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(Re)building Developmental States: From Theory to Practice

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Contents

Acronyms

APRM	Africa Peer Review Mechanism
CPIA	Country Policy and Institutional Assessment (World Bank)
DFID	UK Department for Intenrational Development
ECA	UN Economic Commission for Africa
ECLA	UN Economic Commission for Latin America
GDP	Gross domestic product
CFATM	Global Fund to combat AIDS, Tuberculosis and Malaria
HIV/AIDS	Human Acquired Immuno-Deficiency Virus/Syndrome
IFMIS	Integrated Financial Management Information Systems
IMF	International Monetary Fund
INGO	International NGO
ISI	Import substitution industrialisation
LDC	Least developed country
LIC	Low income country
LMC	Low-middle income
MCC	Millennium Challenge Corporation
MDG	Millennium Development Goal
NEPAD	New Partnership for Africa's Development
ODA	Offiical development assistance
OECD	Organisation for Economic Co-operation and Development
OECD/DAC	OECD Development Assistance Committee
PFM	Public financial management
PRSP	Poverty Reduction Strategy Paper
SAP	Structural adjustment programme
Sida	Swedish International Development Cooperation Agency
UN	United Nations

Executive Summary

States as a concept have returned to the centre of international policy debate. As the Commission for Africa acknowledged in 2005, weaknesses in the ways states function form a major barrier to the development of poor countries. The Paris Declaration on Aid Effectiveness, which was signed by 61 bilateral and multilateral donor agencies and 56 aid-recipient countries, acknowledges country ownership of development policies as the key to aid effectiveness. Yet ownership remains a mere façade when the state is not minimally effective, legitimate and development-oriented. Moreover, collapsed and fragile states imperil international peace and security and pose enormous challenges to current models of development cooperation.

Against this background, development agencies and other policy actors are increasingly focusing on what research-based literature has to say about state building, institutional reform, the role of the state in development and state-society interactions. This wide literature is generally not oriented towards the reshaping of international policies and practices, but rather to academic specialists in particular disciplines and areas of the world.

This paper is intended as a contribution to a dialogue about the role of the state in promoting development and about what the international aid community can (and cannot) do to help build stronger, more effective and better governed states in the developing world. It draws together academic research and recent evidence on the role of the state in developing countries and reviews how the current aid system interacts with states. It analyses the key issues raised in the Paris Declaration, but also points to problems in the aid system which lie beyond the Declaration's remit. Based on this, it brings forth a number of policy implications for international assistance.

A key premise of the paper is that states – and their political economy – matter for social and economic development. Rather than focusing on what the 'right' role of the state is or should be as a normative issue, we are concerned with why some states have been more capable and more supportive of development than others. This paper also seeks to understand what aid can and cannot do to support the process of building more 'developmental' states. We suggest that political economy factors and their social underpinnings lie at the heart of why some states function better than others. The dynamics engendered by the interaction of certain social and political structures in many developing settings are not propitious to development. Such structures – clientelism, patronage and populism, as well as 'neopatrimonialism' and state capture – are not immutable, but they can be deeply entrenched. The challenge for the international community is to determine how it can best support reform efforts that engage both directly and indirectly with such structures towards the goal of creating more modern states.

This paper is organised in seven sections. Section 1 introduces, and then Section 2 outlines the evolution of international thinking regarding the role of the state in development over the past decades. We identify four distinct stages, suggesting that each of these stages has reflected the lessons learned from the previous one(s). These have been marked by overly strong faith in state-led development in the 1950s and 1960s, followed by a period of increasing criticism and eventually of 'rolling back' the state in the 1980s and 1990s in the context of the Washington Consensus. There appears now to be an opportunity to develop a more balanced approach to the state and its role in development.

We link the discussion of the state to the emergence of the 'good governance' agenda in the 1990s in Section 3. This grew out of a concern surrounding the detrimental impact of state capture and other forms of (distorted) state interference on state capacity and developmental effectiveness. In contrast with the Washington Consensus, however, its emphasis is on improving rather than minimising the role of the state. This is an important approach in addressing some of the underlying problems causing poor state intervention. However, the good governance agenda has also been criticised for being too normative and for placing demands on poor countries that they neither can nor need to fulfil in order to achieve initial development. It is in this context that Merilee Grindle has developed the concept of 'good enough' governance, which seeks to promote governance reforms in a more realistic way and focuses on improving governance in those areas that matter most for the overall development process.

Section 4 reviews contrasting experiences with state-led development, in East Asia on the one hand and Latin America and especially sub-Saharan Africa on the other. We argue that the underlying reasons for the success of state intervention in some cases and its failure in others are a combination of political and social factors acting within a given structure of economic opportunities. In contrast with the experiences in East Asia, in many countries in both Africa and Latin America the benefits generated by state-led development were captured by narrow interests more concerned with building clientelistic networks than with fostering a transformation of the country's economy. What seems to be lacking in the cases of failed state intervention is a competent and meritocratic core civil service, autonomous from clientelistic networks and at the same time responsive to society, as well as political leadership structures that are institutionalised rather than dependent on highly personalised politics.

Section 5 analyses the evolving role of the state and of political rules in developing countries. We seek to gauge – albeit schematically – where these states stand now, by reviewing selected comparative data on government effectiveness. We also take a close look at the challenges besetting so-called 'hybrid regimes' – regimes where formal transitions to democracy have taken place but where democratic structures are not consolidating. Hybrid regimes tend to be characterised by populist politics, often by strong-man leadership but at the same time by potential or real instability, a sense of collective frustration among citizens about the failure of democracy to deliver tangible economic benefits, and disillusionment about what can be achieved through formal political institutions. Moreover, clientelistic structures and high levels of corruption often persist or even increase, as political competition is opened up but accountability mechanisms remain weak.

How does international aid relate to states and their political underpinnings? How do widely diagnosed problems of aid fragmentation affect the potential for building more development-oriented states? Sections 6 and 7 of this paper focus on the dynamics of international assistance and how these affect states and politics in aid-recipient countries. Section 6 looks at some key problems embedded in the current aid system which undercut the potential for aid to support the emergence of states that are more effective, accountable and developmental in their orientation. It considers efforts at analysing and addressing some of these problems as linked with the 2005 Paris Declaration, but also points to the limits of these efforts. In particular, the Declaration takes a narrow approach to country ownership and governance in recipient countries, and blends out the challenges related to underlying social and political structures, despite the risks that aid might reinforce rather than help to transform these.

Section 7 starts by re-emphasising the key lesson, that capable states are central for development and for the capacity to use aid effectively. Drawing on the analysis presented in this paper, we then develop a set of implications regarding how to move forward on supporting more effective and accountable states. This is a three-pronged agenda: i) bringing politics back in, and translating this into concrete policies and practices; ii) seriously tackling the limitations of capacity development to date; and iii) building more incentives into the aid system for improving the quality and capacity of governments. We conclude with a word of caution and of optimism. International aid is always only one among many influences affecting politics and states in recipient countries. However, in an increasingly interdependent world, there is an increasing commitment to solving development problems that have been intractable in the past. A more balanced and analytically informed approach to the state and to the importance of the political sphere is emerging – informed also by lessons from the past – which can help to translate this commitment into more effective support.

1 Introduction

States as a concept have returned to the centre of international policy debate. As the Commission for Africa, chaired by UK Prime Minister Tony Blair, acknowledged in 2005, weaknesses in the ways states function form a major barrier to the development of poor countries. The Paris Declaration on Aid Effectiveness, which was signed by 61 bilateral and multilateral donor agencies and 56 aid-recipient countries, acknowledges country ownership of development policies as the key to aid effectiveness. Yet ownership remains a mere façade when the state is not minimally effective, legitimate and development-oriented. Moreover, collapsed and fragile states both imperil international peace and security and pose enormous challenges to current models of development cooperation. Against this background, development agencies and other policy actors are increasingly focusing on what research-based literature has to say about state building, institutional reform, the role of the state in development and state-society interactions. This wide literature is generally not oriented toward the reshaping of international policies and practices, but rather to academic specialists in particular disciplines and areas of the world.

This paper is intended as a contribution to a dialogue about the role of the state in promoting development and about what the international aid community can (and cannot) do to help build stronger, more effective and better governed states in the developing world. Drawing together academic research and recent evidence on the role of state in developing countries, it brings forth a number of policy implications for international assistance. In particular, the paper provides:

- A review of the debate about 'developmental states': what they are and how they have emerged in the developing world;
- A discussion of the similarities and differences between supporting the formation of developmental states and the 'good governance' agenda;
- An analysis of why attempts at state-led development have succeeded in some countries and regions and failed in others, with a focus on Africa and, to a more limited extent, Latin America;
- An analysis of what we know and don't know about the effects of aid on the incentives that are important to state formation and capacity building.
- An agenda for conceptual thinking and research and recommendations for policy action.

Importantly, while donors have been increasingly engaged in state building and democratisation efforts in what has come to define as 'fragile states', this paper focuses on states in the developing world more generally, and hence does not provide specific guidance to these more 'extreme' environments (although we believe that a number of the more general lessons raised in this paper will also apply in such contexts).[1]

A key premise of the paper is that states – and their political economy – matter for social and economic development. Rather than focusing on what the 'right' role of the state is or should be as a normative issue, we are concerned with why some states have been more capable and more supportive of development than others. This paper also seeks to understand what aid can and cannot do to support the process of building more 'developmental' states. We suggest that political economy factors and their social underpinnings lie at the heart of why some states function better than others. The dynamics engendered by the interaction of certain social and political structures in many developing settings are not propitious to development. Such structures – which can take the form of clientelism, patronage and populism in some cases, or 'neopatrimonialism' or 'prebendalism' in others – are not immutable but they can be deeply entrenched (van de Walle, 2001; Chabal and Daloz, 1999; Diamond, 1988; Joseph, 1983).[2] The challenge for the international community is to determine how it can best support reform efforts that engage both directly and indirectly with such structures.

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[1] For a recent review of fragile states and how leading donors are engaging with them, see Cammack et al. (2006).

[2] Prebendalism was initially introduced as a term with reference to Nigeria by Joseph (1983), based on Weber. It refers to a system where clientelist networks support individuals to gain positions and are then rewarded by money.

2 A Brief History of the Debate around 'Developmental States'

In brief …
International thinking on the role of the state in development has undergone several permutations over the past 50 years. This section discusses the following four stages:

- State-led development is encouraged and supported by the international community (1950s and 1960s);
- State-led development is criticised as inefficient and distorting in the light of growing debt and macroeconomic instability, especially in Africa and Latin America (1970s and early 1980s);
- The implementation of structural adjustment and market-oriented reforms are put into practice as part of the Washington Consensus;
- The role of the state in development is re-evaluated based on the successful experiences of state-led development in several Asian countries emerging since the mid-1990s; the PRSPs emerge as a new country-owned and more participatory process to formulate national development plans.

Each of these stages has in a sense reflected the lessons learned from the previous one(s). While too much faith seems to have been placed in state-led development in the 1950s and 1960s, efforts to curtail the state in the 1980s and 1990s were perhaps too strong and dogmatic. There now appears to be an opportunity to develop a more balanced approach to the state and its role in development.

The role of the state in promoting economic growth and social progress in the developing world has been a subject of contestation among international development experts and policy analysts for the past 50 years. After the end of World War II, with the emergence of newly independent states in Africa and Asia, the international community embraced a state-led model of development intended to bring about industrialisation and entrepreneurship through intensive and deliberate effort and state intervention. The Economic Commission for Latin America (ECLA) and the Economic Commission for Africa (ECA), formed in 1948 and 1958 respectively as regional bodies under the mandate of the UN, became leading examples of international organisations espousing such an approach.

By the late 1970s, however, the state-led model of development had come under strain in Africa, as well as in Eastern Europe and Latin America. State intervention in the economy in many of these countries was often wasteful (with highly inefficient state enterprises or parastatals as a prime example), leading to bloated states that proved incapable of delivering developmental outcomes in a sustained way. A succession of national economic crises was the result.

Many of the problems associated with these 'failed' state interventions were rooted in 'state capture': influential interest groups used the state to foster their own interests and extract rents rather than to promote a developmental vision. In Latin America, for example, state intervention nurtured – and became dependent on – a particular kind of populist politics (Malloy, 1977). Very often, the perverse dynamics generated by large state involvement in the economy enabled politicians and bureaucrats to build a basis of political support by manipulating markets (Bates, 1981). The result was frequently the very antithesis of development. At the same time, protectionist policies deprived states of imports – often without stimulating domestic production of sufficient quantity and quality (Lockwood, 2005).

By the early 1980s, a growing coalition of reform-minded academics, policymakers and political elites was calling for the abandonment of the state-led model of development and a return to a market-based economy. The international assistance community, led by the IMF and the World Bank, embraced a set of neo-liberal economic policies that converged in what came to be known as the Washington Consensus (Williamson, 1990). At the core of this thinking was an insistence that aid-recipient countries adopt structural adjustment programmes designed to reduce the size and reach of the state. Instead, these countries should rely on the market as the most effective mechanism for allocating resources and promoting economic growth. Key recommendations included eliminating government controls, promoting trade liberalisation, and fostering a greater role for the private sector in the economy. As put forth in 1991 by the World Bank in the World Development Report (1991: 9), government intervention should be used sparingly and only where most needed. 'Put simply,' the report argues, 'governments need to do less in those areas where markets work, or can be made to work, reasonably well'.

Although structural adjustment policies in many cases helped restore macroeconomic stability, they also often had detrimental effects on state capacity. Areas that particularly suffered included the provision and delivery of basic social services (where neo-liberal thinking offered little practical guidance other than outsourcing selected tasks to NGOs or public-private ventures), the maintenance and modernisation of the civil service, and the financing of the state (in many cases, for example, the privatisation of key economic sectors such as telecommunications, energy and mining was carried out in a rush without a transparent bidding process, with the result often being the creation of ineffective private monopolies rather than increased market competitiveness). In many least developed countries (LDCs), neither the private sector nor local NGOs had the capacity to provide services without relying on the state to play a sound coordinating and regulating role. As a result, services lapsed, affecting the welfare of the poor in particular.

Since the mid-1990s, however, another shift in understanding the role of the state in development has become perceptible. This new thinking is based in large part on the recognition that there has been a very different experience of state-led development in a number of Asian countries, especially in East Asia (see Deyo, 1987; Haggard, 1990; Johnson, 1982; and Wade, 1990, among others). Over a period of 30 years, the so-called 'Asian tigers', which include Hong Kong, Singapore, South Korea and Taiwan, underwent rapid economic growth and a radical socioeconomic transformation, moving from being poor agrarian societies or city states in the 1960s to producers of high technology, high value-added goods by the 1990s.[3]

Since the end of the 1990s, accelerated development has spread further in Asia, and is increasingly including the Indian sub-continent along with China and Vietnam. The 1997 World Development Report was thus dedicated to 'rethinking the state', and reaffirmed the position that 'the state is central to economic and social development'. Since then, there has been a growing awareness among development practitioners as well as academics of what this means – namely, that the orientation and effectiveness of the state is the critical variable explaining why some countries succeed whereas others fail in meeting development goals. In 2005, the Report of the Commission for Africa reflected this thinking, recognising state capacity and effectiveness as a key bottleneck in Africa's ability to meet the Millennium Development Goals (MDGs).

Recognition of the developmental success of East Asia has led to new thinking on what states should accomplish. Their experience (and more recently that of the Eastern European transition countries as well – see Amsden et al., 1994) served to highlight the fact that even market-based economies require functioning, capable states in order to operate and to grow. Furthermore, states came to be expected (once again) to meet the basic needs of the population and deliver essential social services. The 1997 World Development Report described even 'minimalist state functions' as including public health and antipoverty programmes (World Bank, 1997: 27). The emergence of the Poverty Reduction Strategy Papers (PRSPs) and the MDGs since 2000 have implied in practice that states are expected to ensure universal basic health and education services, even if the state is not regarded as the sole provider or the sole stakeholder in drafting a national development strategy. Moreover, PRSPs effectively reintroduced state-coordinated planning processes.

This process of re-recognising the role of the state has gone hand in hand with the rediscovery of the role of institutions in the field of economics. Douglass North's seminal 1990 book, *Institutions, Institutional Change, and Economic Performance*, challenged the assumption that institutions arise almost effortlessly as a by-product of economic growth, and argued that instead improvements in institutions are essential preconditions and determinants of growth. More recently, Rodrik et al. (2002),

[3] In 1990 US$ terms, per capita income in South Korea and Taiwan increased from less than US$1,000 in the 1950s to more than US$10,000 in 1992. In Japan, it increased from less than US$2,000 to almost US$20,000. During the same period (1950s to 1992), GDP per capita among 46 African countries stayed almost flat (moving from around US$750-1,100 per capita). See Bourguignon and Morrisson (2002).

Acemoglu et al. (2001) and others have argued that institutions are the key explanatory variable for why some countries become wealthier than others – and are more important than either geography or openness to trade. Although Rodrik et al. agree that geography may matter indirectly in that it influences patterns of economic production and the institutions that develop based on these, in their view the quality of institutions is most important: 'Institutions that provide dependable property rights, manage conflict, maintain law and order, and align economic incentives with social costs and benefits are the foundation of long-term growth. This is the clearest message that comes across from … cases [like] China, Botswana, Mauritius, and Australia' (Rodrik, 2002: 11).

The recognition of the importance of institutions has also fed into a reassessment of the role of the state from an economic perspective. Acemoglu (2005) argues that both too weak and too strong states can stifle investments, and that the achievement of OECD countries has been to develop a combination of politically weak but economically strong (i.e. high tax) states. This is reminiscent of Michael Mann's (1993) differentiation between the despotic and the infrastructural powers of the state, with despotic powers referring to the ability to use force and infrastructural powers defined as the 'capacity of the state to actually penetrate civil society, and to implement logistically political decisions throughout the realm'. The extraction of resources (human or material) from society is a key element of such infrastructural power. In Section 4, we address the question that these propositions raise of why some countries enter the path of building states that 'work' whereas others do not.

Recent writing on developmental states has emphasised the importance of both infrastructural powers and political commitment. According to Ghani et al. (2005), a 'developmental' state project must possess at least two essential attributes. First, the state must have the capacity to control a vast majority of its territory and possess a set of core capacities that will enable it to design and deliver policies; secondly, the project must involve some degree of reach and inclusion, and have an institutional, long-term perspective that transcends any specific political figure or leader.[4] Leftwich emphasises commitment; in his view an ideal-type developmental state is one that demonstrates a 'determination and ability to stimulate, direct, shape and cooperate with the domestic private sector and arrange or supervise mutually acceptable deals with foreign interests' (Leftwich, 2000: 167-8). Thus, a developmental state is broadly understood as one that evinces a clear commitment to a national development agenda, that has solid capacity and reach, and that seeks to provide growth as well as poverty reduction and the provision of public services.

At the same time, since the mid-1990s the debate about states and their role in development has been increasingly influenced by the rising paradigm of good governance (Kjaer, 2004). This paradigm has raised new demands – focused primarily on *how* states should govern rather than on *what* they should be doing – and it has had powerful effects on donor practices. Since the good governance agenda has been so powerful, the following section is devoted to tracing its relationship, including points of similarity and difference, with the developmental states agenda.

[4] Ghani et al. (2005) identify a total of 10 functions that a state must be able to perform/fulfil to be considered effective or, as they put it, 'sovereign'. These functions are: a legitimate monopoly over the use of violence; administrative control; sound management of public finances; investment in human capital; the creation of citizenship rights and duties; the provision of infrastructure; market formation; the management of the assets of the state; effective public borrowing; and the maintenance of the rule of law.

3 Developmental States and Good (Enough) Governance

In brief …
The good governance agenda emerged in the 1990s out of a growing concern about the detrimental impact of state capture and other forms of (distorted) state interference on state capacity and developmental effectiveness. Significantly, however, its emphasis is on improving rather than minimising the role of the state. This is an important approach in addressing some of the underlying problems causing poor state intervention, as discussed in further detail in Section 4. However, the good governance agenda has also been criticised for being too normative and placing demands on poor countries that they neither can nor need to fulfil in order to achieve initial development (Grindle, 2004; Khan, 2005).This section covers the following issues:
- The origins of the good governance agenda;
- Key components of the good governance agenda;
- Points of similarity and difference between the developmental state and the good governance agenda (summarised in Table 1), reviewing also the proposition of 'good enough' governance.

Out of a growing concern about the detrimental impact of state capture, rent-seeking and unaccountable state institutions on state capacity, government institutions and developmental effectiveness, in the 1990s donors began to emphasise the importance of 'governance' – or *the way in which* government and power are exercised. From an economic perspective, if rent-seeking is perceived as a key problem leading to failed state interventions, then it follows that the foundations and motivation of government matter at least as much as the policies they adopt. In addition, with the wave of democratisation that began in the 1980s at the end of the Cold War, there has been a growing preoccupation within the international community about whether governments possess democratic legitimacy and uphold respect for human rights.

Since the 1990s, the term 'good governance' has enjoyed growing popularity amid academic and policy circles alike. The concept remains rather broad and ill-defined and it means different things to different people. However, at the core of the good governance agenda lies a concern about the rules and practices according to which governments are chosen and state power and authority are exercised (Kjaer, 2004). Donor programmes under the heading of 'good governance' comprise a range of activities that can be listed under three broad categories (World Bank and IMF, 2006):

i) State/bureaucratic capability: this includes issues related to financial management and public administration, among others.
ii) Accountability and oversight institutions to provide checks and balances: this includes issues related to voice and accountability, transparency, the role of the media and civil society, the rule of law, executive constraints and democratic representation and participation, among others.
iii) Overall performance: this includes control of corruption, service delivery and policy outcomes, among others.

The developmental state and the good governance agendas overlap to some degree but also entail important differences, which have implications for priorities in aid policy. Fundamentally, while the 'developmental state' idea emphasises the effectiveness of the state, the 'good governance' concept emphasises the need to control the state. However, these are in fact two sides of the same coin – and both are essential in making governments work. In the words of the 18th century state-builder James Madison (1788): 'If men were angels, no government would be necessary. If angels were to govern men, no controls on government would be necessary. In framing a government of men over men, the great difficulty lies in this: You must first enable the government to control the governed, and in the next place oblige it to control itself.'

In the way that it has evolved since the 1990s, however, the good governance agenda tends to espouse a view of politics which may be overly idealistic, and imposes demands with regard to the quality of governance which are far beyond what is needed (or even possible) at (very) low levels of development (Khan, 2005). Reacting to the very long list of requirements that donors are asking recipient governments to fulfil, Grindle (2004) has proposed a 'good enough' governance agenda, which seeks to promote governance reforms in a more realistic way and focuses on improving governance in those areas that matter most for the overall development process. Table 1 highlights some of the key elements of these three different agendas.

Table 1: The developmental state, good governance and good enough governance agendas

	Developmental state (Evans and others)	Good governance (World Bank and others)	Good enough governance (Grindle)
Core aspect	Emphasis on state capacity and 'embedded autonomy'.	Emphasis on transparency and accountability	Emphasis on *minimal* conditions of governance necessary to allow political and economic development.
Political regime	No normative commitment to any particular type of political regime, though many examples of 'successful' developmental states are authoritarian.	Normative commitment to democracy. Strengthening democratic rule is a key concern.	No normative commitment to any particular political regime. Elements of different regimes may work for different reasons; those aspects that work should be encouraged.
State legitimacy	Derived from state achievements and performance.	Derived from democratic representation of interests of the majority and the protection of the rights of the minority based on rules and procedures.	Different states enjoy different levels of legitimacy, depending on how institutionalised and capable they are. Legitimacy should not be seen in absolute terms and varies considerably even within a given state.
Political will	Concern for national goals; commitment of core leadership is essential.	Concern for effective constraints, normative orientation (legitimacy, human rights, democracy, macroeconomic balance).	Concern for incremental, progressive change and for how reformers can institute change – what alliances need to be built, and what trade-offs need to be made.
Role of the state	State should (actively) foster economic development but avoid capture by particular groups.	No clear agreement among various proponents; state should set a framework (rule of law) for markets/private actors.	State should intervene to produce core public goods, and where it can perform well, but should not tackle a wide range of issues, reforms, etc. at once. Priorities for state intervention/involvement are important. Some level of state capture may need to be tolerated to achieve other goals.
Model of social representation	Exclusionary, based primarily on close relations between the state and selected business groups. Labour is controlled.	Inclusionary, emphasising broad social participation in the decision-making process (e.g. PRSPs).	Likely to be patchy and uneven. Some areas may be more inclusionary whereas others significantly less so. Again, there are no moral absolutes.
What to do on Monday morning?	Create meritocratic civil service in key areas, imbued by a strong *esprit de corps* and concern for national goals.	Broad and ambitious agenda emphasising multiple goals that need to be achieved in order to enable development: fight corruption, deepen democracy, improve judicial systems and PFM.	Be explicit about trade-offs and priorities in a world in which all good things cannot be pursued at once; understand what is working rather than focusing mainly on governance gaps; ground action in the contextual realities of each country.

As can be seen from Table 1, the good enough governance agenda is more readily reconcilable with the developmental state idea than the pure good governance agenda. This is so because both the developmental states concept and the good enough governance agenda share a more instrumental and selective understanding of governance as a tool to achieve development. The good governance agenda is more normative in its approach and is more comprehensive, implicitly assuming that 'all good things go together'. The good enough governance approach, in contrast, understands governance as a multi-dimensional concept that can be disaggregated into discrete challenges that can potentially be tackled separately and at different times. This is echoed in the economics literature on growth and institutions, where Rodrik (2004a) has stressed that developing countries may initially only need some improvements in their institutional environment in order to 'set growth in motion'.

However, while an instrumental approach to governance and development may be useful (because it avoids placing excessive or unrealistic demands on the state and recognises that there is no unique path to 'good governance'), it raises the difficult issue of whether there should be a set of minimum standards against which states should be held up. Furthermore, we still lack a more precise understanding of what kinds of institutional improvements are needed at which stages of development (Rodrik, 2004b). The question then becomes what needs to be "good enough", and what is the potential sequencing.

The example of corruption is illustrative. While the good governance agenda is committed to rooting out all forms of corruption because of its detrimental impact on development (Court and Hyden, 2005), experience has shown that corruption as such does not present an insurmountable obstacle to development. A number of states have achieved considerable developmental success despite serious problems with corruption. Examples include China and Vietnam, which are ranked in place 78 and place 107 respectively out of 158 ranked countries on Transparency International's 2005 Corruption Perception Index.[5] Bangladesh has consistently been at the bottom of corruption rankings and yet has managed to develop at a steady rate and to perform well in terms of policy outcomes. Similarly, countries such as Brazil and India have achieved success with some level of meritocracy in the civil service, even if patronage networks often continue to play a significant role (Khan and Sundram, 2000; Tendler, 1998).[6]

It is also not always the case that if countries manage to keep corruption under control their relative performance and policy outcomes improve – as the cases of Ghana and El Salvador serve to illustrate (World Bank and IMF, 2006).[7] At the same time, there is ample evidence that corruption causes disproportionate hardship for poorer groups (as the burden of bribes either makes services unaffordable or takes a larger share of income), engenders uncertainty and contributes to a weakening and loss of legitimacy of the state. It is also clear that some forms of corruption are more noxious than others, and that when corruption becomes 'predatory' and pervasive it can not only damage but also derail development efforts (Jain, 2001). As Khan and Gray (2006) have suggested, the question therefore seems to be to distinguish among different types of corruption. This takes us back to the question of why some states achieve a better performance than others, and the underlying structures. This is discussed in the following section.

[5] See http://ww1.transparency.org/cpi/2005/cpi2005_infocus.html.

[6] It is worth keeping in mind that even the bureaucratic systems of rich, established democratic countries in the North and West are not 'pure' meritocracies but involve varying degrees of appointments based on 'old boys' networks, campaign contributions and the like (e.g. 'pork barrel politics'); they are not immune to corruption either. There is, however, a palpable difference in the scale of corruption, and scandals in rich Northern/Western countries tend to be investigated much more promptly and systematically than elsewhere, mainly because of pressures from society and the media.

[7] Ghana: rated 3.5, rank 65; El Salvador: rated 4.2, rank 51 on the 2005 CPI.

4 Seeking State-led Development: Success and Failure

In brief …
This section reviews the experiences with state-led development, in East Asia on the one hand and Latin America and especially Africa on the other. Developmental states have been spectacularly successful in promoting growth and development in a number of Asian countries in recent decades. In contrast, they have largely failed in Africa – despite some hopeful beginnings in the post-colonial period (Lockwood, 2005; Mkandawire, 1998); the evidence in Latin America (as well as Eastern Europe) is mixed.

The aim is to review the experiences of different regions, most often regarded separately, and to consider some of the key features of their different paths. Preconditions for successful state-led development in Africa, rooted in the pre-colonial and colonial period, were undoubtedly less favourable than those of many Asian countries. Here, we focus primarily on key features marking the various states in the period since the 1950s and seek to:

- Identify the elements of success in state-led development in East Asia;
- Understand failed attempts at state-led development in Africa (with references also to Latin America and beyond); and
- Outline the underlying socio-political structures contributing to the failure of (state-led) development.

Our aim is to understand the concrete drivers of success or failure, which we find embedded in the way in which political power is structured and distributed, the incentives and constraints that power-holders face, and the public administrations that they consequently seek to create (i.e. more rational and capable, or more clientelistic and dependent).

4.1 Developmental states: how did the Asian tigers get there?

As was highlighted in Section 2 above, current thinking about the developmental state has been strongly shaped by research into the experiences of the East Asian tigers.[8] Although there is some disagreement in the literature regarding the core set of policies that enabled the original Asian tigers (and now others) to achieve high levels of development and economic growth, there is general consensus about the essential features that characterised these successful developmental states. Most of all, a strong core of state institutions with the capacity to promote economic growth without being 'captured' by particularist interests is regarded as having been essential. This is what Peter Evans (1995) has called 'embedded autonomy'. The developmental state establishes its autonomy through the creation of a rationalised (core) bureaucracy characterised by meritocracy and long-term career outlooks. These traits make civil servants more professional and more detached from powerful rent-seeking groups attempting to influence them. At the same time, the state cannot be too insulated from society because it would then run the risk of becoming self-serving rather than responsive to demands and needs for further development. Thus, it must also be embedded in society, that is, '[connected to] a concrete set of social ties that binds the state to society and provides institutionalised channels for the continual negotiation and renegotiation of goals and policies' (ibid.)

Two factors are assumed to have enabled such a bureaucracy embodying embedded autonomy and the developmental orientation of the state to arise in the East Asian cases: a political leadership that was committed to development and, in most cases, the uprooting of traditional elites. In Asia, political leadership committed to development was often motivated by regional competition, nationalism and the desire to 'catch up' with the West. As a result, development was regarded as a 'national project' of the first priority. Such determined political elites were either relatively uncorrupted or limited personal

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[8] Research on the original East Asian 'miracle' was carried out in the 1980s and early 1990s by Amsden (1989), Deyo (1987), Haggard (1990) and Johnson (1982), among others. Initially, scholarly attention was focused on the merit of different economic policies. After a short experimentation with import substitution industrialisation (ISI), the East Asian model of economic development became based on export-led growth. Latin American and African governments, in contrast, pursued ISI policies well into the 1980s and early 1990s. This paper does not intend to evaluate the specific details or merits of these policies, but rather addresses the issue of why some governments were more capable than others in promoting development which includes the capacity to make good policy choices (see also Gilpin, 2000 and O'Donnell, 1979).

gains to non-predatory corruption which did not impede investments and the expansion of national productivity.

The uprooting of traditional elites occurred as a consequence of Japanese colonisation, the invasion of Taiwan by the Kuomintang, the US-Vietnam war, the Chinese revolution, and similar shocks. This resulted in relatively high levels of initial equality and relatively weak traditional elites bound to existing patterns of economic production. Both of these factors are seen as having facilitated the rise of a developmental state. The weakening of landed elites shielded the state from capture by powerful traditional interest groups at the outset of the developmental process – in sharp contrast with most Latin American countries, where states have been continuously dominated by limited sets of powerful landowning and/or industrial elites (World Bank, 2006). While the uprooting of traditional elites played a role in both capitalist and communist Asian success stories, the coalitions that replaced them differed: state elites and business elites in the cases of South Korea and Taiwan; a state elite and underprivileged peasants in the cases of China and Vietnam (Khan, 2005). Moreover, it needs to be stressed that the uprooting of traditional elites often involved a high level of human cost, with repercussions over a number of years.

Outside the Asian context, both Botswana and South Africa and, to a more limited degree, perhaps also Brazil, have achieved key features of a developmental state *despite* rather stark levels of inequality (but with some decisive moments of elite changes favouring greater inclusion in South Africa – 1994 – and in Brazil – 2003).[9] This may point to the fact that, although certainly an enabling condition, equality is not a necessary factor in the transition to a developmental state, as long as a strong commitment among political power-holders emerges in some way. In the case of Botswana, for example, it was the fact that the economic elite (cattle owners) embraced the developmental agenda that seems to have made the difference.

Most developmental states in East Asia were initially authoritarian. This does not imply that all authoritarian regimes are developmental and it also does not mean that states need to be authoritarian in order to be developmental. As will be discussed below, there have been many examples of 'anti'-developmental or non-developmental authoritarian states in Africa and Latin America. Brazil and South Africa indicate that democratisation and a greater developmental orientation of the state can occur in parallel.[10] However, building developmental states in a democratic context brings about particular challenges, which for the most part Asian success stories did not face. This issue has been neglected in much of the literature on developmental states. Brazil, India and South Africa, for example, have faced significant obstacles in managing their political economy with what Herring (1999) described as 'one arm tied behind [their] back by [their] commitment to liberal democracy'.

The diverse experience of the relatively successful cases suggests that there is no single model of a developmental state. In different contexts, various groups were excluded in different ways for considerable periods of time (Evans, 1995). However, the binding traits were relatively effective states and, at the political level, a firm commitment to transforming the country (whether driven by nationalism, regional competition, communist ideology, or a combination of all of these), rather than governing for the economic benefit of a few individuals or narrow groups.

The 1997 Asian financial crisis has to some extent discredited the idea of the successful developmental state in East Asia (see Stiglitz and Yusuf, 2001). However, as Stiglitz and Yusuf pointed out (2001: 517), 'Those who put their faith in the market tend to downplay the role of government during the miracle period … but they can … elevate its role when it comes to the crisis of 1997-8'. The meltdown should serve more as a reminder that any system develops dysfunctionalities over time, which may then lead to crisis and adjustment (as happened also in OECD countries in the 1970s). Thus, it is essential to

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[9] Botswana's gini-coefficient is 0.63 (1993); South Africa 0.58 (2001); and Brazil 0.59 (2001). The gini-index ranges from 0 to 1, with a higher value indicating higher levels of inequality. For comparison, the UK has a gini-coefficient of 0.34 (1999) and the US of 0.38 (2000).

[10] In the case of Brazil, democratisation entailed a transition from military authoritarianism to democratic rule, while in the case of South Africa it was a transition from apartheid to inclusive democracy.

understand that state building is an inherently dynamic process: while developmental states can evolve over time (however difficult that task may be), there is no linear trajectory with an identifiable endpoint, and successful systems may develop pathologies that cause some setbacks. Regarding East Asia, the surprising fact was a generally rapid recovery from the 1997 crisis, which speaks to the strength of these countries' foundations, underpinning social-political systems and institutions.

4.2 Failed attempts at state-led development

In Africa and Latin America, attempts at state-led development were widely undertaken from the 1950s. These were largely unsuccessful; many partial gains (e.g. in expanding public services or stimulating growth) were reversed during the subsequent crisis of the 1980s and 1990s. While the story of Latin America is one of falling behind compared with Asia, and of failing to lower poverty in particular, the African experience has been more sweepingly one of failure to achieve a progressive social and economic transformation. In some cases, the debt crisis and economic decline then generates utterly failed states (e.g. Congo-Zaire).

The analysis below attempts to explain why states in these developing regions have remained comparatively ineffective, focusing in particular on the case of Africa. The analysis highlights the importance of political variables in the determination of developmental outcomes. It agrees with those who have argued that the nature of these political systems, based on neopatrimonial ties in Africa and clientelistic/corporatist/populist patterns in Latin America, undermined state capacity and developmental potential (Levy and Kpundeh, 2004; Lockwood, 2005; Collier and Collier, 2002; Malloy 1977). As stressed in the introduction to this section, there are deep historical reasons, related to the pre-colonial and colonial period, for differences in state development, particularly between Africa and Asia; here we focus mainly on how this played out in the 1950s and beyond.

A number of countries in Africa and Latin America embraced a state-led approach to development. As Young (2004) has discussed with respect to Africa, 'the moment of African independence [in the 1960s] coincided with the zenith of confidence in state-led development'. In many cases, this strategy proved quite successful – at least at the beginning. Africa, for example, experienced a considerable expansion in the areas of education and health; countries such as Ghana and Kenya recorded respectable rates of economic growth (Nugent, 2004; van de Walle, 2001). In Latin America, similar trends were evident. In countries such as Argentina, Brazil and Mexico, the state played a leading role in key sectors and industries (such as the energy sector, the auto industry, etc.) and invested heavily in infrastructure and the provision of social services. Many of these countries also grew at substantial rates.

However, by the end of the 1970s, serious limitations in the state-led model of development became apparent throughout Africa and Latin America. Although specific circumstances varied from country to country, key problems associated with this approach could be observed across countries and regions. Many investments in the productive sectors were inefficient; governments incurred ever-growing levels of debt to finance further development. The oil price shock of the late 1970s, rising social discontent and external meddling by the world superpowers based on Cold War imperatives exposed these underlying weaknesses. In the 1980s and 1990s, many earlier gains were reversed. After Mexico defaulted in 1982 and triggered a debt crisis with serious implications throughout the developing world, this became known as the 'lost decade' of development.

The *immediate* reasons for the failure of state-led development in so many countries in Africa and Latin America can be seen as largely economic: state-owned enterprises becoming highly inefficient, employing far more staff than comparable enterprises while failing to deliver products and services at reasonable prices and in a timely manner; a large and often ineffective civil service that became fiscally unaffordable; accumulation of external debt to unsustainable levels, not least as a consequence of loss-making public enterprises; poor infrastructure despite public investment; very high reliance on revenues from trade (especially import and export tariffs) and low levels of internally generated revenue; and protectionist policies that deprived the domestic economy of goods without effectively stimulating domestic production. Furthermore, most African and Latin American countries continued to rely on import substitution, which became increasingly inefficient and expensive (O'Donnell, 1979), whereas the successful developmental states in East Asia turned to export-led growth after a relatively brief stage of initial ISI. Overall, in successful developmental states, governments were able to mobilise capital and investments, to channel them into productive sectors, and to enforce incentives for these to become efficient; in the unsuccessful cases, inefficiencies were allowed to take hold and spread (World Bank, 1993; Stiglitz and Yusuf, 2001).

However, if the immediate causes were economic, the underlying reasons for the success of state intervention in some cases and the failure in others are a combination of political and social factors (Kohli, 2004). In many African countries, and in poor countries elsewhere, benefits generated by state-led development were turned into rents for small elites and clientelistic networks who captured the state – making investments successively less productive (van de Walle, 2001; Chabal and Daloz, 1999; Bayart, 1993). The existing structure of economic opportunities – in many countries centred around mineral resources and/or distribution of land – and historical legacies of the colonial period helped to set in motion vicious rather than virtuous circles. Political power constellations drove the choice and change of institutions, as Acemoglu et al. (2004) have emphasised: '[b]ecause different groups and individuals typically benefit from different economic institutions, there is generally a conflict over these social choices, ultimately resolved in favour of groups with greater political power.'

As Khan and others have emphasised, the difference between successful and failed attempts at state-led development does not appear to be primarily attributable to corruption – which was generally present in both – but rather to the problem of 'state capture' (Hellman et al., 2000; Khan, 2005). State capture implies not only that benefits from state interventionism are diverted into private pockets, but more importantly that the policies themselves no longer are driven by a logic to yield development but rather are intended to yield benefits for limited groups.

As discussed, a key ingredient in avoiding state capture and other forms of predatory behaviour is a competent, meritocratic and 'results-oriented' core bureaucratic system. Establishing such a system is challenging. In East Asia, competent bureaucracies did not develop automatically or overnight, but were rather the result of a prolonged struggle guided by strong political motivation to achieve national development. In a majority of countries in Africa and in many in Latin America, a committed and competent civil service failed to emerge or was eroded (often despite repeated attempts to develop it) (Rocha Menocal, 2004). Civil service structures and other benefits generated by state-led development were frequently manipulated by the government apparatus and ruling elites as a source of patronage. The state was captured by narrow interests more concerned with building clientelistic networks than with fostering a transformation of the country's economy (van de Walle, 2001; Bayart, 1993).

4.3 The role of political leadership and elites

When considering developmental states, political leadership is crucial because of the way it affects the quality and autonomy of the bureaucracy. In turn, the kind of leadership that emerges is shaped by the nature of the elite and wider social structures, and can also be influenced by external factors. Importantly, political leadership in Africa has not been uniformly poor since independence. However, even development-oriented post-independence leaders failed to build a sustained 'embedded autonomy' of the state, and Cold War power politics often reinforced the worst leadership patterns.

In the years after independence, several African countries had leaders who were both personally charismatic and genuinely committed to development. Julius Nyerere of Tanzania is a prime example. Literacy rates expanded by more than 25% of the population under his leadership from 1964 to 1985; however, income levels did not rise. In Côte d'Ivoire under the leadership of Felix Houphouët-Boigny, per capita incomes doubled between 1960 and 1980; they began to decline again, especially after his death in 1993, when the country slid into civil war. Kwame Nkrumah sought to turn Ghana into a modern industrialised country, but ruined the cash-crop sector, established an irrational, personal tyranny and was overthrown.

Moreover, particularly in the 1970s and 1980s, several African countries suffered from extreme dictatorships (e.g. Mobutu in Congo-Zaire or Mengistu in Ethiopia), and/or unstable military rule and repeated coups. In such situations, no capable competent civil service could emerge to guide development. The key issues identified around the problem of poor leadership are the following:

- The weakness of domestic as well as international incentives for state building. Leadership oriented towards a developmental agenda appears usually to be based on a mixture of intrinsic motivation and incentives/constraints – including regional competition and effective demand for development from broader groups in society. However, neither internal nor external factors seem to work in a powerful way to reward developmental and punish predatory or ineffectual leadership in a number of developing countries (see also Sections 6 and 7).
- The problem of entrenched 'strong-man' politics. Leaders who stay in power too long tend to become increasingly erratic and ineffective. This is a problem in developed as well as developing countries, but many of the former have effective mechanisms for changing leaders at regular intervals. Indefinite leadership is increasingly seen as an obstacle both to the political democratisation process and to social and economic development (van de Walle, 2001; Grindle, 2004, Birdsall, 2006). In the context of democratisation since the 1980s, more and more countries have instituted term limits for leaders. However, many presidents in Africa and Latin America have been seeking to alter the constitution of their respective countries so as to be able to stay in office longer and to expand their powers more generally (Hugo Chávez in Venezuela and Museveni in Uganda, for example; an attempt by Obasanjo in Nigeria was struck down by the National Assembly in May 2006).
- The problem of uncertain leadership. Leaders who face constant challenges to their rule or who are highly dependent on an oligarchy which put them into power rarely govern well, since they face strong incentives to distribute rents to surrounding powerful groups ('oligarchy', military leaders, or similar) (Ames, 1987).
- The absence of institutionalised exit routes. Leadership change has to be institutionalised and routinised in order to avoid risks of destabilisation. In order to achieve this, leaders need some reassurance of physical and material security after leaving office.

The tendencies militating against successful state-led development – leadership which lacks a motivation to prioritise development and the dearth of a competent and efficient civil service – are perhaps most evident and perverse in sub-Saharan African states. While unfavourable geographical and economic factors[11] have certainly had a detrimental impact on development prospects (Sachs, 2005), the dynamics embedded in a political system rooted in neopatrimonialism have played a central role in engendering and reproducing underdevelopment. No African country – with South Africa, Botswana and Mauritius as the (partial) exceptions[12] – has truly achieved an encompassing and sustained developmental orientation; the underlying reason increasingly identified by academic scholars and other observers is the neopatrimonial character of many African states (Chabal and Daloz, 1999; van de Walle, 2001).

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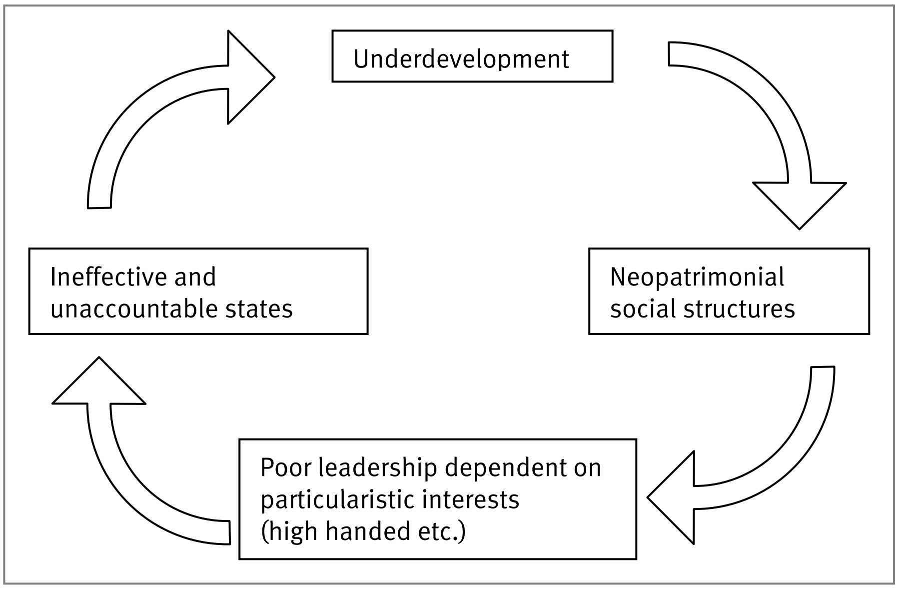
[11] These include geographic endowments (like the fact that many countries in Africa are landlocked), regional dynamics (neighbours engaged in civil war), the curse of resources such as diamonds and oil, which have tended to fuel conflict, etc.

[12] Botswana and Mauritius are widely regarded as relatively successful developmental states in Africa (Acemoglu et al., 2002). However, Mauritius is a small island country halfway between Africa and Asia – and hence is enjoying opportunities from which the majority of African countries are far removed. In Botswana, Human Development indicators improved substantially from the 1970s until 1990 (from 0.503 in 1975 to 0.681 in 1990), but have since started to decline again (dropping to 0.565 in 2003), owing in large part to a severe HIV/AIDS epidemic. Nonetheless, per capita GDP has continued to increase – to around US$3,500 by 2003. Interestingly, both Botswana and Mauritius have had formal democratic political regimes since independence. Botswana, however, has been ruled exclusively by one party and in Mauritius, a single party ruled for 35 years (which is not dissimilar to the Japanese model of democracy with strong one-party dominance).

Figure 1: The vicious circle of neopatrimonial social and state structures



Many countries are ruled by small, personalised oligarchies which control the state and most of its resources and use them to extract rents (from natural resources, from protectionist regulation, and from aid and other sources). For example, in Nigeria, 80% of the oil revenue is assumed to have accrued to 1% of the population. Holding the levers of power, developing country elites rule over very poor populations with few tools at their disposal with which to hold leaders to account – other than 'voting with their feet' (Acemoglu et al., 2004; Bates, 1981). As Kohli (2004) has argued in the case of Nigeria, societies and elites have been governed by a particularist logic which has generated a very weak sense of the public realm and instead has favoured the channelling of benefits to select groups (whose demands in turn can be quite strong). At the same time, being able to access universities and hospitals in the developed world, and enjoying personal wealth and status, elites lack incentives to engage in broad-based development, especially where a sense of common nationhood is weak.

Thus, in the case of Africa, the challenge of development is more fundamental than that of 'reforming' the predatory behaviour of self-maximising bureaucrats or improving the quality of policies. The challenge concerns the fundamental transformation of existing social structures and power relations, as they have evolved during the colonial period and since. This takes us back to the idea of a vicious circle. Ineffective states and underdevelopment mean that people have to rely on clientelistic social structures – in order to find an income and to ensure themselves against adverse events; in turn, these structures tend to reinforce poor leadership patterns and a state that is not sufficiently autonomous.

Different developments with regard to economically and politically powerful groups, and differences in the state apparatus which emerged as a consequence, appear to be key factors distinguishing success from failure in terms of attempts at state-led development. However, the vicious circle described above is not immutable: processes supporting an exit from such circles exist and may be taking root. External aid actors may be able to support these processes with some hope of success. Internal and external demands for better governance since the end of the Cold War have generated pressure for a type of leadership that is at least rhetorically committed to development, poverty reduction and better governance. At the same time, there are signs that social transformation is 'picking up': literacy rates have been increasing again – even if many problems related to coverage and quality remain – which has the potential to change societies over time. Thus, the starting conditions for more development-oriented states have been improving, at least in a number of poor countries. The following section takes a brief look at two dimensions regarding the current 'state of the state': i) current assessments of state effectiveness and trends in reshaping the role of the state; and ii) trends in democratisation and their impact on governance and development over the past decade.

5 The Evolving Role of the State and of Political Rules in Developing Countries

In brief …
States and political regimes in developing countries have evolved considerably since the late 1980s. In particular, the role of the state was rolled back in many places where attempts at state-led development had not been successful. At the same time, state effectiveness has remained a missing ingredient in most places. Here, we seek to gauge – albeit schematically – where states stand now and what states and political regimes in the developing world look like in a broad, comparative view, before Section 6 analyses how the current aid system interacts with them.

In particular, we:
- Review selected comparative data on government effectiveness and the evolving role of the state in the economy; and
- Analyse changes in the political rules of the game, arguing that the process of regime transitions has thus far remained incomplete, which in turn affects the ways in which these regimes affect the development of the state.

5.1 Government effectiveness and the evolving role of the state in the economy

The quality and capacity of states has been difficult to measure empirically on a comparative basis. One such attempt is the series of governance indicators compiled by the World Bank. These reflect current trends in governance since the mid-1990s.[13] Unfortunately, we do not have similar indicators reaching back to the 1960s – the original period of differentiation between more and less successful attempts at state-led development. Generally, there is a clear relationship between government effectiveness and the level of development; consequently, LDCs tend to be assessed as having low levels of government effectiveness. Importantly, these governance indicators are ultimately based on subjective assessments (which are then triangulated in various ways) and they have wide margins of error, which means that there is considerable uncertainty about each individual rating (Court, 2006). Therefore, it is best to regard them as indicating broad differences and to treat trends as tentative.

On average, sub-Saharan African countries are rated as having low government effectiveness, with oil-exporting countries[14] in the region and fragile states like the Central African Republic, Côte d'Ivoire and Somalia assessed as having particularly ineffective government. The contrast is particularly stark between government effectiveness in the average African LDC and Botswana, the most exceptional case in sub-Saharan Africa. There is also a clear distance in terms of government effectiveness between Brazil and the average low-middle income and low income Latin American country. In Asia, China is well ahead in terms of government effectiveness, but Vietnam's distance from the average LDC in that region has been less stark.

The trends in government effectiveness over the eight years included in these data are not encouraging: effectiveness appears to have been declining on average since the late 1990s in African LDCs and since the early 2000s in Asian LDCs. However, behind the aggregate data stands a variety of cases. Thus, Senegal, Tanzania, Mali and Ghana are assessed to have reasonably capable states; at the same time, it is the resource rich states and the group of fragile states in particular that contribute to the very low regional average for sub-Saharan Africa.

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[13] For the indicators and a description of the methodology used, see http://info.worldbank.org/governance/kkz2004/.
[14] Angola, Chad, Nigeria, Sudan, Congo-Brazzaville, Equatorial Guinea, Gabon, Côte d'Ivoire and Cameroon.

Table 2: Indicators of government effectiveness[15]

	1996	1998	2000	2002	2004
Average for all LDCs	27.4	31.5	30.6	26.5	22.7
Average Asian LDCs*	43.0	35.1	43.2	40.8	26.7
Vietnam	57	49.2	43	47.3	44.2
China	66.5	64.5	64	65.2	60.1
Average all African LDCs	24.3	31.7	27.9	22.9	22.0
Average francophone LDCs in SSA	30.1	37.8	31.7	28.4	31.1
Average for nine oil-exporting countries**	14.3	17.0	16.8	18.0	14.7
Botswana	70.4	75.4	81.2	81.1	76.9
Latin America and Caribbean, LMCs and LICs	30.3	39.3	36.9	34.7	33.7
Brazil	54.7	55.7	47.3	53.7	58.2

Source: http://info.worldbank.org/governance/kkz2004/.
Scale: 1-100, with higher percentiles indicating higher government effectiveness.
* Afghanistan, Bangladesh, Bhutan, Maldives, Nepal, Cambodia, Kiribati, Laos, Solomon, Tuvalu and Vanuatu.
** See Footnote 14.

Given the inefficiencies of state interventions in unsuccessful developmental states, and the role of state owned enterprises in this regard, there has been a strong trend of privatisation in Africa and elsewhere among developing countries. The World Bank's privatisation database lists 979 privatisations in sub-Saharan Africa between 1988 and 2003, for a total value of US$11.7bn. More than two-thirds of these (673) concern privatisations of manufacturing and service enterprises – from sugar processing and textile plants to hotels and cotton producing and processing companies. South Asia – India, Bangladesh, Pakistan, Sri Lanka and Nepal – saw 399 privatisations in total between 1988 and 2003, with a higher value of US$15.4bn. However, by far the greatest waves of privatisation during this period took place in Latin America and in post-communist transition countries. In Latin America, privatisation receipts for the period amount to a staggering US$195bn (Nellis, 2006).

Given the problems of governance that have been prevalent in many poor countries, as identified above – the risk of state capture and of satisfying particularist rather than wider public interests, state ownership of enterprises was likely to yield poor results. However, weak and captured states, governed in the interest of particularist groups, are also not very likely to be good regulators. As reflected in Table 3, a number of weak as well as somewhat stronger states in Africa are particularly stifling with regard to business. The state imposes very high costs on businesses – even if only formal costs are taken into account. In Tanzania, Uganda, Burundi and Burkina Faso, it is immensely costly to start and operate a business; if a business operates in the formal sector, the tax burden is high. Costs of doing business are also very high in fragile states, such as the Congo. A more moderate-to-light burden on business is found in Ethiopia and Kenya, as well as in Botswana and Mauritius.

[15] The WBI defines this indicator as Government Effectiveness. It combines responses on the quality of public service provision, the quality of the bureaucracy, the competence of civil servants, the independence of the civil service from political pressures, and the credibility of the government's commitment to policies. The indicators are based on a range of sources and are ultimately perception based; thus, they should be read as broad expressions of trends rather than as precise reflections of a country's governance effectiveness.

Table 3: State-imposed costs on businesses

	Cost of starting a business (% of income per capita)	Time for obtaining a license	Cost of obtaining a license (% of income per capita)	Number of tax payments per year	Total tax payable (% of gross profit)
Benin	190.8	335	287.9	75	53.1
Burkina Faso	149.9	241	5002.3	40	48.3
Burundi	200.7	302	10740.5	41	173.5
Madagascar	54.3	356	447.8	29	58.9
Mali	190.7	260	4903	60	44
Niger	465.4	165	2920.3	44	49.4
Senegal	108.7	185	175.9	59	45
Congo Dem Rep	503.3	306	6516.3	34	134.7
Ethiopia	6.2	116	41.4	20	43.6
Kenya	48.2	170	40	17	68.2
Lesotho	56.1	254	134.2	19	37.7
Malawi	139.6	205	244.7	33	56.5
Mozambique	95	212	148.6	35	50.9
Rwanda	280.2	252	510.9	42	53.9
Tanzania	161.3	313	4110.2	48	51.3
Uganda	117.8	155	861.8	31	42.9
Botswana	10.9	160	298.8	24	52.9
Mauritius	8.8	132	16.7	7	38.2
Thailand	6.1	147	17.3	44	29.2
Malaysia	20.9	226	82.7	28	11.6
Vietnam	50.6	143	64.1	44	31.5
China	13.6	363	126	34	46.9

Source: IFC/WB Doing Business 2006, http://www.doingbusiness.org/, selected indicators. The license is assumed to be for a standard warehouse project, requested by a construction company.

From this brief survey of comparative data, we can take several points. The comparisons between regional averages and regional 'front-runners' in Table 2 corroborate our assumption that government effectiveness matters for successful development; however, the case of Vietnam indicates that middling state capacity can be sufficient to enable development – which is in line with Grindle's proposition of 'good enough' governance as discussed in Section 3.

Furthermore, some of the inefficiencies developed by failed attempts at state-led development have been reversed, as reflected *inter alia* in the waves of privatisation. Alongside this, macroeconomic stability has been restored in most countries as a result of structural adjustment processes, as discussed in Section 2. However, a number of important areas in terms of inefficient state interventions still remain, as the cost of doing business reflects. This points to the fact that limiting the role of the state may be necessary where state interventions have become (highly) inefficient but that this is not sufficient, since captured states are ultimately also poor regulators.[16]

In the following section, we consider political regime change – another important strand of change that has occurred in many developing countries over the past decade or so and that fundamentally shapes how states operate. However, in many places, democratisation has not brought the full hoped-for benefits of more responsive, more accountable states. We attribute this to the fact that in many places

[16] Furthermore, states may also need to assume substantial roles in overcoming development bottlenecks such as poor infrastructure. We return to this issue in Sections 6 and 7.

regime change has not resulted in stable democratic regimes but rather in hybrid situations. These are not a good base for building more developmental states.

5.2 The political dimension: transitions from authoritarian to hybrid regimes and the persistence of clientelistic structures

By the late 1990s, a majority of countries in the developing world had made a transition to formal liberal democracy (Freedom House, 1999), even if consolidated autocracies still persisted in a number of countries in Africa, the Middle East and parts of Asia. However, the democratic structures that have emerged remain fragile in many places. In particular, regime transitions in many places have led to the emergence of hybrid regimes rather than full-blown democracies. Hybrid regimes can be described as a mixture of democracy and authoritarianism – they have experienced a formal transition to democracy but have not quite managed to consolidate their democratic institutions – and their developmental record is not (yet) very strong in most cases.

The democracy balance-sheet has two sides. On the positive side stands the fact that even 'unfinished' democratisation has opened up new opportunities for participation and for the alternation of power through formal institutions rather than authoritarian and/or military means. On the problematic side stands the observation that hybrid regimes lose some of the *potential* advantages of authoritarianism (e.g. concentration of decision-making powers; clear hierarchical structures), without fully acquiring the strengths of democratic regimes, such as effective accountability and checks and balances.

Table 4: Regimes in sub-Saharan Africa and Latin America, 1972 and 2005

	1972			2004		
	Autocracies	Hybrid	Democracies	Autocracies	Hybrid	Democracies
Sub-Saharan Africa	25	9	2	15	17	10
Latin America and Caribbean	4	9	7	2	8	10

Source: Freedom House, Country Ratings, http://www.freedomhouse.org/template.cfm?page=15&year=2006.

Hybrid regimes have gained increasing attention from academics and policymakers alike because they are considered particularly unstable (Levitsky and Way, 2003). Analysts have slowly come to realise that the holding of elections alone does not offer a cure for the deeper political and social problems besetting states in many developing countries. Incomplete democratisation processes can have destabilising effects, including intensified corruption and reduced potential for investments and growth (Persson and Tabellini, 2006). State capacity remains limited and the rules of the game are contested or need to be redefined. At the same time, more actors demand to be included in the decision-making process and expect better services and enhanced state accountability.

This dual dynamic reinforces the prospects for instability. The state may be overwhelmed by the new demands brought about by democratic pressures and unable to respond adequately because it lacks the necessary institutional and administrative capacity. For example, in Ethiopia, the elections in May 2005 triggered more than a year of civil unrest concerning the results. This reflected wider discontent with the ruling party and was followed by bloody repression in November of that year (de Renzio, 2006). Many of the elections taking place throughout Latin America in 2006 also reflect this growing disillusionment with (incomplete) democracy and point to the resurgence of populist candidates in the region (Rocha Menocal, 2006).

Importantly, there is considerable variation between hybrid regimes themselves. However, some general characteristics can be observed. Hybrid regimes tend to be characterised by populist politics, 'delegative'/strong-man leadership and decision-making processes, a sense of collective frustration among citizens about the failure of democracy to deliver tangible economic benefits, and disillusionment about what can be achieved through formal political institutions (e.g. Bolivia and Peru). Moreover, in these regimes, the rule of law is at best uneven. Clientelistic structures and high levels of corruption often persist, especially when citizens have few means of holding elites to account, except during election times.

Elections themselves can be a source of corruption, since election campaigning is expensive and politicians often seek to raise funds or win votes in various illicit ways (e.g. through government-controlled procurement processes) (Whitehead, 2002). The civil service often continues to suffer from a mix of ethnic/regional and political clientelism – ranging from the creation of additional ministries to accommodate important support groups to the abuse of civil servants to rally support for incumbents during pre-election periods. In the case of Africa in particular, hybrid regimes have so far not been able to tackle the underlying structures of power discussed in the section above in any meaningful way. As Booth et al. (2006) have noted with reference to Malawi, where democratisation started in the early 1990s, 'Malawi has a hybrid, "neopatrimonial" state, where there is a framework of formal law and administration but the state is informally captured by patronage networks. The distribution of the spoils of office takes precedence over the formal functions of the state, severely limiting the ability of public officials to make policies in the general interest.'

The overall trend towards democratisation offers some important advantages over those political configurations – long-term irrational dictatorships as well as unstable military rule – that preceded them in many poor countries. Most importantly, it can help to institutionalise leadership changes which have been identified as an important problem (see Section 4 above). However, democratisation before economic take-off, and incomplete democratisations, also entails important risks. In particular, expectations are raised that cannot be satisfied, and clientelistic systems continue or even intensify where the potential for authoritarian top-down control is not replaced by effective accountability to citizens.

The following two sections turn to the role of the current aid system and how it interacts with the state and political systems of developing countries, the development of which we have traced in the preceding parts of this paper. It argues in particular that current efforts at harmonisation and alignment of aid are positive but insufficient given the challenges of still weak state effectiveness and of unfinished political transitions. In particular, a rethinking of how aid can engage with the underlying political and social structures in recipient countries is needed, as well as an overhaul of capacity development efforts and more incentives in the aid system for greater domestic efforts and better government.

6 Aid and States: Limitations Embedded in the Current Aid System

In brief …
Aid has contributed to promoting capable developmental states in some countries but, overall, the record is rather disappointing. This section reviews the problems embedded in the current aid system which limit the effectiveness of external assistance in supporting more developmental states. We diagnose three fundamental problems:

- The fragmentation of the aid system. This is addressed in the Paris Declaration and in the wider international debate on aid; but there is still a long way to go towards achieving greater coherence.
- An approach to aid which is still, for the most part, exclusively technocratic, which has contributed to the ineffectiveness of many interventions (while the foreign policies of major donors has often engaged with politics in ways that contradict the goal of supporting more developmental states).
- The relative dearth of positive incentives in the aid system for greater effort and better government in recipient countries.

This section focuses on some of the key problems embedded in the current aid system that undercut the potential for international assistance to support the emergence of states that are more effective, accountable and developmental in their orientation. We start from the 'Paris diagnosis', i.e. those problems in the current aid system identified and addressed in the 2005 Paris Declaration (aid fragmentation and unpredictability and resulting poor incentives and high transaction costs; ineffectiveness of capacity building efforts, etc.); and point to some of the challenges in meeting the commitments made in the declaration. Then, we proceed to issues that are largely left out of the Paris diagnosis, focusing on how aid interacts with the governance and political challenges present in developing countries as analysed in the preceding sections. We point to the limitations of an exclusively technocratic approach to aid and discuss the lack of positive incentives, including the benefits and limitations of governance selectivity as a way to address political and governance challenges.

The problems raised in this section should not be interpreted as a categorical dismissal of aid as a positive factor in state building. Aid has contributed to developing capacity in certain areas in a number of countries, and it has done so in challenging environments (World Bank, 2005). For East Asia, it is clear that while much of the impetus for successful transformations came from within, aid played an important role.[17] In particular, both South Korea and Taiwan received substantial amounts of aid from the 1950s to the 1970s. In both cases, the US was by far the largest donor, considering the region of the highest strategic importance in the fight against communism. As Temple (1999: 152) has argued 'US foreign aid was a key ingredient in strengthening both state bureaucrats and the national econom[y]'.[18] Vietnam was able to rebuild its economy with large injections of aid and favourable trade agreements from the Soviet Union and other communist countries.

However, the record of many countries in Latin America and especially Africa indicates that international assistance does not always help to promote development in recipient countries.[19] Aid, and the various modalities through which it is provided, can generate negative or perverse incentives and unintended consequences for the development of capable, well governed, effective and accountable states. Lockwood (2005) has pointed out that both donors and their critics sometimes exaggerate what aid can accomplish (either positively or negatively); however, it is also true that, in the aggregate, aid has a significant impact on the state.

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[17] Japan received substantial US assistance during the occupation period (1945-52); in the 1950s, its economic recovery benefited from strong military demand driven by the Korean War.

[18] Among the causes identified for the success of aid in East Asia have been: greater unity of aid (with the US as the dominant donor) (Knack and Rahman, 2004), a strong interest in the donor country in generating successes (alignment of foreign policy and aid motivations), and an alliance between US and local technocrats in pursuing some beneficial fundamental reforms (land reform, moving from ISI to export-led growth) (Haggard 1990).

[19] During the Cold War, aid to Africa often supported highly personalistic dictatorships and helped to finance local wars.

These issues demand attention, particularly in a context in which aid volumes are set to increase considerably. Moreover, as the following sections seek to emphasise, while the Paris agenda represents a positive step, it does not address the fundamental and politically rooted problems that exist in the majority of recipient countries. Thus, on its own it will be insufficient to make aid more effective in many countries.

6.1 The Paris diagnosis of the aid system and the emerging commitment to change

The aid system has changed considerably over the past decades. One of the most obvious transformations is the growth in the number of donor agencies. Until the 1970s, aid from the US accounted for almost 90% of all aid flows within the Western bloc. Today, the US remains the single largest donor, but it provides less than 10% of all aid flows (Birdsall, 2006). The current international aid system consists of a loose aggregation of more than 90 aid agencies, and it continues to expand.[20]

This increase in the number of actors has created significant problems, including a multiplicity of agendas and purposes, poor coordination and high transaction costs for recipient governments. Fragmentation also creates collective action problems among donors and contributes to a degree of irresponsibility, as no individual donor can really be blamed or credited for the overall development of a country or even a sector (Knack and Rahman, 2004). A related problem has been that aid is frequently unpredictable and variable from year to year, and that aid commitments and actual aid disbursements often diverge considerably.[21]

Other elements of the diagnosis include that – in reaction to the problem of 'captured' and ineffective states – donors have sought to circumvent the state in many developing countries by working through NGOs and by ring-fencing their projects. Since the 1980s, in the context of seeking to limit the role of the state, and out of a distrust of the state apparatus in many countries, donors sought to channel substantial aid funds through NGOs. However, NGOs cannot be expected to replace government systems and/or to substitute for the state. In the area of service delivery, NGOs cannot ensure service provision for millions of pupils and patients. Rather, NGOs ideally engage in service delivery in coordination with the public sector – so that the services they provide are part of health sector referral systems, for example, and so that the sustainability of the services they create is ensured (Tendler, 1998, provides a good example of this).[22] Furthermore, while working through NGOs and ring-fencing has helped to execute individual projects, it leaves unsolved the overall problem of weak and ineffective states.

In reaction to these problems of donor fragmentation and of failing to build durable institutions, a growing consensus has emerged regarding the need to rationalise the international aid system and to refocus aid on building state capacity. Improved donor coordination and responsiveness form the core of the harmonisation and alignment agenda that has been embraced by donors, at least in principle, in the Paris Declaration on Aid Effectiveness, signed in March 2005 by over 100 donor and developing countries.[23] The Declaration includes a series of commitments from both donor and recipient countries to improve the quality of international development assistance through country ownership, partnership, and mutual accountability; 12 indicators have been defined to monitor implementation.[24]

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[20] The latest newcomers include the Millennium Challenge Corporation (MCC), launched by the US, and special vertical funds like the Global Fund to combat AIDS, Tuberculosis and Malaria (GFATM). New EU member countries, oil-rich Arab countries, and emerging market countries such as China or Russia are (re)emerging as additional bilateral donors (Manning, 2006). At the same time, private donors (foundations as well as INGOs) are acquiring growing financial and policy clout.

[21] See the data on commitments and disbursements in the OECD's Creditor Reporting System at www.oecd.org/dac/stats. Problems with absorption capacity also contribute to this discrepancy.

[22] There may be a particular situation in post-conflict situations where no government exists, and with regard to 'rogue regimes' (e.g. North Korea, Zimbabwe), where donors may choose to work primarily with NGOs for a period of time.

[23] The Paris Declaration does not deal with vertical funds (such as GFATM), which do not always fit well with recipient governments' national strategies and budgeting frameworks.

[24] See also de Renzio et al. (2005).

6.2 Providing budget support

One key element of this agenda is to provide a higher share of aid in the form of budget support (Koeberle, 2006). Providing (a share of) aid as budget support is particularly relevant in highly aid-dependent countries because it reduces the high transaction costs associated with project and more 'piecemeal' forms of aid, which tend to impose a heavy burden on often already stretched public administrations. It can also help to improve government coherence: the budget process becomes more central, as opportunities for individual ministries to attract funding directly from donors are reduced. At the same time, giving aid as budget support directs the attention of donors to those areas of the state most essential for running a government – and especially towards improving public financial management.

However, while the positive effect on transaction costs is rather clear, the wider presumed benefits of budget support are not automatic. Initial reviews of experiences do not observe a significant improvement in government effectiveness or accountability after more aid was provided as budget support (Lawson et al., 2005; Lister et al., 2006). Furthermore, because budget support gives governments greater control over how funds are allocated and used, it can increase the potential for corruption in those countries where a government's commitment to development and its accountability to citizens are weak or declining (CMI, 2006). For these reasons, while it remains far from being the dominant aid modality, budget support has particularly attracted the ire of domestic constituencies in donor countries when things have gone wrong, as has recently been the case in Uganda and Ethiopia (de Renzio, 2006).

6.3 The renewed focus on capacity development

A second important element of the Paris diagnosis is the renewed focus on capacity development. Capacity development transfers knowledge and resources to recipient countries and hence should serve to increase the capacity of their public sector over time. In total, US$20.8bn, or more than one-quarter of all ODA, was spent on technical co-operation efforts in 2004 (OECD, 2006: 7). However, capacity has remained limited in many countries despite efforts over more than four decades.

The limited effect of aid aimed at capacity development is reflected in the indicators of government effectiveness discussed in Section 5. In particular, the results are not encouraging even for those countries receiving especially large amounts of technical assistance. For example, Ghana and Uganda were among the largest recipients of assistance targeted at improving government administration in recent years.[25] Although the two countries have relatively capable governments, the indicator of government effectiveness for both declined between 1996 and 2004. This implies that if the indicators are at all valid, increased spending has not sustained or accelerated progress on government effectiveness.[26] Two recent international reports point to a number of the key problems associated with capacity development assistance (World Bank, 2005; OECD, 2006). These can be summarised as follows:

- The transfer of resources is in fact limited, since a substantial share is spent on salaries and fees of expatriate advisers. While much of this is justified, clearly not all is.
- Donors and INGOs, both ever more numerous in developing countries, frequently attract good staff away from the public sector and into their project offices. Even where public sector salaries have been increased, they usually remain substantially below those offered by donors. The presence of many official donors as well as INGOs in a developing country leads to competitive 'poaching' of qualified staff from the government, which in turn contributes to a weakening of

[25] Funding levels to improve government administration rose more than tenfold between the 1990s and the early 2000s. Around half of all funds provided in this category to LICs went to just three countries in 2003: Uganda (us$150m), Mozambique (us$58m) and Ghana (us$52m). This implies at the same time that for numerous other countries funding of this sort has been modest.

[26] However, there may also be time-lags involved, as the real push for higher spending only started in 2000.

bureaucratic quality (Knack and Rahman, 2004). This is particularly damaging in the light of what we know about successful developmental states and the importance of building good core bureaucracies, as discussed in Sections 2 and 4 above.

- Capacity development efforts tend to focus on the transfer of models and technical solutions that do not fit with country circumstances (e.g. sophisticated IT solutions or reforms originally designed for developed countries). Recipient governments are also implicated, since they are often attracted to sophisticated solutions rather than insisting on lower-tech but robust options. For example, from the 1990s until 2003, the World Bank provided over US$1 billion for the development of Integrated Financial Management Information Systems (IFMIS) in developing countries. According to World Bank staff, less than 6% of these projects were considered sustainable over time (Dorotinsky, 2003; Wynne, 2005).
- Capacity development is provided in a fragmented way both among donors and over time. There is too little provision of pooled long-term assistance capable of supporting larger scale and more fundamental efforts, such as a serious expansion of regional training institutions (Commission for Africa, 2005).

The Paris Declaration sets out some key principles that seek to address such problems. Aid recipient governments have pledged to draw up capacity development strategies as part of their overall national development plans. Donors, on the other hand, have made a commitment to align their support with such strategies, and to harmonise the modalities through which support for capacity development is provided. Furthermore, donors are encouraged to use fewer dedicated project implementation units, so as to attract fewer staff away from the public sector; they have pledged to undertake more joint missions and shared analysis so as to reduce the burden on state capacity.

More broadly, there are a number of current international initiatives and suggestions which aim at making public sector capacity development in low income countries more effective. In addition to the World Bank's assessment of its capacity building efforts in Africa (2005), the IMF has created regional capacity building centres in recent years which have generally been well received.[27] The OECD/DAC is providing a platform for more intense debates about 'capacity development'. The Commission for Africa has suggested a range of measures for a big push in capacity development, including the upgrading of African institutions of higher learning. Given the experience of previous 'developmental' states (above), this is an important area – since higher education is likely to play an important role in helping create a competitive and effective senior civil service – even if higher education by itself cannot dismantle the clientelistic and neopatrimonial structures that are at the root of non- (or anti-)developmental states.

However, as donors begin to implement the Paris agenda, there are still many challenges that need to be addressed so as to make capacity development more effective. In particular, donors will have to be willing to restructure their technical assistance efforts significantly in order to ensure that increased funding can become more effective.

6.4 Embracing national ownership of the development agenda

A third pillar of the Paris Declaration is the commitment of donors to support nationally owned policy agendas. In the past, donors have exerted a strong influence on national development strategies. As discussed in Section 2, this included the shift from support for state-led approaches in the 1950s and 60s to an anti-statist stance embodied in the neo-liberal policies of the Washington Consensus in the 1980s. While recipient countries followed those prescriptions unevenly, structural adjustment programmes (SAPs) did result in the considerable restructuring and downsizing of the state, and conditionality was widely used by donors to elicit certain policies from recipient countries, such as trade liberalisation, decentralisation, etc.

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[27] See http://www.imf.org/external/np/exr/facts/afritac.htm; the page also contains links to evaluation reports.

As part of the new aid discourse on country ownership, partnership and mutual accountability, governments are now held as essential in the promotion of economic development and social wellbeing; there is consensus that development policies should be country owned. The MDGs and PRSPs[28] have brought back a greater emphasis on national planning, as well as on social participation. According to the Paris Declaration, recipient governments agree to draw up operational national development plans (indicator 1); donors in turn commit to align aid to national priorities (indicator 3).

However – with variations – more recent approaches still contain strong elements of externally driven policy direction. Donors have declared health and education to be priority sectors and have steered states toward the delivery of basic social services. Donors have also demanded that governments orient greater funding towards 'poverty reduction' (e.g. funding primary rather than secondary and tertiary education, or focusing particularly on poor regions, etc.) It is important to observe that while successful East Asian developmental states – both of the capitalist and the communist brand – did some of these things (especially expanding health and education), they also went beyond this and intervened more strongly in the economy to spur growth and development. In addition, they were less committed to predominantly pro-poor state activity. So while donors once again accept the importance of the state in development, they have also come to support a vision of the state that may be more welfare than development-oriented.[29] Furthermore, as will be discussed in more detail below, country ownership of the development agenda presumes the presence of government commitment to development – which is still lacking or fragile in many countries.

Overall, while the aid effectiveness agenda and the Paris declaration, which is based on it, constitute progress in addressing some of the problems posed by donor fragmentation and related issues as discussed above, important challenges remain. Most crucially, the aid effectiveness agenda continues with a more or less exclusively technocratic approach to development; on its own, it can achieve at best a limited reduction of the problematic effects of donor fragmentation.

The Paris Declaration does not address the disconnect between the expanding aid system and the institutional and political commitment and ability to use aid well in sufficient depth. It assumes that country ownership and leadership of the national development agenda will emerge if donors leave more space for it. However, as set out in Section 4, there are many countries where for key domestic reasons strong and committed leadership and ownership of the development agenda (both within the government and outside) is missing. Furthermore, while donors agree to pool their aid to a greater extent, a large number of donors continues to exist and engage in each country, leaving still a multiplicity of donor voices, interests and views, so that the disincentives for an encompassing engagement remain.

6.5 The limits of the Paris diagnosis: governance and political economy challenges to aid effectiveness

Although the distribution of political power is at the root of many problems of non-development, the international aid community has for a long time been reluctant to accept this explicitly, and to

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[28] PRSPs are intended to be documents prepared by governments through a participatory process involving civil society and development partners, in an attempt by the World Bank and the IMF to base their decisions on nationally owned strategies. However, while some PRSPs processes have been participatory and broadly inclusionary, in others this attempt at 'creating' domestic dynamics for poverty reduction has fallen rather flat or has petered out once the 'big carrot' of debt relief was absorbed. Also, the ideas of 'participation' on which the PRSP efforts are based often sit uncomfortably with the real world of how groups participate in the political life of countries (for example, the poor very rarely have a strong voice, unless they are represented by powerful left of centre or populist political parties) (Piron, 2004). Moreover, the resources for substantial participatory processes, especially at regional and local levels, have often been missing.

[29] This is an observation that Jonathan Hanlon of the Open University made very forcefully at the ODI roundtable on the developmental state, held in London on 27 July 2006. Currently, donor priorities may be shifting yet again: most recently, donors have become more concerned about infrastructure as a basis for economic expansion and may demand yet another reorientation of public spending in recipient countries (this time under the banner of 'fiscal space' for investment expenditure, rather than 'pro-poor budgeting').

acknowledge also their own impact on the political landscape of countries. Donors have preferred a technocratic approach to aid: providing what they perceive as sound, technical advice, and engaging primarily with technocrats within government agencies and in NGOs. However, as Acemoglu (2005) and others have pointed out, institutions and policies emerge through choices that societies make; how these choices are made is driven by the distribution of economic and political power. The Paris Declaration largely follows a technocratic approach in seeking to improve aid effectiveness: even the references to 'good governance' are not very strong and almost exclusively focused on public financial management and procurement (monitored by indicators 2a and 2b).

While a technocratic approach to aid has its benefits, it also has serious limitations. Focusing on technical approaches to what are inherently political problems often means that the projects and programmes adopted by donors will not provide solutions that address the root causes of underdevelopment or that are sustainable over time. There is an element of the absurd when donors seek to empower the poor but do so without touching on many thorny issues of what this would really imply and without taking into account organisations like trade unions and social democratic parties, which historically served to empower the poor in affluent Western and Northern countries. At the same time, the foreign policies of major donor countries have often contradicted a more developmental orientation of states by supporting non- or anti-developmental regimes and leaders out of strategic interests and geopolitical competition.

Over the past few years a number of donors have started to engage more explicitly with politics, primarily by undertaking studies, such as DFID's Drivers of Change, and Sida's Power Analyses, which look at the institutional and political dynamics that inhibit development progress in many countries. Still, donors remain uncertain on how to take this agenda forward: we discuss this further in Section 7.

The Paris agenda can only achieve its potential in those countries where country ownership is based on sufficient capacity, as well as on a real and durable commitment to development, and is not undermined by overriding competing goals of the political elite. As diagnosed in Section 4 above, competing goals can include the enrichment of individuals and narrow groups, but also a more intangible drive of leaders to maintain power, as well as engagement in domestic and cross-border conflicts (e.g. northern Uganda, Chad-Sudan, etc.) Furthermore, in situations of 'state capture', when a narrow, selfish and *status quo*-oriented elite has the power to shape government policies for its own profit, *government* ownership of the development agenda can become a very skewed base for the aid relationship.

Moreover, in highly aid-dependent countries, aid can exert problematic incentives on the political sphere and on state building: it can tend to entrench the status quo and can lower domestic efforts at building effective states, particularly since it reduces the need for domestic extraction of taxes.

6.6 Supporting the *status quo*

One general political challenge of the aid relationship is the tendency of aid to support the *status quo*. Once an official aid programme is established, it tends to remain in place. Even if there are temporary suspensions (e.g. Malawi, Ethiopia), there is a strong expectation that support will be renewed in due course. As a result, aid tends to support/strengthen governments that are in power and to underwrite their policies. This can be positive if the government in question is committed to development, and it can be a particularly important factor in promoting political stability after a period of turmoil (e.g. Uganda, Mozambique, or Sierra Leone). However, the 'stickiness' of aid programmes is problematic when a government's commitment to development is waning. Aid can – directly or indirectly – sustain incumbent political leaders and provide the resources to entrench the political and economic *status quo*. Critics have argued that aid has helped sustain bad leadership in power and, in this way, has undermined commitment to development.[30] The pressures donors are under to spend large volumes of

[30] For a particularly strong critique of the aid system from an African perspective, see Shanda Tonme (2005).

aid make it particularly difficult for them to respond when the political economy environment in a country (gradually) worsens – which often occurs a long time before triggering international headlines.

Under conditions of donor fragmentation, it is particularly difficult for donors to balance support for stability and gradual reforms with that focused more directly on transforming societies and power relationships. As discussed, the US had a history of supporting such transformations in East Asia when it was the single most important external actor; the current US approach at seeking transformations in the developing world is widely regarded as overly aggressive and unilateral. A more recent example of a dominant external actor seeking to coax transformations is the EU involvement in Central and Eastern Europe, and in particular in the Western Balkans. The historical experience of East Asia and Eastern Europe implies that dominant external actors can exert a beneficial influence at transforming societies when developmental and foreign policy goals are aligned – i.e. when there is a strong motivation to foster the prosperity of another country or region. The Latin American and Middle Eastern experience, in contrast, suggests that dominant external actors can also play a much more problematic role.

Overall, large inflows of aid from multiple sources tend to support the *status quo* in terms of power distribution. It is hard for donors to balance their support for strengthening existing structures and their aim to achieve results in the short to medium term, with support aimed at more fundamental transformation. This is particularly the case given the involvement of multiple aid providers likely to disagree over the right balance and over the key elements of transformation. However, we believe that this is an area that requires more explicit attention, if more aid is really to be used more effectively.

6.7 Lowering domestic effort

A second challenge inevitably linked to aid dependency is that high inflows of aid can lower domestic effort, in particular the effort to collect domestic taxes from a broad base. A persistent problem among developing countries is the weak capacity of the state to collect sufficient revenue.[31] A number of poor countries with low tax extraction then receive large amounts of aid so as to be able to operate social services and to build or at least maintain some public infrastructure. As donors are pushing to achieve the MDGs, their financing of basic social services has become ever more important in highly aid-dependent environments. In a number of countries (e.g. Mozambique, Uganda), ODA accounts for as much as half of the total budget.

However, as Ostrom et al. (2001) have argued, such high levels of aid can lower the efforts governments undertake to raise and collect their own revenue and stimulate development. They refer to this as the 'Samaritan's dilemma', whereby (in the game-theoretic model) the recipient of assistance is better off not changing or even reducing her own efforts as long as the Samaritan is willing to help. This is particularly problematic since domestic revenue generation is widely believed to have important collateral benefits: it can help to focus a government's effort on widening the economic base so as to be able to extract more in the future, and it can strengthen domestic accountability, as it increases the interest and the capacity of citizens to make demands on the state (Moore, 2004). Thus, especially in a context of scaling up aid, an important issue is how to adjust the way aid is provided so as to generate incentives for increasing rather than lowering efforts – towards revenue collection and development more broadly – on the recipient side.

6.8 The benefits and limits of governance selectivity

Some donors have attempted to channel more aid to governments that are deemed to be better performing, and less aid to those regarded as rent-seeking, corrupt and/or anti-developmental. The most prominent recent example of such 'selectivity' is the MCA, introduced by the Bush administration

[31] Countries collecting less than 15% of GDP in revenue include Bangladesh, Burkina Faso, Chad, Madagascar, Uganda, Tanzania, and many others; higher revenues are found in Ghana, Kenya or Vietnam (around 20% of GDP).

in March 2002.[32] The concept behind the MCA is to reward countries that have achieved a commitment to policy reform and good governance, and to provide an incentive for those that may qualify if they make a serious effort.

One issue is that strong selectivity criteria based on good governance and performance can contradict other important goals, such as channelling aid to the poorest countries (particularly prominent in DFID) – which tend to be comparatively worse governed. The possible tension between the good governance and the anti-poverty agenda were highlighted by the recent conflicts in Ethiopia (de Renzio, 2006). Drastically reducing aid when political clashes lead to human rights abuses can endanger gains made in the expansion of services and poverty reduction. However, continuing to fund governments in such a situation also has costs in terms of credibility, and of providing realistic incentives to the political leadership of countries.

A second challenge is that, contrary to the notions in the Sachs Report (2005), the vast majority of poor developing countries have mediocre to poor governance, and thus there are not many 'good performers' towards which donors could channel massively more aid; rapid scaling-up to (a few) perceived good performers can risk undermining their governance, as it increases aid as a potential source of rents (and may lower domestic efforts). Thus, while governance selectivity may be useful, it is not an easy solution to the challenge of reaching the MDGs.

Furthermore, selectivity runs into problems of judgement – when determining which poor countries are better governed. So far, no widely accepted methodology for measuring good governance is in place, although a variety of different indicators exist. Some donors rely on the World Bank's Country Policy and Institutional Assessment (CPIA) indicators. Originally developed in the 1970s, the methodology was strengthened in 2004 and, for the first time, the ratings for 2005 were made public (Court, 2006).[33]

Still, in principle, governance selectivity is a good idea and can create incentives for 'middling performers' to improve. The MCA has been criticised for its unilateral approach, undermining efforts at aid harmonisation, as well as for other potential biases. An initiative building on this concept from a more multilateral perspective, and further refining the relevant criteria, would probably be welcomed.

Overall, there are a number of important issues embedded in the way the current aid system works which reduce the potential of aid to support more developmental states. The Paris Declaration diagnoses and addresses the problems of aid fragmentation and of aid practices which subtract or unnecessarily 'consume' capacity in recipient countries. However, it does not address the political economy challenges present in many developing countries, which weaken or undermine the capacity and the developmental orientation of their states.

Still, the range of problems raised here should not be reason for resignation. In the short term, is not likely to be possible to transform the aid system. However, addressing some of the wider issues, and beginning to search for potential solutions, can serve to improve aid; this will be crucial to ensuring that more aid achieves tangible benefits in a growing number of countries.

[32] Whether countries qualify for MCA assistance depends on their performance on a range of indicators, both economic and political, along with their presumed efforts on the 'war on terror'. Thus far, the first round of MCA funding in Africa has gone to only seven countries that have been able to meet the account's rather stringent criteria on good governance and development readiness (Lockwood, 2005).

[33] The CPIA 2005 ratings are available at http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/IDA/0,,contentMDK:20933600~menuPK:2626968~pagePK:51236175~piPK:437394~theSitePK:73154,00.html.

7 What Can Donors Do? An Agenda for Research, Policy and Practice

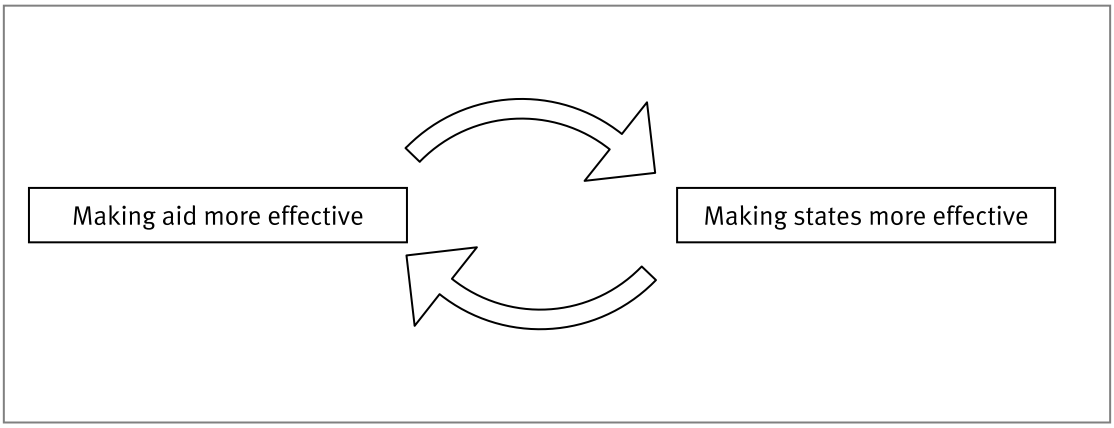
As the discussion in Section 6 above has highlighted, the current aid system involves many features, practices and incentives which either reduce the impact of aid on strengthening effective and development-oriented states or can even pose serious obstacles to their promotion. This section begins by reinforcing a key lesson for the international aid community, which is the centrality of capable states for development effectiveness. Next, it outlines an agenda for research and action. Drawing on our analysis in Section 6 on the problems embedded in the current aid system, our recommendations focus on three key areas:

i) Bring politics back into development policy and practice – while being conscious of the risks and pitfalls involved; better politics is the key to the evolution of more developmental states.
ii) Be more serious about capacity development, and about learning what works.
iii) Build more incentives into the aid system to improve the capacity and quality of government.

7.1 The need for strong capable states for aid to be effective

If there is one key lesson that donors have learned over the course of the past few years, it is that state have to become more effective in order to make aid more effective, and vice versa. In the context of the Paris Declaration, there is a strong emphasis on increasing aid effectiveness as the starting point, over which donors have most immediate 'traction'. However, as highlighted in Section 6, it should not be assumed, as by the Paris Declaration, that addressing some of the problems of aid fragmentation will automatically translate into more capable and responsive states.

Figure 2: The Paris Declaration assumption



As this paper has sought to emphasise, states have a fundamental role to play in fostering national economic and social development – whether as revenue raisers and distributors, or as infrastructure and service providers, or even (and more controversially) as investors and credit providers. Consequently, the international aid community needs to engage in seeking to promote more 'developmental' states, even though this is a very challenging field. It is impossible to generate sustained development without improving the way in which states work and making them more effective. As was noted above, NGOs cannot supplant the core functions of the state. In addition, regional initiatives such as the New Partnership for Africa's Development (NEPAD) or the Africa Peer Review Mechanism (APRM),[34] as well as vertical funds, ultimately have to rely on state-based

[34] Launched by NEPAD, the APRM is an African self-monitoring mechanism voluntarily acceded to by Member States of the African Union. Participating states agree to strive towards agreed political, economic and corporate governance values, codes and standards and to promote political stability, economic growth, sustainable development and regional economic integration. The APRM monitoring process takes place through periodic peer reviews. The process also entails sharing experiences and identifying and promoting good practices. As of May 2006, 25 countries had signed up.

institutions for implementation. In summary, hopes for increasing aid effectiveness via harmonisation and alignment hinge on increasing capacity and bureaucratic integrity in recipient countries.

At the same time, as this paper has outlined, increasing state effectiveness is a challenge, since weak and non-developmental states are rooted in deep social and political structures (clientelism and neopatrimonialism, political elites driven predominantly by a particularistic logic rather than by an overriding concern about national development, etc.) Thus, when seeking to promote more developmental states today, the international aid community needs to be realistic about the challenges involved, more conscious about the risks, as well as pragmatic and outcome-oriented in managing those risks. The challenge is to find ways in which aid can better support the development of more effective, capable and responsive states, in the face of these underlying, but not immutable, constraints.

7.2 An agenda for development research, policy and practice

Bringing politics back in

What can donors do to take politics more seriously, not only in theory but also in practice? A strategy for donor research and action that brings politics back in includes the following:

- Becoming savvier about the politics of development and better informed about the contexts in which aid intervenes. Attention to politics should by no means be the exclusive focus of aid (and it will absorb only a relatively limited share of total aid resources), but is an essential element for making the other components of assistance – expanding services, building infrastructure and so on – more effective. It can go hand in hand with promoting changes in social structures, like the expansion of education at all levels and particularly of girls and women, essential in the promotion of medium to long-term social change. Furthermore, wherever possible, it appears crucial to let domestic reformers take the lead and to support their efforts. Domestic reformers generally know their country much better than donors can; they have a long-term stake in their country's development. In most situations, it is important to encourage domestic reformers to build broad coalitions, rather than reinforcing political divides.
- Working further on redefining the relationship between development and foreign policy, both conceptually and operationally. This has begun particularly with regard to fragile states; it is also necessary for the process of engaging more explicitly with politics in other countries. As development actors, donors need to pursue relatively long-term structural visions and strategies in their engagement with politics, focusing on institutions more than on individual actors (although engaging with specific actors is a necessary part of pursuing such an agenda). At the same time, it is important that motivations and strategies pursued by foreign policy and by development policy are aligned, and complementary rather than contradictory. A foreign policy that is interested in short-term gains (of political allies, of access to a base etc.) at the expense of building political institutions can undermine trust and credibility.
- Realising, as has been highlighted throughout this paper, that bringing about change that seeks to alter existing structures of social and political power and relationships is a long-term process influenced by a number of factors. Hence, aid interventions should be based on realistic expectations. A shift towards a 'good enough' governance agenda that is less normative and absolute points in the right direction (and is an approach that DFID, for example, has been willing to undertake with its emphasis on 'direction of travel'). This strategy, however, also involves challenges of its own. As highlighted in Section 3, the operationalisation of 'good enough' in practice remains a question that still needs to be addressed, as does the definition of minimum standards to which aid-receiving countries should be held.
- The centrality of politics is particularly important in the context of 'unfinished' processes of democratisation in many low-income countries. As pointed out in Section 5, new democracies and hybrid regimes tend to have less stable and more fluid and/or 'noisy' political systems than the autocratic regimes that preceded them; understanding the dynamics of change in such

settings is essential. In these settings, donors should support the strengthening of key institutions to make a democratic regime effective – political parties, parliaments, audit systems, the judiciary, central, regional, and local public administrations, a constructively engaged civil society, a free and professional media, and civic education.

Helping to turn new and fragile democracies or hybrid regimes into consolidated democracies that can guide the building of effective and accountable states, in particular should involve several elements:

- Working towards abating 'strong-man' politics and the personalisation of political power as analysed in Section 4. This can be sought, among other things, by promoting the institutionalisation and further routinisation of leadership changes (in collaboration with regional and international actors such as the African Union, NEPAD, and the Organisation of American States), and supporting the development of a wider pool of potential political leaders rather than focusing on a few individual 'champions'. Donors must also be prepared to stop providing aid to leaders who insist on prolonging their time in office beyond the specifications of the constitution. Donors need to be aware that aid can function as a source of rent (Collier, 2005; Djankov, et al. 2005; Moss et al., 2006[35]) and that, as a result political leaders, especially incumbents, can manipulate it for their own personal advantage.
- Engaging with political parties and parliaments more fully and directly. While parties have a poor reputation in many countries – often deservedly so – they remain an essential intermediary institution linking citizens to governments in democracies. Accordingly, parties, like parliaments, urgently need to broaden their representation capacity and become more responsive and professional, as well as to develop greater policy expertise, better organisational structures, more transparent financing mechanisms and rules to elect leaders.
- Promoting greater accountability between recipient governments and their citizens. The international community has embraced 'mutual accountability' between donors and recipient governments, most recently in the 2005 Paris Declaration; domestic accountability has been recognised as an important concern. However, many technocratic donor interventions still focus exclusively on changing the ways in which government works internally, rather than seeking also to improve opportunities for citizens to hold government to account. There is still considerable scope to improve donor engagement around strengthening accountability – strengthening the role of civil society as watchdogs and promoting the professionalisation of the media[36] – while understanding that civil society can both support and undermine formal institution building. At the same time, there is scope to help governments to develop good checks and balances, as well as to 'cope' with forms of governing that are more transparent and open to scrutiny.
- Fostering state-society relations that are conducive toward supporting a functioning public sector. This entails a revival of a conceptual emphasis on state-business and state-society relations. What are, for example, the political economy factors behind poor regulatory environments and are there demands for change? What are the implications of individuals with business interests entering politics in many new democracies? How can state-society relations based on antagonism and opposition to (or rejection of) the state be turned into more positive interactions that can bring about positive change?
- Investing in understanding, and engaging in long-term social change. Striving to fulfil the MDGs does not only reduce poverty but can also have important effects on social structures. This is particularly the case with regard to the expansion of education at all levels, and especially of girls and women, as this is a crucial ingredient for promoting medium to long term social change. At the same time, fundamental social change – which also includes processes of urbanisation and the loss of traditional social structures – can entail the potential for discontent and conflict, especially when aspirations are generated and then stifled later on.

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[35] Djankov et al. look particularly at the impact on democratic political institutions and find that high aid levels tend to be correlated with worse institutional outcomes than high levels of natural resource rents. Similarly, Moss et al. argue that high levels of aid reduce incentives to institutionalise domestic accountability mechanisms. Collier, in contrast, is more sanguine about aid: while it carries risks of having effects similar to natural resource rents, the way in which aid is managed can bring substantial benefits, so that the overall effect is positive.

[36] The dangers of liberalising the media without professionalising it and holding it to certain standards became horrifically evident in Rwanda during the 1994 genocide.

Overall, engaging more seriously with politics is an important but delicate direction. The involvement of donors with politics needs to be based on a strong commitment to fostering development, good judgement and, in many ways, self-restraint. The goal must always be to empower domestic groups and coalitions to seek change, and to provide incentives for governments to become more development-oriented, rather than for donors to dominate the political arenas of developing countries.

In addition to these recommendations based on the centrality of bringing politics back into the development process, the international aid community should focus on two areas: making a more serious commitment to improving capacity development, and considering the issue of incentives for better government and greater domestic effort in aid-recipient countries.

Making a more serious commitment to improving capacity development

Given the limitations of capacity building assistance to date, highlighted in Section 6, the reform of capacity development efforts remains an urgent task if developmental states are to be nurtured and strengthened. In terms of overhauling such assistance, donors can focus on the following:

- Going beyond a narrow focus on MDGs. While donors have focused a lot of their attention on meeting the MDGs, capacity development requires a commitment that goes beyond meeting basic needs. So far, resources to support quality universities and quality schools of public administration operating regionally have been lacking (Commission for Africa, 2005). One of the few major centres of higher learning recently created with an explicit aim of reaching developing and transition countries was set up by a private investor, George Soros, rather than with the support of ODA. Donors need to support the development of more advanced skills such as statistics, accountancy and business management on a more substantial scale in developing countries. Hundreds of three-day workshops delivered by expensive expatriate consultants cannot have a meaningful impact where opportunities for fundamental training are scarce. More substantial training institutions in the developing world and fewer scattered donor-led capacity building efforts would in turn alleviate the capacity draining effect diagnosed by Knack and others (see Section 6).
- Conducting more medium-level impact assessments of governance interventions. The governance agenda has been driven to a considerable degree by normative concerns and beliefs. What is urgently needed is better empirical understanding of what works – in the light of the need for effective states which are governed 'well enough'. Such impact assessments should be conducted by groups of donors looking at a broad range of interventions and their overall effects, rather than focusing on particular projects and programmes.
- Rethinking capacity development and the reform of bureaucracies. In the 1990s, there was a strong current of support for 'new public management', but scepticism about the benefits of such support has been on the rise both in OECD and in developing countries. It is not easy and may not always be adequate to graft private sector incentives onto a (poor) public sector. While research on the civil service tends to be regarded as rather dull, given how central it is to a developmental state it deserves greater attention. How are the bureaucracies of developing countries and in particular of LDCs performing at the central, regional and local levels? What are the drivers of change (both positive and negative)? Can pockets of meritocracy and commitment to serving the public be identified – and how can these be expanded? What is the role of norms and values, and how can positive norms (ethical standards, service orientation) be encouraged? Building knowledge management around lessons from past public sector reform efforts and seeking to change donor practices where necessary (e.g. adopt a stepwise 'platform approach'; learn to target IT-provisions better, etc.) can help to improve our understanding and approaches.
- Becoming more open to innovation on administrative reforms; acting as a midwife to local initiatives rather than bringing ready-made solutions from outside. Donors should be prepared for failure in this difficult area, and so should pay attention to lessons drawn from elsewhere while avoiding blueprints. They need to focus on what is really most needed to move a given country forward one step at a time. Donors should emphasise the need for state capacity and

how to develop it and prioritise it over achieving policy and institutional reforms – at least where reforms are not urgently needed. This can also involve a greater emphasis on identifying and working on South-South opportunities in capacity development to make such efforts more effective, sustainable and durable over time.

Improving incentives around aid allocation

The third set of issues lies around incentives embedded in aid allocations:

- Exploring further, both conceptually and practically, the potential of building more incentives for better government into the aid system. Careful selectivity which offers additional funds above a minimum to those poor countries that show commitment to and progress in improving state capacity as well as accountability can be a useful tool in principle. Possibly, the APRM could eventually feed into the selection of which countries qualify for further aid. Think about budgeting aid differently, so that larger chunks can be made available at key moments and/or for larger-scale projects. Explore the balance between making aid predictable and building in reliable and transparent incentives.
- In particular, exploring how the 'Samaritan effect' can be counterbalanced by greater incentives to expand revenue extraction capacity. Understand the political economy of widening the tax base and increasing the effectiveness of revenue collection. Co-funding, and introducing regional competition for funds – along the lines of the EU structural funds, may be useful ways to help to stimulate domestic effort and hence to overcome passive aid-dependency.[37]
- Exploring opportunities for multilateralising and aggregating such incentives to make them compatible with other ongoing efforts at improving the aid system.

In conclusion, we would like to voice both a note of caution and of cautious optimism. As the research discussed in this paper reflects, developmental states cannot emerge overnight where they have never existed, or where earlier hopeful beginnings ended in failure and 'lost decades' for development. External factors more broadly, and aid more narrowly, only play a limited role and have often been rather ineffective, especially in countries where underlying political and social structures have not been conducive to stable and broad-based development. Moreover, aid has been less successful at promoting developmental states where foreign policy was not aligned to developmental goals.

There are also reasons for cautious optimism. In an increasingly interdependent world there is an increasing commitment to make a concerted effort at solving development problems that have been intractable in the past. The commitment to the MDGs and recent increases in aid levels signal a new stage of international effort. Donors are (again) expecting a great deal from states – and thus the momentum for supporting state capacity is increasing.

We wish to caution that efforts to reach the MDGs and to 'make states work' may remain ineffective if there is not more attention paid to the underlying constraints preventing the emergence of developmentally oriented governments and states. However, we are hopeful that the greater commitment to development will also guide attention to these areas. Furthermore, a wide range of lessons is available from the past, which is contributing to a more balanced and analytically informed approach to the state and to the importance of the political sphere. We believe that these lessons can help to translate the renewed commitment to development into more effective forms of support.

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[37] Some of the poorest and least capable countries are likely to be less successful in applying for funds; hence, different sources of aid may need to be set aside for them. However, competition could be particularly beneficial for the financing of large infrastructure projects, since a government unable to submit a solid application is also highly unlikely to play an effective role in infrastructure development.

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