necessitates understanding the nature of the entire political equilibrium."

25. Nunn (2014) provides a review of a large and growing literature on the persistent effects of historical institutions.

26. Beaman, Chattopadhyay, et al. (2009) and Beaman, Duflo, et al. (2012) provide evidence on how female leaders shift social norms related to gender.

27. A body of research examining regional differences in governance within Italy has attributed the presence of greater social capital and of public interest or "civic" voting to earlier experience with participatory democracy (Alesina and Giuliano 2015; Guiso, Sapienza, and Zingales 2006; Nannicini et al. 2013; Putnam, Leonardi, and Nanetti 1993).

28. Rajan and Zingales (2003) make a similar argument about the role of openness to trade in promoting good policies in financial markets. They write: "Why, according to us, is openness beneficial? The answer is blindingly simple. Openness creates competition from outsiders—outsiders that incumbents cannot control through political means" (Rajan and Zingales 2003, 307).

29. A 2010 study published by the Institute of Development Studies, "An Upside-down View of Governance," made the argument that it is important to understand local political dynamics in the worlds in which poor people live as a first step to thinking about how institutions different from the institutions in the Organisation for Economic Co-operation and Development might be needed in these contexts.

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