The World Bank and Governance:
The Bank's Efforts to Help Developing Countries Build State Capacity

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When is development successful ?

* World Bank assists governments to design and implement projects and policies—to achieve tangible results
* When are policies and programs likely to be successful? Generally, when state has capacity to design & implement
* Key impediment: governance. World Bank has made efforts to improve governance in recipient countries
* But it does not have good track record in helping poor countries build state capacity. Disconnect between Bank rhetoric on governance and actual results on the ground
* What explains this weak performance ?

OUTLINE

1. Conceptual underpinnings: role of developmental state
2. World Bank views on the role of the State, 1946–2012
3. World Bank approach to country assistance, 1946–2012
4. Why low performance in building state capacity?
   * Hypotheses
   * Research strategy

A proactive and effective state is essential for development

* Governance and public sector management shape both the investment climate and the efficiency of delivery of the basic services that are at the center of the development agenda
* In poor countries: limited administrative capacity to design and implement policy; to provide basic health and education services; and to raise revenues
* Increasing aid to accelerate development not effective because of absorptive capacity constraints

  (Collier's rule of thumb: saturation point is 2 to 3 times the CPIA measured as a percentage of GDP—in post-conflict countries after a few years, perhaps 5 times the CPIA)

World Bank views on the role of the state in development since 1946

* **1940s–1950s:** Standard conservative views about what governments should and should not do
* **1960s–1970s:** Proactive view of the state's role but focused on project lending rather than policy reform
* **1980s–mid1990s:** Structural adjustment. Government failures seen as characteristic of developing countries (policy mantra = 'getting prices right')
* **Since the mid 1990s:** state intervention gradually recovers its legitimacy. Emphasis on poverty reduction and on creating favorable business climate (and skepticism toward industrial policy interventions and even regulation)

Country Assistance

* Project lending
* Policy Advice & Adjustment Lending
* Selectivity & Performance-based Allocation
* Budget Support
* Good Governance

Country Policy and Institutional Assessment

* CPIA = annual assessment of policies and institutions by IDA and IBRD country teams along 16 criteria grouped into four clusters: economic management, structural policies, policies for social inclusion and equity, public sector management and institutions
* IDA balance needs and performance with a complex formula.
* Weights:
  - Governance cluster = 68 percent
  - Macro management + structural policies + social policies = 24 percent
  - Portfolio performance = 8 percent
* Exceptional allocations for post-conflict countries, debt sustainability, regional projects, arrears clearance, and re-engaging countries.
* IDA allocations are highly selective
* Countries with high CPIA scores can expect to receive 6 to 7 times the per capita allocation of low-scoring countries

The Rise of Governance in the World Bank

* Failure of structural adjustment & conditionality
* 1983–1996: From Fiscal Adjustment to Public Sector Management
* 1996–2006: Poverty Reduction through Good Governance
* 2007: Governance and Anticorruption becomes overarching corporate strategy
* 5 years later: Bank's response to governance issues in its country programs and projects demonstrates continuity but does not show a systematic improvement (IEG report)

What explains the Bank's lack of performance in building state capacity?

Three Hypotheses

(1) how its research is prioritized and used for decision-making

(2) how leadership achieves consensus between shareholders with different views on the role of government

(3) how staff is incentivized and supervised to achieve longer term sustainable institutional construction

Conclusions

* The Bank has made considerable progress in recognizing the fundamental role of governance for successful development
* However it has never been clear (for ideological reasons) about the need to support the state and has only half-heartedly embraced capacity building
* “Don’t give them fish, but teach them how to fish.”

  For a long time, instead of helping countries in their development efforts, it has done the job for them (project design, project management, PIU, evaluation, etc) rather than allowing them to make mistakes but learn along the way…..

Research strategy: next steps

- CPIA strongly correlated with project outcomes (confirms importance of country-level performance for effective use of aid) But (1) project task manager quality matters a lot for project outcomes;   (2) project outcomes vary much more *within* countries than between countries (Denizer, Gelb and Kraay)
- Analyze econometrically econ policy projects (6% of total); public sector & governance projects (also 6%) and Technical Assistance projects (or, often, project components)
- If governance projects matter, it would be seen in an interaction term between other project types and governance projects on the outcome of these other projects
- governance projects allow improvements of portfolio of other projects: less emphasis on social assistance and more emphasis on income generation
- governance projects should increase capacity to absorb more foreign aid (looking at $$ value of other projects and interaction with governance projects in term of outcomes)