How will we move towards a “Working Theory of Public Sector Management Change” in Developing Countries?
## Contents

A. Why do we need a "working theory of change"? ................................................................. 3

B. What must such a "working theory of change" do? ................................................................. 3

C. Some suggested propositions from which to construct such a working theory ......................... 4

D. Proposition 1 in more detail: How do politics matter? ............................................................ 5

1. What does that mean for particular PSM Reforms – what makes them "fit"? .......................... 8

2. So which PSM reforms stand the best prospect in which contexts? ..................................... 11

E. More work to be done .............................................................................................................. 14

1. Proposition 2. But politics is not all that matters ................................................................. 14

2. Proposition 3. Policy can change politics ............................................................................. 14

F. Bibliography ........................................................................................................................... 15
A. Why do we need a "working theory of change"?

The Bank has absorbed and internalized the insight emerging from the political economy field that poorly performing public sectors are likely dysfunctional for a reason. Some interests are being served by the dysfunction. Patronage in the civil service for example may be dysfunctional for providing public services, but may be functional for politicians’ survival who can provide public jobs to constituents. Any change therefore meets resistance.

The recent experience of political economy work within the Bank has been based around this insight. Much work has focused on the deep political incentives and vested interests in play. As the recent IEG review of the Bank's work on Phase 1 if the Governance and Anti-Corruption Strategy has noted, less progress has been made in moving beyond explanations for inaction and for project failure towards theories of positive change. While vested interests might explain particular inertial patterns, change evidently is possible – it is empirically observable that public sector institutions and behaviors move on. If the Bank is to contribute to improving public sector results, it needs to know what it can do (and how) to influence these institutions and behaviors in a way that realistically promises to improve (desired) results. It needs to be able to say, with enough accuracy and specificity to be useful to assist in the design of interventions, that in environment X, it is action Y that stands a reasonable chance of achieving a desired result.

In brief, the Bank needs an explicit “working theory of public sector management (PSM) change”. This may or may not be possible. However, it seems important to try as, without such specificity in Bank assumptions on these issues, it is hard to see how learning will take place in the absence of a proposition that is being tested and it is probable that the Bank political economy will remain more retrospective than prospective. We will continue to have politically-nuanced alibis for why change was not possible, but without much to tell us what we should have done instead. This concern was a major part of the feedback provided to the draft PSM Approach.

B. What must such a "working theory of change" do?

Such a “working theory of PSM change” must integrate and structure the relevant theoretical literature and empirical findings in a framework that can help explain and predict different PSM reform trajectories in different countries. The chances of getting a “theory of PSM change” right in the first instance are not great. The question is whether it is possible in the first instance to develop a “working” draft that can serve as a starting point for debate and review, rather than being conclusive. The working theory should stand (and be improved through) two tests:

1. First, as a “big picture” theory, it should predict reform trajectories across countries (and time). The theory needs to be reductionist in seeking to “cut through the dust” and identifying a few key country context variables that explain differences in countries’ PSM reform trajectories, abstracting from a lot of remaining variation. How well the theory succeeds in this reduction should be verifiable by testing how much of the empirically observable variation in PSM reform trajectories across countries (and time) it can explain.

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1 Unless the Bank states its theory of change explicitly, it will remain driven by little more than private hunches - and it will not be able to evaluate whether its hunches are right or wrong or, more importantly, whether they are getting better.
Second, as a “diagnostic guide”, it should provide operationally relevant guidance. What the Bank should do in a given context will not be meaningfully informed by checking off a list of “big picture” variables. Rather, it requires a detailed, “high context” assessment of the environment for change. Besides explaining broad PSM reform patterns, the theory of change should therefore also be useful as a “diagnostic” guide that yields a sufficiently detailed understanding of specific context and reform properties for informing operational (project design) decisions in a given context.

C. Some suggested propositions from which to construct such a working theory

The working theory could be built on three basic propositions:

1. **Proposition 1: Politics matters for PSM reform...** More precisely, the proposition is that the PSM reforms which get adopted or implemented are – to a large extent – explicable as the rational choice of political elites, given their incentives (and constraints). Specifically, the note builds off political economy theories – advanced by Robert Bates (Bates, 1992, 2006, 2008) and Douglas North et al. (North et al., 2009) among others – that put a logic of rent creation for the sake of preserving stability / containing violence center stage for explaining why political elites may adopt policies that are dysfunctional for growth or poverty reduction. A basic premise of this working theory would be that these ideas explain PSM reform choices. Rent opportunities abound in the public sector – in the form of public money, contracts, jobs etc. – and PSM reforms are about changing the rules that determine the allocation of these rents. So it is proposed that the working theory of PSM must: (i) identify key determinants of political incentives that vary across countries (and time) and (ii) identify which PSM reform “fit” (i.e. are compatible) with these incentives.²

2. **Proposition 2: ...but, second, politics is not all that matters...** Considering change through the lens of rational political choice can be seen as a (rough) way of focusing in on PSM reform options that, in principle, could be incentive-compatible in a given context. But incentive-compatibility leaves a significant margin of maneuver. Whether this margin of maneuver is used to actually adopt and implement PSM reforms depends on the agency of many stakeholders in a dynamic reform process. Stakeholders can interact in a way that builds “reform space” and strengthens / broadens the reform process / involves more actors or narrow it down and bring it to a halt. Such reform dynamics are particularly relevant for PSM reform, given their long implementation processes. So the second proposition is that a working theory of PSM change must identify how PSM reform dynamics matter for reform results.

3. **Proposition 3: ...and conversely, PSM reform may change politics.** While political incentives can be seen as given in the short run, it is well possible that PSM reforms may change politics in the

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² This does not mean that incentive-compatibility is the only criterion for reform “fit”. While this note focuses on the incentives of political actors that shape their reform will, state capacity limits the set of reforms that can realistically be implemented. Typical symptoms of (objectively) limited state capacity include a lack of political control over the bureaucracy (see also Booth et al., 2010), the state’s territory and its borders. As Pritchett et al. (2010) show, state capacity constraints take long to relax and are thus “binding” in the short and medium term. Lacking state legitimacy or trust in government - i.e. “subjective or perception-driven” constraints – can be no less limiting to politicians’ choice sets than objective state capacity. WDR 2011 prominently highlights this by relating “confidence” and “institution building” in a virtuous cycle that can lead out of fragility. It argues that “transforming institutions—always tough—is particularly difficult in fragile situations. [...] In countries with a track record of violence and mistrust, expectations are either too low, so that no government promises are believed, making cooperative action impossible—or too high, so that transitional moments produce expectations of rapid change that cannot be delivered by existing institutions.” (World Bank, 2011, p. x) In the very same sense, North et al. predict, based on their game-theoretical framework, that “fragile states attempt to create credible commitments among elites, but their fundamental instability means that as the dominant coalition changes, the attempted commitments are not credible ex ante.” (North et al., 2007, p. 12)
longer term, reversing the direction of causality. For example, tax reform has been noted in the literature (see e.g. Center for the Future State, 2010) as one way of changing the compact between citizens and the state in the long run. A third task for the theory of PSM change is thus to identify how PSM reform can change the nature of politics in the long run.

D. Proposition 1 in more detail: How do politics matter?

Following North and Bates, a brief recount of the general nature of the political game in “Limited Access Orders” could be as follows. The basic assumption is that political elites are self-interested actors seeking to attain or stay in power, maximize their income etc. They act in an environment where the state has no monopoly of violence. Several influential groups, represented by their patrons, engage in a series of interactions in which they can chose to co-operate peacefully (e.g. lay down their arms and pay taxes to a violence-specialist in return for protection of their private property) or to fight to defend their income or seize the income of others. One key condition for ensuring peaceful co-operation among these groups is the creation and distribution of rents among them that “can motivate credible commitments among elites that they will not fight each other.” (North et al, 2007). This, so the argument in short, is why the creation and targeted distribution of rents – through political elites’ policy choices – has a crucial function for preserving (state) stability in such societies. The downside of such rent-creating policy choices is that they are often detrimental to growth and poverty reduction. In North et al.’s words, institutions that generate targeted elite rents typically “limit access […] to valuable resources – land, labor, and capital – […] activities – such as contract enforcement, property right enforcement, trade, worship, and education” or to “organizations” (North et al., 2007).

Yet, despite this common logic of the political game across many developing countries, development growth trajectories – and political elites’ (PSM reform) policy choices vary strongly across LAOs. What the specific rent-distribution equilibrium that ensures political stability looks like – and whether it persists – depends on the specific incentives and choice sets influential elites face in different countries. As Haber (Haber, 2007) points out, the game is not played on a tabula rasa – but the participants “inherit a pre-existing set of political institutions and organizations, along with an economy and society. This means that the game has multiple outcomes” (Haber, p. 705). Building on North's/Bates' argument, the “working theory of change” could focus on three major (sets of) “political incentive determinants” for explaining cross-country variation in PSM reform trajectories, as shown in Figure 1.

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3 Beyond the field of PSM reform, the argument that policy can be a means for changing politics is made prominently by Banerjee and Duflo (2011).
4 This key assumption distinguishes their models and predictions for example from Olson’s “stationary bandit” (Olson, 1993) – a single actor who monopolizes violence potential etc.
5 Assuming away collective action problems.
6 This argument is by no means limited to the theoretical work chosen as the framework for this note.
7 North et al. 2007 emphasize this: Limited Access Orders “encompass a wide variety of societies – the Roman republic and empire, Mesopotamia in the third millennia BCE, Britain under the Tudors, and modern Nigeria, Bolivia, and Russia. The limited access order is a general strategy for organizing society, not a specific set of political, economic, or religious institutions. Some are vicious authoritarian regimes (Uganda under Idi Amin) while others have elections (Argentina); some are failed states (Chad) while others exhibit long-term stability (Mexico); still others have been socialist states (the former Soviet Union). All share the basic principle of manipulating the economy to produce rents, stability, and prevent violence.” (North et al., 2007)
The motivation for these three determinants is as follows. To attain or stay in power (in the above game), political elites make policy (PSM reform) choices that generate a rent distribution across social groups that preserves stability. What this stabilizing rent distribution across groups looks like primarily depends on the distribution of de facto political power in society\(^8\). De facto political power of different groups in turn depends on two major sets of factors – first, the distribution of resources (or “violence potential”) across these groups (determinant 1: “distribution of resources”) and, second, their ability to organize to overcome their collective action problems\(^9\), their access to information etc. (determinant 2: “political market imperfections”\(^10\)). These two determinants thus influence political incentives by determining the de facto political power of different societal groups. The third determinant – politicians’ time horizon – is crucial because it determines how politicians weight the short-term or longer term costs and benefits of their reform initiatives.\(^11\) This is particularly relevant for PSM reform, given their long-term nature.

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\(^8\) The distinction between “de facto” and “de jure” political power and their role in a model of institutional change follows (Acemoglu and Robinson, 2006).

\(^9\) The question who can form organizations – and thus overcome collective action problems – is also one key dimension that organizes North et al.’s “spectrum of LAOs”, distinguishing between “fragile”, “basic” and “mature” LAOs. Part of North et al.’s definition of these types is that in “fragile” LAO, the “state cannot sustain itself”, in “basic” LAO “only state-related organizations are sustained” and in “mature”, “organizations outside the state are sustained”. “The differentiation is mainly in terms of who has access to violence and of the sophistication and variety of organizations within the state and external to it.” (North et al., 2007)

\(^10\) The notion of “political market imperfections” is used broadly as suggested in (Kefer and Khemani, 2005).

\(^11\) The length of politicians’ time horizons is central to Bates’ (2008) explanation for their choice between broad policy sets that Bates labels “stewardship” and “predation”. In essence, if politicians’ time horizon is sufficiently long, the expected returns from a “stewardship” strategy aimed at enhancing growth by protecting citizens’ property (in form of tax revenues) outweigh those from “predation” on citizens’ property. If politicians are however insecure about their hold to power, the expected payoffs of predatory strategies become more attractive. Importantly, this argument for why politicians’ might rationally chose “stewardship”-type policies is purely based on their self-interest.
Taking these three likely determinants in turn:

1. **Distribution of resources (political incentive determinant 1).** Three key questions that underlie this determinant merit highlighting:

   - **First, is government primarily tax- or rent- (aid or resource-) dependent?** (as e.g. measured by tax collection as a share of government expenditures). State-society tax bargaining is broadly seen as strengthening government accountability and responsiveness to taxpayers. If political elites highly depend on taxes for financing the state, they face stronger incentives to adopt policies that serve taxpayers’ interests (which are the more dispersed, the broader the tax base), counterbalancing incentives to create rents for a narrow group of clients (see e.g. Bates, 2008 and Center for the Future State, 2010). Inversely, resource- or aid-dependency can undermine such incentives (see e.g. Collier, 2009). Aid-dependency in particular can provoke “isomorphic” strategies (Andrews, 2009) by political elites to comply with donor demands while protecting other domestic interests.

   - **Second, at a more granular view, what is the allocation of resources among influential elites and how is it changing?** Beyond the above “macro-picture”, a finer grain picture of the (changing) distribution of resources among influential groups is important to understand political incentives and policy choices. North et al. argue that “any shock that changes the distribution of violence potential can force renegotiation of the distribution of rents [within the dominant collation]” (North et al., p. 10). For example, as Booth argues, the nature of corruption can vary a lot depending on whether it is controlled by a small or a large number of actors (Booth, 2010).

   - **Third, how high are the stakes in adopting policies that change “public sector rents”?** Political elites will be particularly averse to PSM reforms if they threaten rents that are central to stabilizing a dominant coalition – but they may be more open to PSM reform if the crucial rent opportunities are not affected by PSM reform. Assessing how large a share in the overall “rent pie” public sector rents represent can thus provide a rough guide for the political sensitivity of PSM reform (a crude proxy measure is government revenues/spending as a share of GDP – which is, for example, relatively small in Madagascar, but large in Egypt).

2. **Political market imperfections.** Political market imperfections influence whether societal groups can actually mobilize their resources for exerting political influence. They comprise collective action problems associated with (i) group size (Olson, 1965), (ii) ethnic cleavages (e.g. Banerjee and Pande, 2007), (iii) or intentional exclusion of society groups from forming organizations (North et al., 2009). Core examples for PSM reform are the existence of public sector unions or of a national accounting profession, which influence the nature of CSR / PFM reforms. Political market imperfections also comprise information asymmetries that are for example associated with the spread of technology (radio / mobile phone coverage), media freedom etc.

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12 Similar “proxy measures” of (potential) political sensitivity can be thought of for specific PSM reforms that only affect part of the public sector. For example, if the public investment budget is large relative to recurrent spending, PIM or procurement reforms are likely to be sensitive because they will conflict with strong vested interests. If the investment budget is small, such reforms may be easier, because they do not harm major preexisting interests.
3. **Politicians’ time horizon.** Politicians’ time horizon is meant to capture the *actual* discount rate that they apply to future costs and benefits of their choices today. Especially in unstable settings – for example in post-conflict countries – where the risks of unconstitutional ousting from office (e.g. through coups) is high, politicians’ actual time horizon may be very short. Their actual time-horizon may but need not reflect electoral cycles. Elections may not mean a real threat to power – or, even if they do, politicians may see their current policy choices as longer-term investments that enhance their chances of being reelected.

1. **WHAT DOES THAT MEAN FOR PARTICULAR PSM REFORMS – WHAT MAKES THEM "FIT"?**

What does variation in these “political incentive determinants” imply for the likelihood of PSM reforms "working" in different contexts? Three PSM reform properties seem particularly significant:

1. **Who benefits and who loses from the reform?** Simply put, a reform is attractive to political elites if the powerful win and the powerless lose. North et al.’s theory suggests that a logic of clientelistic rent-creation – i.e. the creation of targeted benefits (to the powerful) at the price of dispersed costs (for the powerless) – is a common feature among LAOs. If resources (and thus political power) are concentrated among a few influential stakeholders in society (incentive-determinant 1), “entrepreneurial” reforms risk to be particularly incentive-incompatible. As a general observation, it is noteworthy that the cost-benefit incidence of many (but not all) PSM reforms, if they get implemented, tends to be fundamentally *incompatible* with this logic. PSM reforms tend to create dispersed benefits and concentrated costs (they are “entrepreneurial”, rather than “clientelistic”). For example, strengthening meritocracy in teacher management creates dispersed benefits (improve learning conditions for school kids) but concentrated costs (on teachers and influential “patrons” in the bureaucracy who have discretion in allocating teacher jobs to their clients.) Tax reforms may be an important exception from this pattern.

2. **Are the reform winners and losers likely to be able to act collectively in their interests?** If political market imperfections are strong, reforms are incentive-compatible if these imperfections constrain reform losers more from acting collectively than reform winners. Yet, the inverse is often true for PSM reforms. Schneider (1999) expresses this dilemma in drastic terms for upstream administrative reforms:

   “On the input or electoral side, the politics of administrative reform are characterized by an intractable dilemma of collective action. The potential beneficiaries of administrative reform are dispersed and disorganized, and each individual beneficiary would gain almost nothing if reform proposals were to succeed. [...] Moreover, the opponents of reform (such as unions of 

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13 The notions of “entrepreneurial” versus “client” politics are drawn form the Lowi/Wilson matrix that provides a broad typology of the cost-benefit incidence of reforms, based on whether they are “dispersed” or “concentrated”: Reforms that create dispersed costs but concentrated benefits follow a pattern of “client politics”, whereas reforms that create concentrated costs and dispersed benefits follow a pattern of “entrepreneurial politics”.

14 Clearly, tax incidence depends on many factors and one key goal of many tax reforms is to ensure a fair, progressive rather than regressive tax incidence. Yet, to the extent that tax reforms seek to broaden the tax base from employees in a few big formal companies to a broader tax base, they do create dispersed costs, whereas the immediate benefit occurs to the state’s coffers. If this is true, such tax-base broadening reforms – at least considered in isolation from the expenditure side (spending targeting could be both narrow and dispersed) – are not at odds with the logic of LAOs. For example, strengthening VAT collection is a typical recommendation for developing countries that often largely depend on revenues from tariffs and a narrow base of large income tax payers, due to an inefficient tax administration. Strengthening VAT is partially recommended as a way of broadening the tax base while avoiding the significant capacity demands on the tax administration that is needed for broader income tax collection. Interestingly, such a VAT reform deviates from the incidence pattern of many other PSM reforms – it creates disperse costs (for the broadened taxpayer base) while it might create both dispersed and concentrated benefits (depending on how extra revenues are spent).
public employees) are concentrated; they often perceive their potential losses as enormous and generally have close contact with legislators. In the short run these opponents can raise the political costs to legislative reformers. For these deductive reasons, there are few grounds to hope that reform proposals will emerge from electoral campaigns or elected legislatures.” (Schneider, 1999)

In addition, PSM reforms may be particularly “vulnerable” to information asymmetries because they tend to be long-term and incremental, risking to be “overlooked” and because improved results, such as service delivery improvements, may not be attributed to the reform or the politicians that initiated them.15

3. When will the reform pay off for whom? If politicians’ time horizon is short, PSM reforms are more likely to be incentive-compatible if they generate short-term benefits and long-term costs, rather than the inverse. This is particularly relevant for PSM reforms, where the gap between reforms adoption and implementation is frequently large (see e.g. Grindle, 2011). As illustrated in

4. Figure 2 for the example of strengthening meritocracy in teacher management, many PSM reforms have an incidence pattern that starts with some short-term winners from reform adoption (donors, reform proponents), often powerful losers once they get implemented (teacher unions, patrons) and long-term winners (parents, kids, once they actually take effect). Importantly, in particular in aid-dependent countries, this may provoke a response strategy by politicians’ that could be called “reform for reform’s sake”, or, in Matt Andrew’s terms, “isomorphic” (Andrews, 2009). Politicians might adopt reforms de jure to comply with donor pressures – but may count on the fact that these reforms’ will de facto not be implemented, or only to some extent, thereby protecting the interests of influential domestic constituents.16

15 This is for example argued by Sacks (2010).
16 Comparing PSM reforms to macro-economic policy changes – and in particular currency devaluations – in this regard yields a telling contrast for highlighting why such strategies may be particularly prevalent in PSM reforms. Robert Bates (2008) suggests a political rationale that explains why many African countries have historically overvalued their currencies, following a clientelist logic. Currency overvaluation typically generated profits for concentrated domestic industries that depend on importing capital goods (because they become cheaper) and costs for dispersed domestic farmers, because they face tougher competition from imported (also cheaper) rice wheat etc. Overvaluation also generated very targetable benefits to those with import licenses, who could make riches in currency arbitrage. By contrast to many PSM reforms, if an overvalued currency is devaluated (a typical recommendation), major costs and benefits of reform materialize relatively immediately, once market participants adjust their behaviors to the price changes. Currency arbitrageurs immediately lose their arbitrage opportunity, importers immediately have to pay more for capital goods and domestic farmers immediately face less price competition from imported crops. In this case, it is hard to think of any major disconnect between de jure and de facto change. The door to “reform for reforms sake” strategies is thus closed – whereas in PSM reforms, it may often be wide open.
Figure 2. Cost- and Benefit Incidence of Strengthening Meritocratic Teacher Management over time.\textsuperscript{17}

<table>
<thead>
<tr>
<th>short-term</th>
<th>medium-term</th>
<th>long-term</th>
</tr>
</thead>
<tbody>
<tr>
<td>The public sector results-chain (simplified):</td>
<td>Functioning of the Center of Government / of Sector Agencies</td>
<td>Sector Outputs / Outcomes</td>
</tr>
<tr>
<td>Upstream / downstream inst. arrangements</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Example: CSR reform**

- New CS legislation adopted
- Census conducted
- Ghosts and double dispers fired
- Benefits de facto tied to teacher performance
- Better teacher performance
- Better learning results

**Resulting Cost- / Benefit-Incidence**

- **benefits**
  - Donors / International community
  - Reform Proponents (Public Officials)
  - Performing teachers get better rewards
  - Parents whose kids get better education / long term growth due to human capital

- **costs**
  - Patrons’ discretion in allocating jobs / privileges becomes limited
  - Teachers removed from the payroll

*Source: Authors.*

A general conclusion from this overview of PSM reform properties is simply that they are not easily compatible with political incentives in LAOs. They tend to create relatively dispersed benefits and concentrated costs (which they have in common with most Bank-supported reforms), they are particularly “vulnerable” to political market imperfections and they tend to take long to implement, with significant (concentrated) cost materializing before they yield dispersed benefits. These factors may in part explain why the Bank’s track record in supporting PSM reform in developing countries is rather mixed.

\textsuperscript{17} The circle size indicates the size of the stakeholder group to which the respective costs or benefits occur. The circles distance from the time-axes the size of the benefit for each member of the stakeholder group.
2. **So which PSM reforms stand the best prospect in which contexts?**

These reform properties yield some broad guidance as to which types of PSM reforms are likely to “fit” with which context:

a) **In situations of “concentrated” distribution of resources, reforms will be at the margins**

The distribution of resources as a source of political power is arguably the most important determinant of the political “space” that exists for performance-oriented PSM reforms. If sources of political power are concentrated among a few narrow elites (and their clients), politicians’ will have strong incentives to adopt PSM institutions that generate rents for these clients, rather than pursuing typically “entrepreneurial” PSM reforms that generate dispersed benefits. Recognizing that “first-best” PSM reform choices are often at odds with the logic of clientelist politics yields a pragmatic rationale for identifying “second-best” reform designs that seek compromise between (partially) achieving “performance” objectives that the Bank supports – while not threatening rents that are essential for political survival and “stability”. Figure 3 illustrates the common logic of such second-best PSM reforms – they need to be designed to “hit two targets (performance and stability) with a single arrow (the reform design)”.

**Figure 3. “Hitting two targets with one arrow”. Second-best “compromise” reform choices may balance performance with stability objectives – the example of hybrid appointments.**

The surface highlighted in grey describes a stylized set of (theoretically) available reform choices / institutional designs. Its diagonal shape reflects the idea that there is a clear trade-off between performance enhancing (e.g. meritocratic appointments) and stabilizing (e.g. discretionary patronage-based appointments) reform choices – but that this trade-off need not be an absolute one. The “reform space” highlighted in green marks the set of reform choices that are either performance-enhancing and not stability-threatening or stability-enhancing and not performance-threatening, or both.

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18 The surface highlighted in grey describes a stylized set of (theoretically) available reform choices / institutional designs. Its diagonal shape reflects the idea that there is a clear trade-off between performance enhancing (e.g. meritocratic appointments) and stabilizing (e.g. discretionary patronage-based appointments) reform choices – but that this trade-off need not be an absolute one. The “reform space” highlighted in green marks the set of reform choices that are either performance-enhancing and not stability-threatening or stability-enhancing and not performance-threatening, or both.
For example, Geoffrey Shepherd argues that there are “number of partial solutions that recognize that a frontal attack against patronage practices is unlikely to succeed and that patronage must be co-opted, rather than swept under the carpet.” (Shepherd, 2003). One such example is hybrid senior civil service appointments (rather than pushing for full depoliticisation and strictly meritocratic SCS appointments, see Figure 3) that compromise between merit criteria and the need for political discretion in selecting appointees. Barbara Geddes account of SCS appointments under Chile’s President Allende provides a vivid example of the politicians’ dilemma between the goals of “stability” and “performance” (see Box 1).

**Box 1. Illustration: The Politicians’ Dilemma between two targets. Senior Management Appointments by Chile’s President Allende**

“The choice of managers for Chile’s nationalized mines and industries is a particularly consequential instance of what I call the politician’s dilemma. [...] From the president’s point of view, the choice lay between using the appointment resource as a political or an economic investment. The state would pay the same salary, but the individual who received it, depending on his or her competence and loyalties, might make a greater contribution towards economic performance or towards consolidating political support for the president. The president’s survival depended on both economic performance and political support. No one had more to lose from the additional economic strain that would be caused by mismanagement, and yet, with his survival in office immediately threatened, he could not afford to disregard short-term political considerations by choosing managers on the basis of technocratic expertise. [...] This is the politician’s dilemma writ large.”

*Source: Geddes (1994).*

The more concentrated resources and de facto political power are – for example if government tax dependency is low, and the public sector serves as a major “rent-distribution engine” to buy the loyalty of influential clients – the more PSM reforms will need to succumb to an imperative of “doing no harm” to major rents in order to minimize opposition to reform. One strategy for the Bank in such settings can be to opt for selective reforms in “islands of government” (Shepherd, 2003) that may allow for partial improvements without threatening crucial rents in other parts of government. A similar strategy can be to “do some good at the margin” of reform processes that are driven by other motives. Not least, in contexts with low government tax dependency, the Bank might consider supporting tax reform, in view of changing the nature of the political equilibrium in the long term (see e.g. Center for the Future State, 2010). Figure 4 summarizes these broad conclusions.

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19 Geddes (1994) notes that this is “not a mutually exclusive choice. Some party loyalists also have expert credentials”, pointing towards the above-mentioned institutional compromise of “hybrid” appointments.

20 For example, in Sierra Leone, decentralization was primarily politically motivated – but the Bank could “piggyback” on this movement by pushing for improvements in local service delivery.
b) In situations with “high” political market imperfections, demand-side initiatives stand less chance of success.

In context of significant political market imperfections, demand-side type PSM reforms, such as participatory budgeting, citizen score cards, citizen reporting of corruption, school-based management etc. are less likely to gain traction. As a micro-literature suggests, these reforms are more likely to work in contexts where they are not constrained by lack of social capital or elite capture in local communities, a low development of or restrictions on civil society, low levels of education or a lack of media freedom or coverage (radio, mobile phones). On broad conclusion is thus that “demand-side type” PSM reforms bear more promise in contexts where political market imperfections are “low”. In such contexts, it is important to frame or “market” them effectively to mobilize demand. “Piggybacking strategies” – i.e. to attach administrative reforms “like parasites” to other more politically favored “host” kinds of reforms – are one way of doing this (Schneider, 1999). By contrast, where political market imperfections are high, PSM reforms may need to focus on supply-side measures that align with intra-executive reform drivers and opponents (see Figure 5).

c) When politicians have “short” time horizons, downstream (sector specific) reforms that generate visible quick wins are more promising.

Where politicians’ time horizons are short, PSM reforms that have (certain) upfront political costs and long-term benefits are unlikely to be incentive-compatible. Short-time horizons may imply that political elites turn towards what Bates (Bates, 2008) calls “predatory” policy choices. In such cases, the chances of conducting performance-enhancing PSM reforms will be very limited. Yet, short time horizons need not imply predation. They are also a particular feature of post-conflict states, where politicians need to serve the imperatives of the moment in order to preserve a fragile political equilibrium. In such settings, “downstream” PSM reforms that are likely to yield rapid positive results may be

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21 See for example (Banerjee et al., 2008) on participatory programs, (Glennester et al., 2010) on the effects of ethnic cleaves on collective action and (Keefer and Khemani, 2005) for a systematic review of the literature on political market imperfections in service delivery.

22 For example, Schneider et al. (2003) and Grindle (1998) highlight the importance of intra-administrative actors in generating and driving PSM reform ideas.
more “incentive”-compatible than “upstream” PSM reforms that take a long time to translate into benefits. In particular, reforms that yield rapid results may encourage “virtuous cycles” where early successes build the confidence needed for more far-reaching reforms (see World Bank, 2011).

If PSM reform choices are driven by short-term imperatives, Bank support could focus on strategies of “long-term damage control”. The example of recruiting ex-combatants to the public service in significant numbers in post-conflict Sudan illustrates this. In Sudan, the Bank supported the adoption of a unified employment regime (with tenure) for civil servants (a “first best” policy choice). Yet, in hindsight, after the public service grew with recruitment of ex-combatants, a multi-tiered employment regime with different tenure for different parts of the civil service might have been a better choice – avoiding the long-term “lock-in” effect of the wage bill by providing tenure to all civil servants (see Figure 3).

In highly aid-dependent countries (see axis 1) where politicians have short-time horizons, donors need to be wary of “isomorphic” or “reform for reform’s sake strategies” by political elites. One way of countering these can be to use lending instruments that link aid to results (P4R) rather than to de jure changes.

E. More work to be done

1. **Proposition 2. But politics is not all that matters**

   Further work on this will require consideration of how agency is supported and coalitions built. It also needs some exploration of the point that reforms can be boosted if they meet the criteria that (i) they do not risk all of the politician's capital and (ii) they can quickly give the politician a return on that political capital invested.

2. **Proposition 3. Policy can change politics**

   Further work on this will need to show how some Bank-supported changes in the formal architecture really led to substantive change in the political dynamics.
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