Generational Shifts in International Governance Assistance: The World Bank and State-Building After 911

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Abstract

Over the last decade and a half, international assistance to promote good governance in developing countries has increased significantly. The World Bank has been in the lead of major governance donors, with steadily growing resources devoted to governance programs. Even with the rise in governance-related lending, though, governance programs remained relatively marginal to the Bank's overall investments, as economists at the top of the institution had come to view these issues as important – but not central—to broader economic development objectives. Then came September 11th, which, this article argues, raised the stakes for state-building and transformed good governance into a global public good. How have Bank programs responded to the post-911 governance challenge? This article examines Bank investments in governance after 911, showing the roots of recent programs in earlier generations of institutional development assistance sponsored by donors since World War II. Bank spending patterns, official rhetoric, and program documents all suggest that the clarion call of September 11th has not been met with dramatically increased resources or a bold new governance vision. The response has been largely incremental, building on past practices. Still, as the post-911 era moves forward, some of these small shifts may signal a more decisive course of governance assistance, particularly with new leadership at the institution's helm.

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Introduction

In the closing decades of the last century, international assistance to improve developing country governance increased at a steady pace. As evidence increasingly showed that institutions mattered to economic development, governance and public sector management programs became the “new, new thing.” Multilateral development agencies like the World Bank led the pack, devoting substantial resources to strengthening systems of economic governance in the hopes of enhancing accountability, transparency, and probity in third world governments. Bilateral aid providers also got into the governance game, often with more explicitly political goals of promoting democratic governance in beneficiary countries (Ablo and Reinikka 1998; Barro 1996; Easterly 2001; Hoff 2003; Kaufmann, Kraay, and Zoida-Lobadon 1999; Lindauer and Pritchett 2002; World Bank 2005).

But this rise in governance assistance hardly signaled a paradigm shift. Attention to institutions remained largely ad hoc and piecemeal -- still wagging the tail of the vastly larger dog of economic growth in international development aid strategies. Governance assistance had indisputably made solid gains, but it still represented a relatively small portion of total aid to poor countries. While the economists who ran international aid agencies no longer denied that institutions played a role in successful country reforms, neither did they acknowledge the centrality of good governance to the realization of international development goals.

Then came September 11th. The stakes for successful state-building in poor countries were raised, and good governance was transformed into a full-fledged, global public good. The quality of institutional performance in the third world morphed from a matter of mere individual country concern into a challenge that could determine the fate of humankind. But how much have the events of September 11th changed international governance assistance? Have aid donors heeded the governance wake-up call? How are worries about terror, security, and failed states re-shaping governance assistance to developing countries?

This article looks at the response of the World Bank, the leading multi-lateral source of governance financing in developing countries, to the high-profile challenges that emerged after September 11th. It examines spending patterns and organizational rhetoric to assess the degree to which good governance may have become the centerpiece of Bank programs, shedding its traditional role as the mere handmaiden of economic development.

Such an assessment is inevitably a matter of historical comparison. Understanding where post-911 initiatives break decisively with the past – or merely serve old wine in new bottles – is crucial to unraveling the emerging puzzle of post-911 governance. The discussion that follows traces the history of international governance assistance through three successive generations since World War II -- each defined by distinctive political economy factors that converged with contemporaneous intellectual paradigms to condition institutional development policies. September 11th and its aftermath, it is argued, created the conditions for yet another, fourth generation of, governance assistance.(1) Below, each of these four generations is examined in turn. In discussing the last, still unfolding generation of reforms, preliminary conclusions are drawn about the direction of the World Bank's governance approach in the first few years since 911. The initial picture suggests less a radical upturn in governance programming than a small signal of shifting priorities.

The First Generation: Limited Institutional Reform in the Bipolar World

The first generation of donor-sponsored institutional reforms in developing countries spanned the long period from the end of World War II through the late 1970s. A thumb-nail caricature of the well-trodden political economy territory of this era sets the stage for governance assistance: In the transition from colonialism to cold war bi-polarism, North-South patrimonialism prevailed, with poor countries lining up as clients of the two super powers. Recently established post-colonial political and administrative systems in Africa and Asia were already eroding, and fledgling democracies evanesced throughout the third world into authoritarian regimes, often led by military juntas. In their economic advice, Western donors promoted a constrained version of capitalism, applying only the gentlest pressure on client governments to dismantle expansive government apparatuses that hosted a proliferation of state-owned firms and autarchies. Essential questions about the size and role of the state were mainly averted so as, at least in part, to minimize defections among country clients into the Soviet camp.

While most development assistance during this period focused on large-scale infrastructure (eventually in combination with basic human needs approaches), donors did also recognize the need to build developing government capacity (skills and institutions) to carry out these tasks. The World Bank, major bilateral agencies, and prominent private foundations addressed this challenge with a moderate – rather than an adversarial—view of the state. Their intellectual orientation adhered to traditional

Weberian principles of “good government” that lauded hierarchy, functional specialization and a shared ethos as the path to administrative development (Gerth and Mills 1946). Rational incentives were less important to public performance than were the inculcation of a collective aspiration to transcendent values and the prestige of public service, particularly among an anointed class of bureaucratic “mandarins.” The body of institutional development practice that flourished during this first generation thus drew on a deep public administration tradition emphasizing behavioral norms and rules. This tradition relied more on art than on science (Donleavy and Hood 1994; Israel 1987; Riggs 1964).

First-generation institutional programs used three main types of capacity-building vehicles: individual organizational support; human resource development; and substitutional, technical assistance. Individual organizational support consisted of sustained, but largely isolated, assistance to a single government organ such as an economic or agricultural research or extension institute or to a specific ministry. Support took the form of direct technical assistance or a “twinning” arrangement with an advanced country organizational counterpart.”(2)

To build skills among policy elites inside and outside government, donors – particularly large foundations – also built capacity by funding broad human resource development programs. Initially, this meant scholarships and training for developing country recipients to advanced country institutions, where both skills and loyalties could be engendered. Later, capacity-building investments were channeled toward in-country institutions to directly develop their own training and educational facilities (Parmar 2002; Tendler 1975).

Perhaps the lion's share of first generation institutional interventions financed "substitutional," technical assistance that sent expatriate experts –often from former colonizing countries – to support host government organizations in carrying out basic functions. In its most extreme form, substitutional technical assistance involved foreign advisors in residence for long periods, at times taking over essential government tasks – such as civil service administration, auditing, or budgeting – from national officials.(3) In many instances, tasks were performed to a high standard but local capacity development was largely neglected. At their core, first generation institutional support initiatives were single-purposed and limited. Although training and education programs did often seek to further the Cold War objectives of winning the hearts and minds of developing country elites, most capacity building efforts were mainly focused on generating skills for key developmental tasks. So, by and large, such programs were decidedly not about radically changing policy environments or overhauling whole systems of government.

It was both the successes as well as the failures of this limited, technical approach to institutional support that drew the first generation of donor sponsored governance financing to an end in the early 1980s. On the positive side, much was presumed to have been accomplished, and assistance could be terminated. Long-standing support to individual organizations, which could now survive without extensive hand-holding, was phased out. Major donors also presumed, at least for some countries, that a critical mass of policy elites had been created. Future generations could henceforth be trained by indigenous institutions rather than through costly study abroad programs. But negative appraisals of the impact of first-generation aid also drove donors to seek new assistance modalities. The inability of isolated organizational interventions to address the systemic failures that state-led development was perceived to be fostering in many poor countries led donors to abandon early institutional assistance programs. With increasing numbers of developing country governments on the verge of economic collapse, the World Bank and other international financial institutions launched a second generation of institutional reform support focused on leveraging systemic reforms through the adjustment of macro-policies and institutions (Lamb 1987; Nunberg 1990).

Second Generation Reforms: Transforming Systems and Institutions

The second generation of donor-supported institutional reforms emerged in the early 1980s amidst a gradually shifting international political environment and more rapidly deteriorating economic conditions in the developing world. At the macro-political level, cold war spoils were still at stake; superpowers continued to struggle to maximize proxy state loyalty. But, at the country level, many of these client states were burdened with a troubled post-colonial legacy; they were autocratic, over-extended, and now in deep fiscal crisis.

The intellectual prism through which development economists and the donors they counseled interpreted this crisis was the burgeoning Washington consensus which pointed to the generic failure of the statist model and extolled the virtues of lean, mean government. In their dialogue with the developing world, donors called for draconian reforms that stressed fiscal restraint and an overhaul of bloated, incapable public institutions (Williamson 2000).

The mid-wife of this reform wave was structural adjustment lending. This was the international financial institutions' "tough love" instrument designed to provide balance-of-payment support in exchange for country acquiescence to big changes in macro-economic policy. Fiscally strained, adjusting governments were pressured to seal agreements with ex ante conditionality, much of which was politically contentious and often technically difficult. A few years into the adjustment era, such agreements came to be viewed as coercive, often resulting in non-compliance or reversal. But these initial misgivings about the difficulty in getting traction on adjustment reforms did not yet focus on political sensitivities. They did, however, lead donors to conclude that an important, necessary condition to compliance was lacking in many adjusting countries: the institutional capacity – the organizations, systems, and staff -- to implement required policy changes. So programs to strengthen the technical nuts and bolts of administrative effectiveness were introduced (Nunberg 1990).

These second generation programs explicitly targeted improvements in the technical performance and capability of critical government functions in danger of collapse. Public expenditure management (getting good budgeting practices in place) and civil service reform (re-aligning incentives --frequently a euphemism for downsizing and re-engineering management practices) dominated the agenda. Interventions focused mainly on the central ministries, particularly targeting finance, personnel, and planning organs.

With the emphasis on technical fixes, the band of government institutions with which IFI staff engaged was a slender one; the transactions costs of this narrow reform dialogue were thus limited, minimizing the need to bring civil society, politicians, or non-executive government actors into accords. Most of the discussion was on macro-issues, with relatively little attention to reforms at the sectoral level, although the latter were sometimes carried out on an ad hoc, "under-the-radar" basis.

Donor supported second-generation reforms thus constituted a type of institutional crisis intervention: emergency medicine that could be disbursed quickly and that hammered home the minimal technical solutions to get urgent government functions up and running. Relative to the weight of lending for economic reform, these institutional components were small in size and scope.

Second generation programs were soon evaluated and critiqued. A familiar lament was that in pushing adjustment-led institutional support, donors underestimated what was needed to implement institutional changes that were deeply cultural and political in nature. Major lenders had little understanding of or interest in these non-economic issues. The disappointing experience with these reforms suggested to some that new thinking was needed to design programs that would effect the sustained institutional improvements required in developing countries. These new programs would need to move beyond the narrow, technical approach to seek a more comprehensive base of public and civic support and a broader set of entry points for donor interventions (Killick 1998; Mosely, Harrigan and Toye 1995; Nunberg 1997).

Although critiques of second-generation interventions correctly faulted donors for their rigidity in pressing countries to undertake adjustments, in reality, the advice dispensed by donors during this period was less strident than that proffered in later-generation reforms. Still anxious to remain politically competitive in the bipolar geo-strategic environment, a fair amount of doctrinal heterogeneity was tolerated among country clients. For example, most adjustment loans stopped short of prescribing outright privatization of state enterprises, resorting instead to softer recommendations for management improvements. This advice was to harden only in the next generation of reforms, discussed shortly.(4)

Still, a consensus emerged that second-generation, adjustment-driven reforms could not bring about the systemic transformation they were designed to achieve. This failure was due, in part, to the underestimation of the institutional intensity of the required reforms. Donors blithely assumed that stroke-of-the pen technical shifts in economic policy would result magically in successful implementation. In the end, such assumptions were smashed when they collided with a newly broadened set of political actors in many developing countries. The wave of democratizations in Latin America, Asia, Africa, -- and, with the Berlin wall about to crumble, – Eastern Europe, now made simple, supply-side reforms that were quietly agreed upon with a lone Minister of Finance impossible. The collapse of communism and the triumph of “voice” in much of the world drew the World Bank and other IFIs toward a more inclusive and expansive approach to institutional reforms. This launched a third generation of institutional reforms that began to address underlying governance issues.

The Third Generation: A Broader Good Governance Agenda

By the early 1990s, a third generation of institutional reform programs seeking to address the failings of the earlier wave of interventions, encompassed a broader set of actors and issues, broaching some difficult topics for the first time. This institutional reform generation was shaped by the political economy of the "roaring nineties," largely defined by three transformative events: the fall of the Soviet Empire; the democratization wave that had swept through many developing countries; and, the Asian financial crisis that signaled advancing globalization (Stiglitz 2003).

The collapse of the Soviet bloc opened up for the first time the transition countries of Eastern and Central Europe and the Newly Independent States to institutional advice from Western donors. The package developed in the course of this assistance became a seminal component of the third generation of donor driven governance reforms, frequently spilling over to governance assistance programs in other regions. Donors and their experts offered a triumphalist brand of Darwinian economics to the Cold War losers: recommendations emphasized radical privatization schemes with high social costs were coupled with a minimalist, under-resourced state, with diminished capacity to uphold the rule of law. With the collapse of the Soviet superpower, western experts were less constrained in selling this unvarnished capitalist to country clients (Amsden, Kochanowicz, and Taylor 1998).

The intellectual approaches that underpinned this institutional reform generation came largely from the "new institutional" economics and from the "public choice" school of political science (e.g. World Bank 1997; Williamson 1996). Stressing the application to public organizations of the rational incentives that governed the dynamics between "principal and agent," such approaches construed government essentially as an amalgamation of firms. This notion of the deconstructed state assigned little importance to intangible, political concepts of statehood that hinged on the quality of the social contract between government and the governed. Francis Fukuyama has called this “state-ness.”

Anti-state sentiment informing donor policies perhaps explained what some saw as an under-investment by the World Bank and other Western donors in state building in the early transition, exacerbating the risk of hurling policy prescriptions into an institutional void, where implementation and enforcement capacity was negligible (Nellis 1999). Indeed, initial indications soon confirmed that underestimating the need for predictable rule of law and property rights and for a legitimate, if re-dimensioned, state to make rules work seriously imperiled market reforms.

To some extent, a mid-course correction to the market bias was introduced into institutional assistance to transition countries seeking European Union membership (Nunberg 2000). These countries accepted some Western recommendations but rejected others. For example, while buying elements of voucher plans for privatization, most accession countries chose more conventional, state-friendly approaches when it came to reforming their core public administrations. They eschewed New Public Management models that introduced market mechanisms into government operations. These countries were more inclined to rehabilitate rule- and norm-based Weberian bureaucracies that had pre-dated the communist apparatus in much of Central Europe. This was partly a reaction to the abuses of the politicized state of the Soviet era and partly an affinity for the traditional administrative models on display in neighboring continental Europe with which deep historic connections were still strong (Nunberg 1999).(5)

In the transition countries, as in much of the developing world, democratization provided the political context in which many institutional reforms were embedded. The shift toward pluralism that had started sweeping Latin America, Asia and Africa in the late 1980s and early 1990s raised awareness of good governance virtues. Even where formal democracies were not in place, rhetoric calling for increased accountability, transparency, and rule of law in the public sphere was now audible.

Donor financed institutional programs that had focused narrowly on technical reforms in central economic ministries in government were now under some pressure to expand their reach to include sectoral ministries and other governmental branches – legislative, judicial, and local. This broader view also incorporated groups in civil society. Non-governmental organizations were energetically courted by donors in an effort to generate the levels of social capital deemed necessary to successful institutional reforms. In some instances, NGO participation was encouraged as a counter-weight to government in order to press for institutional reforms within the state. In other cases, NGOs were seen as a replacement for states that failed to perform basic functions (Carothers 1999; Open Society Institute).

To the degree that the recourse to such non-state solutions distracted donors from building state capacity, especially among fragile states, third generation institutional reforms may actually have contributed to the state failure problem that would become a key post-911 governance concern. Such donor policies were consistent with the general neglect at the end of the Cold War of former client states of the great powers. Indeed, third generation institutional reforms fell short in some striking ways. They under-invested in programs to build state capacity in weak states (possibly while mounting further debt on hapless citizenries) and did not yet confront the deeper problems of political mal-governance and corruption that lay at the heart of state failure.

Indeed, it was only mid-way through this third generation of institutional reforms that the World Bank and other donors turned their attention to these core problems of governance. In the mid-1990s, the World Bank revived the Aristotelian notion of good governance, defining it by the presence of four virtues: accountability, transparency, rule of law, and probity (The World Bank 1994, The World Bank 1997).

This last virtue provided an explicit justification to tackle the corruption issue, which had been quietly understood as a major obstacle to developmental reforms for years but had been considered off-limits for the IFIs.(6) Efforts to clean house internally and among borrowers were launched, and anti-corruption initiatives became an independent pillar of growing numbers of Bank programs. Corruption began to appear increasingly in public pronouncements, and it was woven as an objective into more traditional areas of the Bank's institutional lending.

The growing interest in corruption and other aspects of good governance was associated with the accelerating process of globalization (Haggard 2000; Rodrik 1997; Stiglitz 2003). In particular, the globalization of financial markets raised international anxiety about corruption, particularly during the Asian financial crisis of the late 1990s. In an effort to safeguard foreign investment in the global marketplace, the international community began to press for higher, internationalized standards of both corporate and public governance. In Asian countries hit by the crisis, governance reforms were also driven by the backlash from civil society who blamed cronyism between government and business elites for the financial woes (Campos and Root 1996; Nunberg 2002; Wade 1990). Those aspects of governance that pertained to fiduciary assurance of financial security—were fast becoming a global public good.

Increasingly, multilateral lending institutions such as the World Bank faced particular pressure to improve governance in its borrower countries. Shareholders were alarmed by the diversion and laundering of donor funds in big borrowers, such as Russia and Indonesia. And insinuations about World Bank internal operations raised the reputational risk worries that caught and held the attention of higher Bank management. By the end of the decade, the World Bank had made a concerted push to raise the volume of its rhetoric on corruption and to step up the amount of resources devoted to governance activities. Increasingly, Bank strategy documents, staff recruitment, and knowledge products reflected this new priority. In particular, diagnostics and measurement methodologies were developed to try to generate a more systematic approach to issues that had heretofore been viewed as too culturally specific, too untraceable, and too idiopathic to be amenable to reform. Such products constituted a new, "softer" approach to reform that emphasized the role of intellectual persuasion and networking, acknowledging the difficulties in imposing hard anti-corruption measures on reluctant governments (Nye 2004; Slaughter 2004).

The softer approach to anti-corruption and governance was paired with attention to development of a more adaptable range of vehicles – including more programmatic, less rigid adjustment lending instruments -- for transferring resources to clients, acknowledging the need for greater flexibility in supporting institutional reforms. Flexibility in designing governance programs was also given a boost by the introduction of generous trust funds earmarked by bilateral donors to compliment multilateral governance spending in order to leverage innovative approaches.(7)

The emphasis on public sector governance was still incremental and far from comprehensive, however. Some important issues on the governance agenda were left unaddressed by the World Bank and other multi-lateral lenders. In particular, the World Bank's charter continued to constrain its ability to address political issues in its support of developing country governance reforms. Proscribed from direct intervention in the sovereign politics of borrower countries, the Bank essentially had to neuter its discourse on the political aspects of governance, at times requiring exhausting mental gymnastics of experts working in this field. In pressing for greater accountability in borrower countries, the Bank emphasized "voice" rather than "votes." Civil society "consultation" and "participation stood in for "electoral rights" or "suffrage." The Bank could not directly support programs to strengthen institutions of political accountability, and human rights issues were a hot potato tossed to its sister agency, the United Nations, whose guidelines placed restrictions on only a small fraction of World Bank programs in the most extreme pariah states.

As the third generation of institutional reforms drew to a close in late 2001, good governance could thus be said to be rising as a development assistance priority. During the previous decade, dramatic shifts had taken place in the international political economy -- the end of the Cold War, the spread of democracy, and financial globalization, Donors had adjusted their intellectual orientation and their operational approaches to accompany these shifts: a broader "good governance" agenda replaced the narrow institutional reforms of previous generations; a wider, more flexible set of instruments to support institutional reform was in development, and some important challenges – such as corruption – were now starting to be tackled.

But a strong bias toward market solutions undermined support to capacity building in the public sector; failing states were proliferating. And the World Bank continued to ignore political factors in governance programs, prevented by its charter and its culture from understanding the real dynamics of these reforms. Despite the acceleration in governance-related programs, the overall level of effort to improve governance and institutions in client countries did not begin to match the requirements on the ground.

By late 2001, then, governance and public sector reform were climbing upward on the Bank's overall development agenda, but still had a way to go. There was no doubt that the importance of institutions was now broadly acknowledged. In reflecting on the decade of work on international development before the September 11th attacks, former World Bank Chief Economist, Lawrence Summers, showed how far thinking had come in noting that "*the* most significant lesson of the previous decade was the "transcendent importance of institutions to development."(Summers 2004) But if the World Bank seemed poised to lurch forward on governance issues, the fact remained that institutional reforms continued to be subordinated to more traditional economic concerns in Bank programs. The following section considers where this governance agenda is now moving, looking at the early days of the fourth generation of international governance assistance that began in the aftermath of September 11, 2001.

The Fourth Generation: Post-911 Governance as a Global Public Good

Arguably, the post-911 world created a dramatically altered environment for international governance assistance. The big picture includes, of course, the rise of the global terrorist threat with its links to development failures and fragile states, the military adventures in the Near East, and the challenge of democratization and nation-building throughout the developing world. Two features of this broader canvass may have particular implications for the fourth generation of international governance assistance that is now in full swing.

First, state building has emerged as among the most important challenges facing the development aid community. This realization undercuts the primacy of economics as the determinant of development outcomes and underscores the need for multivariate approaches in international assistance programs. Indeed, just as financial market security became a global concern in the financial crisis of the late 1990sissues related to the political and institutional nature of the state have emerged as a new global public good of the post-911 era. With high-stake experiments unfolding in Afghanistan and Iraq, the monumental task of erecting minimally robust political, economic, and administrative institutions in the midst of conflict could transform the "good governance" mantra into an increasingly desperate prayer.

The political drivers of this agenda are complex. The irony that nation-building and democratization have become high priorities for the same U.S. administration that had critiqued the same agenda in the 2000 electoral campaign has been noted (Carothers 2003; Dobriansky

2003; Kalder 2003). Indeed, some suggest that the current American commitment to these principles is actually quite shallow and could well revert to a more familiar isolationism as the costs of foreign misadventures rise and public support erodes (Fukuyama 2005). Still, even if high level political resolve wavers, aid agencies such as the World Bank may well continue to come under pressure from a broader range of constituents to maintain a high state-building profile in light of its established centrality to the development goals of the new century. (8)

The state-building agenda affects developing polities of varying types. The inter- and post- conflict countries attract most attention, particularly to the extent that they run high risks of generating power vacuums that could lead to failed states that, it is speculated, allow terrorist activity to germinate. But weak states that are not in conflict also pose risks. And, indeed, governance dysfunctions in more stable, better developed systems – indeed, even in advanced country settings – can be vulnerable to the kind of disaffection that breeds the anomic, nihilistic behavior associated with terrorism (Crocker 2003, Barber 2003, Bloom 2004, Friedman 2003).

The linkages among economic development, good governance, and security are not well understood. Blowback postulants suggest that development assistance models which have neglected questions of government accountability in client countries have contributed to the civic dissatisfaction that, under particular conditions, fuels terrorist motivations (Johnson 2000; Soros 2003). In any case, the history of support for-- or turning a blind eye toward—unpalatable regimes in the developing world both by the United States and by other advanced country bilateral and multilateral donor institutions raise difficult ethical issues for aid organizations in the post-911 environment (Kean and Hamilton 2004). This dilemma was captured by the U.S. 911 Commission's report which put key US allies in the war on terror, Saudi Arabia and Pakistan, on a "governance watch", urging proactive foreign and international development policies that would bring these nations squarely into the fold of states with well-functioning institutions.(9)

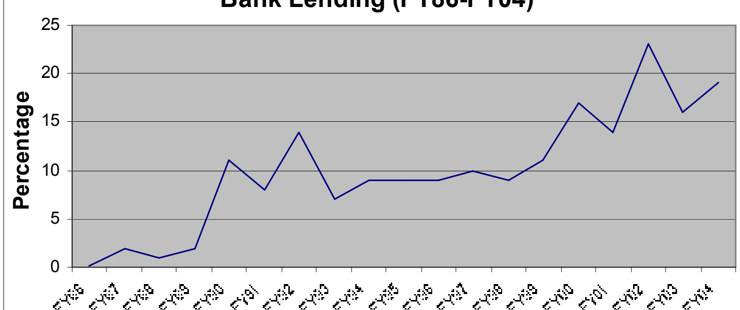
Governance assistance seeking to catalyze "stateness" will require an eclectic intellectual reservoir to design programs that work. Two new (or rather, old) perspectives may need to be recruited into the mix of useful approaches. One is the explicit integration of pluralist politics into the constellation of good governance virtues. Neutered discussions of accountability, transparency and "participation" are less intrinsically credible after September 11th. Building state capacity will depend also on retrieving at least some features of traditional public administration that focused on creating organizational cultures based on shared norms, rules and values. Again, this is "art," which may co-habit the governance assistance arena only uncomfortably with rationality-based theories about principals and agents.(10)

Early Trends in World Bank Governance Programs after 911

We might expect the global priority placed on state building to converge with the already mounting attention to governance in the World Bank, moving governance assistance swiftly into overdrive in the post-911 period. Here I examine the early trends, looking for a critical upturn in governance investment and/or a sea change in the nature of governance-related programs. Neither is evident. Despite the high stakes and more audible rhetoric on good governance, the World Bank response has been steady – but not dramatic. Indeed, although the profile of governance appears to be on the rise, no clear shift in resources that would signify a decisive policy stance can be identified.

World Bank spending on public sector governance (PSG) did experience a sharp fillip immediately following the September 11th attacks, nearly doubling in 2002 to reach its zenith at 23% of Bank lending. But then it dipped again, returning to the slow but steady upward trend that began in the mid-1980s, when governance comprised barely one percent of Bank lending (Figure 1). From that low point, the Bank's public sector governance portfolio had grown substantially over the subsequent decade and a half until September 11th, reaching around one-fifth of Bank lending. PSG expenditures hovered at this level for most of the post-911 period. Thus, the intensified interest in state-building engendered around the world by the events of September 11th.appeared to have only a modest effect on aggregate World Bank PSG lending.

Figure 1. Public Sector Governance in World Bank Lending (FY86-FY04)

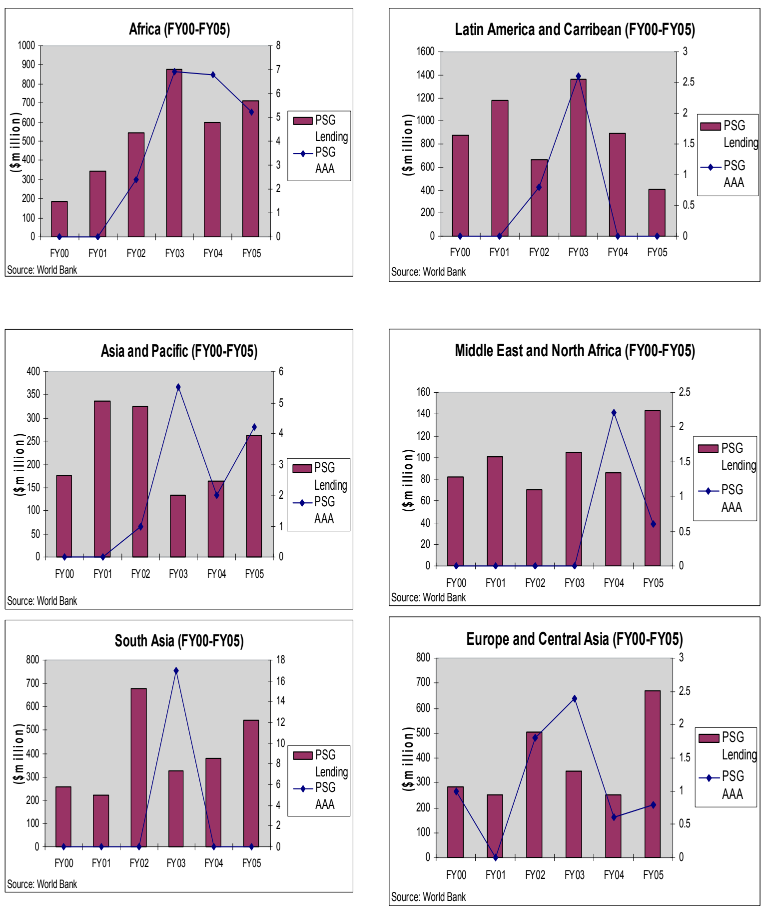


Source: World Bank

The picture of post--911 governance lending at the regional level was more differentiated – but not much more definitive. Spending has been uneven and episodic across regions, largely irrespective of geo-political centrality to the War on Terror. (Figure 2) For example, as might be expected, governance lending rose immediately after 911 in South Asia and Europe and Central Asia, where Afghanistan, Pakistan and Turkey accounted for major PSG investments, but it has been up and down in subsequent years. Africa – home to many of the poorly governed, failing states that preoccupy policy makers around the world, saw a rise and then a leveling off of governance lending in the several years since 911, though the trend is roughly up – and likely to rise as broader themes of African poverty become a higher priority for the Bank and other donors in coming years.. In East Asia, PSG spending was down from post-financial crisis levels but showed a modest upswing in the last few years. EAP averages may mask spurts in individual countries, such as Indonesia, where governance-related lending has defined the entire country program, however. In the Middle East and North Africa Region, where state-building and good governance were hot-button reforms for which autocratic governments had traditionally been reluctant to borrow, PSG-related lending was volatile – down after September 11th but up in 2005, the most recent year for which data were available. Even in Latin America and the Carribean – regarded to be somewhat marginal to the post-911 agenda -- the post-911 PSG response was at first up and then substantially down, perhaps denoting a delayed re-ordering of priorities.

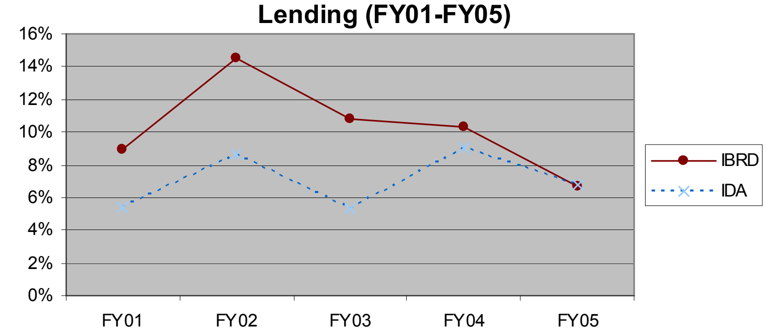
Of course, lending shifts from one year to the next may be a function of a number of bureaucratic – not just geo-political – considerations. And there is a natural lag time involved in gearing up programs and preparing non-emergency projects that must be taken into account in registering patterns. So, to observe a secular trend, a longer period than the five years following September 11th is doubtless needed. Still, September 11th can be said to have been the kind of emergency that might have elicited a bolder turnaround a watershed moment that should trigger a break with business-as-usual assistance patterns. With respect to regional lending for PSG, no such radical break with past approaches has emerged in the post-911 Bank.

Figure 2.



The above findings suggest that World Bank lending for governance did not show marked shifts either in terms of aggregate volumes or regional allocations. But what about the types of countries to which Bank loans to support good governance were provided? Given the increasingly frequent link drawn between poverty, failing states and good governance, it might be reasonable to posit that poor countries would be increasing targets of PSG lending. In fact, the opposite was the case in the post-911 period. Between 2001 and 2005, governance lending actually appeared to favor middle-income countries over low-income ones. During this time, public sector governance consistently represented a larger portion of International Bank for Reconstruction and Development (IBRD) loans going to richer developing countries than of the concessional financing (lower interest loans plus grants) provided to the poorest countries through the International Development Association (IDA) (Figure 3).

Figure 3. PSG as proportion of total IDA/IBRD Lending (FY01-FY05)



Source: World Bank

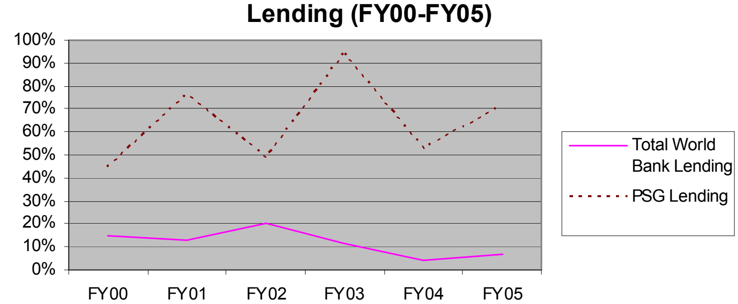
The point here is not that poor countries have a monopoly on post-911 governance problems and should therefore be the main target of assistance; concerns in Iraq, Pakistan and Egypt obviously suggest otherwise. But the countries identified as fragile states are largely among the poorest Bank borrowers, so increased resources spent on the governance dysfunctions of these governments relative to richer countries might be a higher priority on the post-911 agenda. This priority shift could well happen soon. As Figure 3 suggests, the proportion of PSG lending in IBRD and IDA appear to be converging. Still, the relative weight of PSG factors for poor IDA borrowers as opposed to their middle-income IBRD counterparts is still to be felt.

The above discussion has focused on the money provided to developing countries by the World Bank to improve their domestic governance. From these data, it is difficult to detect the kinds of wholesale shifts in resources toward governance priorities that might have been expected in the Bank after September 11th. But if dramatic and rapid changes in course are not yet occurring, perhaps finer-tuned corrections in policy and practice can be identified. The details of these initiatives may provide insights into more incremental policy changes that will ultimately define the Bank's contribution to the fourth generation of international governance assistance.

For example, the importance of good governance to IDA programs may be growing non-trivially, even if it as yet appears to have relatively less weight than in IBRD lending. One indication of such a shift is the introduction of the "governance discount" to IDA country allocation decisions, penalizing bad governance performers with lower aid levels. Through this mechanism, governance factors have leveraged broader IDA transfers. This represents an uncomfortable policy transition within the Bank, stirring an internal debate about the role of carrots and sticks in stimulating good governance. While some argued that reduced aid flows were appropriate penalties that would motivate corrective actions, others contended that lower lending levels would diminish Bank influence in penalized countries, reducing the potential for the kind of constructive engagement needed to raise governance performance.

A less dramatic, but potentially significant, post-911 emphasis on governance may be seen as well in the increasing use of "governance-friendly" lending instruments with which governance assistance is provided. Figure 4 suggests that structural adjustment lending was the instrument of choice to deliver public sector governance reforms after September 11th. Indeed, adjustment lending rose throughout all Bank sectors just after September 11; in 2002, adjustment was 50% of all lending -- approaching levels not seen since the late 1990s, when large infusions of funds were transferred to countries contaminated by the Asian financial crisis. Bank- wide adjustment lending then began to level off in subsequent years, but it remained high for PSG lending.

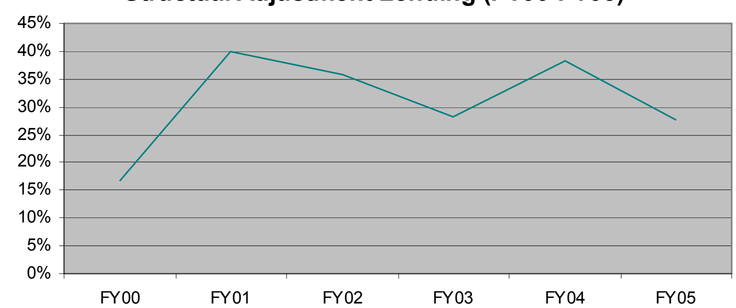
Figure 4. Structual Adjustment as Proportion of Lending (FY00-FY05)



Source: World Bank

At first blush, this might raise worries that lessons from earlier generations about the bad fit between institutional reform and fast disbursing conditionality had not been heeded. But upon closer scrutiny, it appears that adjustment lending for PSG since 911 has increasingly (on average over 30 %) been of the programmatic variety (Figure 5.) (Johnson and Wasty 1993; Kapur 2002; Larmour 2002). These loans, it will be recalled from the earlier discussion, were the more flexible adjustment instruments intended to correct the institutional problems that had plagued conventional adjustment programs. Such instruments have been further refined in recent years to strike the right balance between country autonomy or "ownership" and the Bank's fiduciary concerns. (Koeberle 2003).

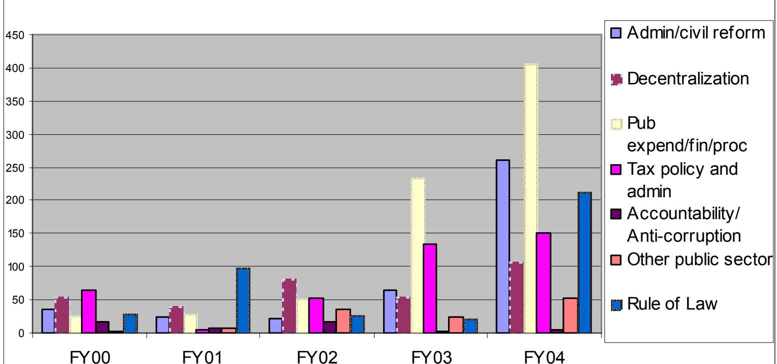
Figure 5. Programmatic as proportion of PSG Structual Adjustment Lending (FY00-FY05)



Source: World Bank

Shifts in the composition of Public Sector Governance themes within Bank lending are another indication of a more subtle post-911 good governance response in Bank programs, perhaps foreshadowing the future direction of fourth generation governance reform assistance. Figure 6 shows the distribution of PSG thematic activities between 2000 and 2004. It looks as though the post-911 period has been dominated by two themes: civil service reform and rule of law. The former, which focuses on improving the performance of the state through a range of human resource management interventions, had the biggest boost. Rule of law, which provides the legal basis for the state, supporting programs that span issues from access to justice to constitutional and property rights, also gained ground after 911. Public expenditure management and procurement reforms, strengthening other bread-and-butter state functions, also rose during this period. And decentralization, linked to bringing state services closer to its citizens, held its ground. Interestingly, Bank support for reforms classified as "other accountability," code for stand-alone 'anti-corruption" initiatives, was down after September 11th. Of particular note is the ascendance of civil service reform and rule of law program areas, which appear to go straight to questions government's capacity and legitimacy, the basis of Fukuyama's "state-ness." These trends bear watching as they may well suggest that 911 prompted a return to the mundane but crucial fundamentals of good governance and state building, some of which had been eclipsed by "sexier" governance topics in the previous decade.

Figure 6. Distribution of PSG Lending (FY00-FY04)



Source: World Bank

There are other indications of fine tuning of the post-911 governance generation that are worth tracking. One is the increased application of "soft-power" approaches to governance reform that began in the previous wave of reforms of the 1990s. Governance is being sold softly to client countries in several ways. One is through the introduction of the "kinder, gentler" variants of adjustment lending, discussed earlier, which allow greater government autonomy and flexibility in carrying out policy reforms. Increased use of grants rather than loans for governance reform in developing countries represents another soft approach.

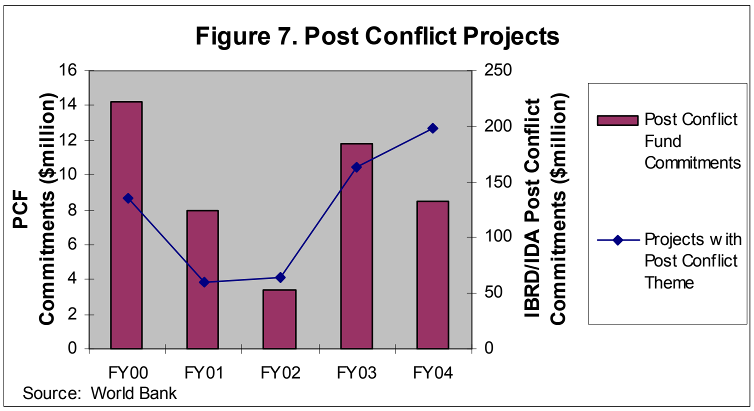
Another "soft-power" approach is the increased use of "analytic, advisory products and advice" (AAA) to bring client governments into the governance reform fold. Figure 2 shows the rise of these AAA activities by region between 2001 and 2004. In Africa, where governance lending experienced strong vicissitudes after 911, AAA work quadrupled for the same period. And when governance-related lending to the Middle East and North Africa (MENA) declined after September 11th, AAA was employed as an alternative intervention. Indeed, post- 911 expenditures on studies, conferences, and country dialogue related to governance reform more than doubled for the Middle East and North Africa, as lending waned. In 2003, the Bank's MENA region flagship report proposed a set of potentially contentious governance reforms, suggesting the Bank's willingness to engage – at lease through its public discourse – in delicate political questions in the region.

Country-focused strategic planning exercises (Country Assistance Strategy --CAS) constituted another soft approach to raising the visibility of governance issues in Bank lending. The CAS lays out the range of lending and analytic activities to be tackled for each country over a multi-year period. After 911, country CAS's increasingly made governance the country program focus. This has not resulted per se in an increase in overall spending on governance activities, but it has enhanced the integration and mainstreaming of governance issues with other sectoral interventions in the country program. (11)

As the World Bank "softens" some of its governance-related interventions from lending for projects with concrete results and easily monitored outputs to milder forms of analytic persuasion, pressure has mounted to "harden" approaches to measuring governance. The ongoing effort to develop macro-indicators for good governance has thus assumed an even higher profile in the post-911 period. Available indicators measure governance attributes at a national level, giving a broad assessment of where countries stand in relation to others at comparable income levels. These types of macro-indicators have proliferated and have been increasingly incorporated into Bank dialogue and, more perniciously, some assert, into decisions about aid allocations, especially for the poorest countries. (12) Not surprisingly, the move toward measurement of soft targets has coincided with the initiatives emanating from the U.S. government to promote performance measurement in development assistance. Indeed, the emphasis on measurement is consistent with the philosophy underlying the Millennium Challenge Account, the program introduced recently by the US administration to tie aid allocations to country performance. The difficulties of moving from the rhetoric of performance to improvements in implementation on the ground plague these efforts, however. The MCA has barely disbursed. And for most Bank borrowers, indicators suggest that governance results have mainly been moving in the wrong direction, despite ramped up programs in this area (Radalet 2003; Klitgaard, Fedderke and Akramov 2005).

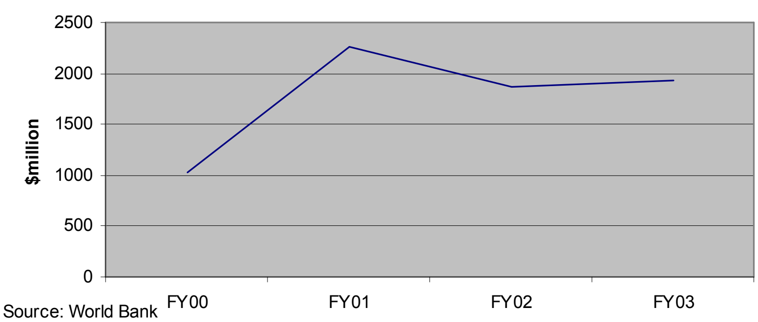
The World Bank has also been engaged in a growing number of governance related activities since 911 that fall outside the conventional parameters of public sector governance support. Three categories of programs are important: anti-money laundering; support to fragile states and post-conflict reconstruction; and community driven development. For example, an active portfolio of anti-money laundering activities spans public and private governance issues. These initiatives were introduced after the East Asian financial crisis, spurred by corporate governance concerns about global financial contagion. Their remit has broadened to address the range of troubling questions related to global security and terror financing.

In addition, considerable attention has focused on support to fragile states. In 2003, the World Bank created the LICUS (Low Income Countries Under Stress – now re-named the Fragile States Initiative) to bolster states in danger of falling into dysfunctional governance and deepening poverty. A fund was added in 2004 to support targeted analysis and lending – essentially to avert government collapse in these LICUS countries. (14) To the extent that a number of these countries are emerging from war and violence, this initiative is closely tied to the World Bank's Post-Conflict Reconstruction effort. Post-conflict reconstruction work has mainly been an African and Southern European phenomenon, accounting for, respectively, 40 and 28 percent of post-conflict assistance. As with other governance-related expenditures after September 11th, post conflict spending peaked in the year after the attacks but then actually declined in subsequent years. Figure 7 shows that Post-Conflict Fund approvals and projects with a central focus on post-conflict themes both dipped in 2002, showing an overall decline between 2000 and 2004. Some non-trivial post-conflict reconstruction activity is, of course, undoubtedly folded into other parts of the World Bank's portfolio, so tracking investment in this area is not a simple undertaking. But there remains a gnawing concern that while the rhetoric of post-conflict and state fragility is high, resources to underpin programs in these areas are less bountiful than the post-911 requirements would dictate. (del Castillo 2001)



The growing emphasis on "community driven development" (CDD), is another non-traditional feature of a more gradual post-911 governance response. CDD describes programs that support community activism at the sub-national level,. For largely bureaucratic reasons, such bottom-up programs fell outside the Bank's conventional definition of public sector governance. CDD aimed to promote community and NGO oversight of state services by mobilizing neighborhood associations and other civil society groups to undertake small development projects and organize demands for better local government performance. Sometimes, CDD approaches were used to replace inept or corrupt government. The range of activities subsumed under community driven development makes it difficult to capture all spending in this category. Available data suggest it has been volatile, actually declining in the immediate days after September 11th but then resuming an upward trend by FY03. (Figure 8) Perhaps, a pause after September 11th reflected the decision to take stock of the array of partners with whom the Bank was working. In some settings, CDD tapped into religious or social organizations with their own political agendas. Not infrequently, these initiatives have walked a fine line between building social capital for development purposes and working below the radar to promote participation in the formal political system (Ackerman 2003; Wiktorowicz 2002).

Figure 8. Bank-wide Community Driven Development (FY00-FY03)



Source: World Bank

The CDD experience reveals just one facet of the slippery political slope that fourth generation donor supported governance programs have begun to traverse, a subject for debate regarding the Bank's role in promoting good governance since 911. The World Bank's Articles of Agreement continue to proscribe direct intervention in the partisan politics of sovereign borrowers. But in recent years, more audible cries have been heard for better political intelligence and analysis to improve the strategic quality of Bank lending, particularly on governance issues.

Of course, over the last two decades, internally and externally provided political analysis has been undertaken on an intermittent basis to inform Bank policy. Difficult to measure due to its often confidential nature, such analysis has likely been increasing in the post-911 period.

Linked but distinct from this analysis have been explicit efforts to win over key constituencies for World Bank programs – both in member donor countries and among aid beneficiaries. Such efforts take place through dialogue, conferences, research, and operations that involve a range of political actors and interest groups, including labor unions, political parties, parliamentarians, and consumer lobbies. These groups are now all routinely integrated into discussions about World Bank supported programs. While some have called for the Bank to confront questions of democracy more directly, outreach activities to date have assiduously avoided crossing this line.(14)

A definitive characterization of the fourth generation of international governance assistance would be premature. The above analysis of the World Bank's post-911 governance response can provide only initial clues about the direction of donor support for good governance as the post-911 period continues to unfold. So far, the Bank has responded to the September 11th governance challenges not with a bold, wholesale increase in resources or effort but with incremental policy shifts. New directions have emerged slowly and partially. Governance spending is up, but not dramatically or consistently. While governance lending may target some high-profile borrowers, other serious, possibly urgent, post-911 needs may be overlooked in this cautious climate.

But there are some signs of change. With modestly higher investment in good governance, selective public sector governance programs have been re-directed to strengthen statehood fundamentals like civil service reform, rule of law and public expenditure management. The approach has been softer, using more flexible loan and grant transfers to allow for longer timeframes and higher levels of country autonomy. The soft sell is also evident in the growth of analytic and advice products, especially in country settings where governance improvements have not been easily embraced. And, with a mix of rhetoric and resources, a range of non-traditional initiatives are in train, Finally, there is indication of a broader governance discourse that can begin to encompass important, heretofore off-limit, topics of political governance.

But, at best, this Bank response sends a mixed message on the role and importance of governance assistance in the post-911 world. The injection of resources in governance since September 11th remains modest and PSG expenditures are still a relatively small slice of the World Bank pie. Given year-to-year volatility, sustainability of efforts going forward is a real question. Even with more flexible approaches that extend beyond lending, high-stake regions, countries, and income groups have not been strategically targeted or successfully engaged in governance reforms. And institutional ambivalence about tackling the hard political questions associated with governance reform in the post-911 era may close off open debate of crucial governance issues. Finally, notwithstanding the burst of knowledge efforts in this area, vexing questions remain about whether the skills and expertise are in place to advance the governance agenda in a way that will assure the desired impact.

Conclusion

Whether the World Bank's fourth generation approaches to governance reform hit or miss the mark as the coming years of the post-911 era unfold will likely depend on how it confronts several key challenges. To respond to the new climate created on September 11th, the Bank will need to consider policies that take the long view, elevating governance to a high priority, combating, where possible, the tendency for other considerations – security or broader economic development objectives – to eclipse good governance goals in country programs. The Bank will need to re-think the construct of governance, quite possibly broadening it to encompass some political virtues related to civic accountability and democracy. This will need to be carefully balanced to accommodate shareholders and staff concerns about neutrality and technical credibility. (15) Finally, the Bank will need to adopt an eclectic, "artful" approach to state-building in its client countries to be able to promote public institutions that work and inspire citizen confidence and support. This may well require stepping back to the future, retrieving the wisdom while rejecting the folly of previous generations of international governance assistance.

Notes

1. Two caveats underpin this discussion: this periodization of course reduces long and complex periods of institutional development assistance to overly neat categories for heuristic purposes; and, the aim of the discussion is not to provide an empirical assessment of these programs on the ground or to examine the role of developing country actors themselves in these efforts. (Although various references upon which the discussion draws

have done that.) Rather, the objective is to characterize the nature of the assistance initiatives and to understand

2. Examples of this approach include USAID assistance to agricultural research institutions such as EMBRAPA in Brazil starting in the 1950s or World Bank assistance to the Kenya Tea Development Authority during the same period. (See Lamb and Muller 1982; Morgan and Qualman 1996).

3. The Botswana technical assistance model is the most widely cited. Numerous World Bank staff had backgrounds working directly for the Ministry of Finance – as national civil servants – during the 1960s and 1970s (see Raphaeli, Roumani and MacKeller 1984) Cote D'Ivoire had a similar history with French expatriates replacing Ivoirians in line positions within ministries.

4. Indeed, elaborate schemes related to "performance contracts" or "contract plans" were devised and sold to borrower governments, with the tacit understanding that they could keep their state enterprises under government control as long as they made them run more like private companies. (see Nellis Kikeri 1989)

5. For public management specialists who had cut their teeth on other regions, transition Europe appeared to offer the prospect of state creation on the *tabula rasa* of the discredited communist apparatus. The persistence of entrenched, indigenous institutions in determining future governance arrangements suggested a path

dependency that was not easily interrupted, however.

6. World Bank President James Wolfensohn first uttered the "C" word in a speech in his address to the Annual Meetings of the World Bank and International Monetary Fund on October 1, 1996. The Bank's Board of Directors authorized a special compact for anti-corruption measures over and above the Bank's administrative budget (See also: The World Bank 2004; The World Bank 1995).

7. For example, the Dutch government underwrites several million US$ for governance related activities to be undertaken in conjunction with World Bank activities through the Bank Netherlands Partnership Program each year. Earmarked Norwegian and Danish Trust Funds allocate significant funding to public sector governance priorities.

8. The drive to build states in the post-911 era has been widely discussed in literature on applied foreign policy. (See, for example Finnegan 2003; Dobbins, McGinn, Crane, Jones, Rathmell, Swanger, and Timilsina 2003).

9. This was the spirit driving the recent U.S. Middle East Democracy Initiative as well. (See New York Times 2004).

10. The stakes for strong states are high, as the experience in Afghanistan shows. (See Rubin, Stoddard, Hamidzada, and Farhadi 2004).

11. Examples of countries with governance-focused CASes within the World Bank are Indonesia, Philippines, and Cambodia. During the period FY2002-FY2004 94% of CASs for "high risk" countries

12. See the latest approach (Kaufmann, Kraay and Mastruzzi 2005).

13. Approximately $US25 million were made available, largely for institutional strengthening in LICUS countries. This agenda is also active in USAID and DFID. (See DFID 2005 and USAID 2005)

14. Nobel Laureate, Shirin Ebadi, has called for an end to World Bank loans to non-democratic regimes in (Ebadi 2004) see also, (Dudziak 2003; Jackson (in press); Judis 2003; Zakaria 2003)

15. Paul Wolfowitz succeeded James Wolfensohn as President of the World Bank in June 2005, prompting new speculation about the role governance would play in the Bank's overall development assistance strategy. While keeping a low profile on governance issues during his first year in office, Wolfowitz presented a strategy paper, "Strengthening World Bank Group Engagement in Governance and Anti-Corruption" at the World Bank –International Monetary Fund Annual Meetings, held in Singapore in September 2006. The paper, concentrating mainly on anti-corruption initiatives, particularly with regard to internal Bank project hygiene, received a decidedly mixed international response. Bank shareholders expressed concerns about the undue emphasis on corruption at the expense of other developmental

priorities and the fear of cutting off aid to poor performers without a sound substantive basis and in the absence of appropriate consultation. As the paper did not lay out clear spending implications or organizational changes, it remains to be seen how this newly articulated strategy will affect actual governance programming in the years to come.

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Biographical Sketch

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