DEVELOPING GOVERNANCE CAPACITY
A Review of Causes and Effects

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Abstract

The paper analyzes conditions and options to improve governance capacity, i.e. the ability of a political leadership to implement reform policies aimed at democracy and market economy. It discusses how environmental conditions of policy-making, the configuration of the political system and the organization of executive authority impact upon governance capacity. Summarizing the body of research on these impacts, a two-tiered strategy is suggested, focusing both on qualifying the political leadership and on creating appropriate constraints that enable better governance. Reformers can increase their commitment to democracy and market economy by imposing limits to their authority that facilitate a procedural legitimation of policies and support a self-commitment of the leadership. An effective use of resources may be ensured by rules reducing the flexibility of the executive in using the resources. The quality of political management can be improved by enhancing the status of expert knowledge and professional rationality criteria at the expense of political discretion. Consensus and participation requirements constrain the technocratic habits of political leadership but reinforce the credibility and inclusiveness of consensus-building. A partnership taken seriously by governments and their foreign supporters underpins effective policy ownership.
INTRODUCTION

Successful development, democracy and market economy do not exclusively emerge from fortunate circumstances or foreign assistance. Rather, they are based on the performance of political actors. This is why the Bertelsmann Foundation and the Center for Applied Policy Research have established an index assessing the performance in governance. Such performance does not only depend on talented leaders but requires a set of capabilities which are termed governance capacity in this paper. Conditions and options for improving governance capacity are analyzed in the paper, drawing on the growing body of research on governance, development and democratization.

Our analysis is motivated by two observations:
1. Much research on the driving forces of development and transformation has focused on identifying cause-effect relations between what may be termed inputs of the political system (social, economic or international factors) and policy outcomes (development or reform progress) (Peters 2000). Much less attention was paid to intra-state relations and structures. It was the World Development Report of 1997 that first highlighted the role of state institutions and governance for development (World Bank 1997).
2. The literature on political institutions has often neglected the impact of specific institutional arrangements on policy performance and even less is known if policy performance is operationalized as mastering complex development challenges rather than macro-economic growth. The lack of knowledge in these fields is reflected by a practice of institutional choice that tends to rest on legal constructivist practice, intuitive assumptions and self-interests of the actors involved. Only recently have researchers begun to study the role of institutional arrangements for policy performance on a systematic and comparative basis (cf. e.g. Dethier 1999; Haggard and Kaufman 1995; Haggard and McCubbins 2001; Lijphart 1999; Schmidt 2002; Weaver and Rockman 1993).

Initiated by this increased interest in institutions, the focus of policy-oriented research has shifted from elaborating and proposing the content of suitable public policy to designing and strengthening the institutional capacities of policy-making. This has contributed to the increasing prominence of governance as a concept guiding policy-oriented research and advisory activity. The concept highlights the coordinating role of institutions for society and economy, but avoids the state-centered, hierarchic and bureaucratic coordination model related to the term government.

The World Bank has developed a useful definition of good governance: “Good governance is epitomized by predictable, open and enlightened policy-making; a bureaucracy imbued with a professional ethos; an executive arm of government accountable for its actions; a strong civil society participating in public affairs; and all behaving under the rule of law.” (World Bank 1994) Our approach builds on this concept but is mainly interested in the quality of policy-making and the role key political actors play for (good) governance. In addition, the approach suggested here seeks to relate the governance concept to the literature on democratization and economic reforms.

The first section of the paper clarifies the relationship between governance and democracy or democratization. Against this background, we shall ask which causal factors affect governance capacity and policy reforms, conceived as the outcomes/outputs of effective governance. By taking governance as an important intervening variable, we differ from approaches focusing on socioeconomic, structural or institutional determinants of policy performance. The causal factors studied here include the conditions shaping the social, economic and international environment of policy-making, the features of the political system and the configuration
of executive authority. Finally, we argue that improving governance capacity necessitates a
two-tiered strategy that focuses both on qualifying the political leadership for better govern-
ance and on creating appropriate constraints enabling better leadership.

I. GOVERNANCE AND DEMOCRACY

We conceive governance capacity as a set of skills and resources that enable reform policies
grounded in the strategic aim of democracy and market economy. Governance capacity denotes
the ability of a political leadership

1. to commit itself to such reform policies and implement them even against political resis-
tance. This includes strategic prioritization, a coherent and consistent reform program,
policy credibility, sufficient political authority and organizational capability for effective
policy implementation (commitment);

2. to make optimum use of the available economic, cultural and human resources. This com-
prises the efficient use of resources, a level of public infrastructure and services corre-
spending to a country’s level of development, and effective anti-corruption policies (effec-
tiveness);

3. to manage reforms in a skilful, enlightened and accountable manner. This implies the ca-
pacity for complex learning, policy innovation and political craft in choosing strategies
and instruments (management);

4. to involve civil society and build a consensus about the reform aims in society. This is
reflected in the ability to integrate anti-democratic veto actors, manage cleavages, recon-
cile victims and perpetrators of past injustice and foster social capital (consensus-
building);

5. to cooperate with outside supporters and international organizations. This refers to pur-
poseful reform-oriented cooperation, conveying reliability and credibility to the interna-
tional environment, and collaboration with neighboring states (international cooperation).

This notion of governance capacity draws on an inductive list of management criteria that was
developed to evaluate management performance for the Carl Bertelsmann Prize 2001 and that
is used for the Bertelsmann Transformation Index (Weidenfeld 2001, 44-62). In addition, it is
inspired by the set of government capabilities defined by Kent Weaver and Bert A. Rockman
(1993, 6) and on other publications (Dror 2001; Kaufmann, Kraay, and Mastruzzi 2003;
König and Adam 2001; Pierre 2000; Przeworski et al. 2000). Governance capacity is primar-
ily an evaluative concept, not necessarily a quality certificate: it denotes the ability of political
actors to take economic and democratic reforms, without asserting that there is sufficient ability
or capacity. The dual aim of democracy and market economy constitutes a normative ori-
entation, but this orientation does not imply far-reaching substantive specifications or con-
straints for reforms as there is no best way to arrive at democracy and market economy. In
particular, we do not make a claim about the best sequencing of democratic and economic
reforms, i.e. that marketization should precede democratization or vice versa. We understand
reforms or reform policies in a broad sense, within the paradigm of socioeconomic develop-
ment and modernization rather than inside the ‘transition to democracy’ paradigm.
Governance capacity does not necessarily presuppose democratic institutions. Effective governance is possible in an autocracy or a deficient democracy, too. Authoritarian leaders are not only accountable to some constituency but depend on their capacity to deliver resources even more than political leaders in democracies with their electoral legitimation (Haggard and Kaufman 1995, 11).

While autocracy does not preclude effective governance, a democratic environment improves the likelihood of effective governance and the capacity for reforms and good governance. A leadership commitment to democratic reforms and the implementation of such reforms require at least the liberalization of political rule, they become credible and viable only if a transition to democracy is undertaken. The accountability, participation and consensus-building elements of governance capacity can be fully developed only in a democratic system. This is because accountability, participation and consensus-building, to become fully effective, require the habitualization of democratic norms. Moreover, the working rules and mechanisms of accountability, participation and consensus-building will impinge upon and reinforce the other elements of governance capacity, such as commitment, skilful and enlightened reform management. The latter elements of governance capacity can exist in an authoritarian system but they can not replace those elements of governance capacity that suggest democratic norms. Since potentially democratic and technocratic elements of governance are interlinked, strategies to improve governance in authoritarian systems do not just prolong the survival of these systems. They can make sense if they are carefully designed and promote accountability, participation and consensus-building.

Conversely, commitment, efficiency and political authority do not necessarily suffer from the existence of democratic participation mechanisms. Comparing the policy performance of 36 democracies, Arend Lijphart even claims that “there is no trade-off at all between governing effectiveness and high-quality democracy.” (Lijphart 1999, 302) (cf. below). This contention will be discussed in more detail in the following sections. A growing number of scholars and practitioners argue that civil society participation and constraints to executive authority underpin sustainable reform policies. Wolfgang Merkel and Aurel Croissant, for example, consider a political system bound by the rule of law more stable and governable than a deficient democracy or autocracy, as democracy and the rule of law offer a higher potential of political representativity and social inclusion, more certainty for actors and higher formal-institutional efficiency of decision-making (Merkel and Croissant 2000, 25-26).

One should, however, keep in mind that more participatory forms of governance have certain social and institutional prerequisites. It has been pointed out that ‘new governance’, conceived as a less government-centered mode of governance, seems desirable only in democratic political systems where social forces have more or less equal opportunities for group mobilization (Peters 2000, 47). These prerequisites are also relevant for the introduction of new public management, the entrepreneurial approach to public administration reform currently dominating in OECD countries.1 Similarly, the World Bank has been cautious to advise transition and developing countries to abandon or circumvent the Weberian-type of state administration and introduce new public management in settings characterized by a weak rule of law and weak administrative capacity (Nunberg 1996; World Bank 2000, 37).

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1 This model aims at organizing public administration according to models of business administration. Administrative tasks are defined separately, the costs of their provision are calculated and measured. Benchmarking and budgetary autonomy form incentive structures to increase the efficiency of provision.
II. FACTORS SHAPING GOVERNANCE

This part of the paper discusses how the five elements of governance capacity mentioned above are affected by the external environment of policy-making, the nature of the political system and the configuration of executive authority. Each of these factors or factor combinations exert a differential impact on governance capacity.

1. External environment

A large number of societal, economic and international factors shaping governance capacity may be identified outside the political system.² Of these factors, only five will be discussed here: the education and health system, civil society, economic development, economic integration and foreign assistance.

1. There is a broad international consensus that investment in education and health infrastructure facilitates development. Such investments help improving a country’s human capital endowment and the health conditions of the labor force. Education and training provides people with the skills and knowledge necessary to escape from poverty. High-quality education also contributes to a higher governance capacity since it provides citizens with knowledge and skills to participate in the governance of public affairs and improves the chances for an efficient and skilful management of reforms.

2. There is also wide agreement that a ‘reflexive’ civil society is an important precondition and supportive environment for democratization and the consolidation of democracy (Diamond 1999; Merkel 2000). Such a civil society affects governance by constituting a public sphere autonomous from the state that makes political elites more responsive and accountable to citizens as it subjects these elites to public scrutiny. This effect is confirmed by findings of empirical research according to which civil society participation is closely associated with better development outcomes in terms of a higher GDP p.c., less infant mortality or illiteracy (World Bank 2002, 134-136).

² Cf. for a study of other factors such as GDP per capita, proximity to equator, ethnolinguistic heterogeneity, legal tradition, religious affiliation: La Porta et al. 1999; Dethier 1999.

The socio-cultural basis of civil society is formed by networks of civic engagement (‘social capital’) where social interaction is not motivated by expectations of direct and equivalent return (Fukuyama 2000; Putnam 1993). Dense and strong networks of civic engagement enhance the governing capabilities of state institutions because they increase the likelihood that citizens adopt public interests as their own. Thus social capital improves governance capacity as the political leadership can rely on civic engagement and solidarity to attain collective goals. However, civil society may also become a barrier to effective governance if it disintegrates into ethnic segments, exacerbates social and political cleavages or enables powerful economic and social actors to gain hold of the state’s regulatory functions (Hellman, Jones, and Kaufmann 2000; Merkel 2000). These critical observations indicate that the sum of particular interests represented in civil society can not be equated with public interest.

3. Economic growth and a high level of economic development support governance by providing economic resources that enable a government to undertake reforms and to build a broad reform consensus in society by compensating the losers of reforms. Economic stability and prosperity, however, may also increase the political resistance to reforms since a
majority of the people benefits from the status quo and is uncertain whether it will be better off after a reform. If, for example, a transition to democracy occurs under circumstances of economic stability and prosperity, groups privileged by the economic model of the authoritarian regime are likely to retain a strong position and restrict the options for radical economic reform (Haggard and Kaufman 1995, 368). Economic wealth can have adverse effects on a leadership’s ability to make optimum use of the available resources. It can induce elites to exploit resources of their state to collect rents. For example, an abundance of natural resources may encourage rent-seeking and unaccountability ("resource curse") (World Bank 2002, 148-153).

4. Economic integration is today seen as an important instrument to facilitate economic development since the liberalization of trade has facilitated access to new knowledge, markets and technologies, thus fostering a more efficient use of resources. These effects have propelled growth in developing countries. Development strategies based upon the substitution of imports have failed mainly because they did not generate industries competitive in the World market. Multilateral and regional integration measures - from the removal of trade barriers to establishing a free trade zone and to common policies beyond the level of trade integration - restrict a government’s discretion over economic policy. This limitation of governance capacity has to be seen as a reaction to the growing dependence of national economies on global markets. Economic integration may strengthen the ability of domestic reformers to commit themselves to and implement reform-oriented policies. The trade benefits of integration increase the resource base of governance, and regional economic integration transcending the level of a customs union indicates an advanced stage of cooperation with neighboring states.

5. The assistance of foreign actors (international organizations and high-income industrialized states) can improve governance capacity insofar as it improves the skills and knowledge base of domestic reformers. Foreign economic assistance has proven to be effective in countries implementing a solid macro-economic policy (World Bank 2002). While bilateral assistance has contributed to growth, multilateral assistance has had a negative effect on growth in developing countries (Ram 2003). This may be explained by the fact that bilateral donors pursue more sectorally focused assistance strategies and know the local conditions better due to their traditional experience of work in particular regions. In addition, the correlation indicates that structural adjustment requirements of multilateral donors restrict the growth potential of beneficiary countries (ibid., 105).

Foreign democracy assistance has contributed to the strengthening of democracy in countries that had already embarked upon a democratization process (Carothers 1999, 308). However, it failed to induce the liberalization of an authoritarian system or to prevent unconsolidated democracies from authoritarian relapses or stagnation. Political conditionality linked to foreign assistance can support the resoluteness and implementation capacity of a reform-oriented government.

Political conditionality attached to foreign assistance is likely to improve a government’s ability to commit itself to reforms and to realize them against domestic opposition as it enables a government to demonstrate the immediate benefits of compliance and the costs of non-compliance against critics and opponents of reforms. However, conditionality also constrains the accountability of incumbent elites since it provides incentives to launch reforms in order to buy foreign assistance rather than to address the development problems of their country. Furthermore, foreign assistance may weaken the accountability of governments to their citizens since financial transfers may be used to compensate for or re-
duce the costs of poor policies. Countries with poor policies have received as much aid as those making positive reform efforts, and aid has sometimes prolonged poor policies (World Bank 1998; World Bank 2002). Foreign financial aid can increase corruption, bureaucracy and can weaken the rule of law if the recipients conceive aid as a cross-subsidy or rent allocated to politically privileged groups or purposes. To avoid these effects, donors like the World Bank have increasingly emphasized policy ownership, civil society involvement and accountability mechanisms as necessary preconditions of foreign assistance.

Controversy exists as to whether the democratic elements of governance capacity should generally be prioritized compared to its technocratic elements: should foreign assistance aim at broad participation rather than focusing on islands of professional excellence? Should it prioritize democratic pluralism over effective reforms? Our composite notion of governance capacity implies that democratic participation improves the effectiveness of management but that effective governance is also possible in autocracies of deficient democracies. Both assumptions frame a consensus that includes a prioritizing of effective governance in short-term assistance strategies. In the mid and long term, the normative aim of market economy and democracy not only necessitates the support of democratic participation, but the latter is key to a more durable and higher effectiveness of governance.

To summarize the findings of this section, the following table lists the empirically documented effects characterizing the relationship between individual environmental factors and the components of governance capacity.

### Table 1: Environmental variables and governance capacity

<table>
<thead>
<tr>
<th>Environmental Factor</th>
<th>Commitment</th>
<th>Effectiveness</th>
<th>Management</th>
<th>Consensus-building</th>
<th>International cooperation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investment in education and health</strong></td>
<td>increase of knowledge and qualification</td>
<td>increase of knowledge and qualification</td>
<td>increase of knowledge and qualification</td>
<td>enabling participation</td>
<td>increase of knowledge and qualification</td>
</tr>
<tr>
<td><strong>Reflexive civil society</strong></td>
<td>legitimation, <em>loss of consistency</em></td>
<td>public scrutiny, norm-guided behavior</td>
<td>public control, accountability</td>
<td>higher representativity</td>
<td>weak impact</td>
</tr>
<tr>
<td><strong>Economic prosperity</strong></td>
<td>increase of resources</td>
<td>increase of resources, <em>rent-seeking</em></td>
<td>weak impact</td>
<td>compensation of losers, <em>status-quo orientation</em></td>
<td>weak impact</td>
</tr>
<tr>
<td><strong>Economic integration</strong></td>
<td>external ‘anchor-ing’ of reform priorities</td>
<td>increase of resources</td>
<td>reduced dependence on global markets</td>
<td>weak impact</td>
<td>empathy and learning effects</td>
</tr>
<tr>
<td><strong>Foreign economic assistance</strong></td>
<td>increase of resources</td>
<td>increase of resources, <em>rent-seeking</em></td>
<td>weak impact</td>
<td>compensation of losers, <em>blurred accountability</em></td>
<td>learning effects</td>
</tr>
</tbody>
</table>

Source: own compilation. Possible negative effects are marked in italics.

2. **Political system**

The political system exerts a strong impact on governance capacity. A democratic political system is likely to improve the quality and effectiveness of governance. Among democracies a huge variety of institutional arrangements with differential effects on governance capacity
can be found. This section discusses three key classifications for the political systems in democracies: presidential and parliamentary systems, consensus and majoritarian democracy, and veto players.

Presidentialism versus Parliamentarism
There has been a long debate in democratization research about whether parliamentary or presidential systems of government are more supportive for the consolidation of democracy (Linz and Stepan 1996; Rüb 2001). Parliamentarism can be defined as the form of democracy “in which the executive authority emerges from, and is responsible to, legislative authority” (Lijphart 1984, 68; Steffani 1996). In contrast, presidentialism is a system where executive and legislature are elected separately and where neither branch can act to shorten the term of the other (Shugart and Haggard 2001, 64; Shugart and Carey 1992). Systems where cabinets are accountable to parliament and a popularly elected president are classified as mixed systems (presidential-parliamentary, premier-presidential, semi-presidential).

Most researchers agree that presidential systems are less capable of solving problems than parliamentary systems because they divide authority between the executive and the legislative, cause legislative gridlock, support populism, generate myopic, ad hoc policies and politicize controversial issues (Schmidt 2000, 321-4; Foweraker and Landmann 2002). As presidential systems separate parliamentary deputies and parties from the executive, legislators become less interested in providing national policy than in parliamentary systems (Shugart and Haggard 2001). Parliamentary systems also provide better conditions than semi-presidential systems for a successful democratization and the consolidation of democracy (Rüb 2001, 483). In Eastern Europe, the bipolar executives characterizing semi-presidential systems have been more prone to populist politics and ethnonationalist mobilization than the executives of parliamentary systems. In addition, bipolar executives have been less able to compensate the weaknesses of a fragmented or polarized party system (ibid.). Presidential and also semi-presidential systems thus restrict governance capacity in that they pose additional difficulties for a reform management and weaken the ability of a political leadership to commit itself to reform policies and to implement them against political resistance.

However, parliamentary systems are not necessarily characterized by higher governance capacity than presidential systems since not all presidential systems fragment authority. The context of actor constellations, cultural traditions and institutional conditions determines how a political system affects reform policies (Merkel and Puhle 1999, 60). One approach to structure the ambiguous policy effect of different models of government is to distinguish between policy decisiveness (i.e. the ability to make policy decisions) and policy resoluteness (i.e. the ability to commit to established policy decisions) (Cox and McCubbins 2001). Given this trade-off between decisiveness and resoluteness, presidential systems can be expected to be more resolute and less decisive than parliamentary systems. Whether this is indeed the case, depends on other features of the institutional arrangement. Concurrent presidential and legislative elections, a party-centered electoral formula, a unicameral assembly elected congruently with the president’ constituency, and full renewal of all legislative seats at each election support the decisiveness and reduce the resoluteness of policy-making. Conversely, non concurrent electoral cycles, staggered assembly elections, candidate-centered electoral formulas and an incongruence between the president’s and the parliament’s constituency support resolute, but indecisive policy-making (Shugart and Haggard 2001, 94-96).
Consensus versus Majoritarian Democracy

The distinction between majoritarian and consensus democracy expresses whether a government represents and acts in favor of the majority of the people or whether a government relies on and promotes the interests of as many people as possible (Lijphart 1984; 1999). Ideal type consensus democracy is defined by the following features: broad coalition governments, multi-party systems, proportional representation, strong bicameralism, corporatist interest representation, executive-legislative balance of power, federal and/or decentralized government, constitutional rigidity, judicial review and an independent central bank. Ideal type majoritarian democracy is characterized inter alia by a concentration of executive and legislative power, a majoritarian and disproportional system of elections, a unicameral parliament and a two-party system, a unitary and centralized government, and a constitutional flexibility.

In his study from 1999, Lijphart argues that consensus democracies perform clearly better than majoritarian democracies in ensuring, inter alia, women’s representation, income equality, high voter turnout and high democratic quality ratings. Furthermore, consensus democracies are also likely to have more generous welfare states and less punitive criminal justice systems, take more responsibility for the environment and provide more development assistance (Lijphart 1999, 301). He documents these performance patterns with statistical regression analyses and offers two explanations why consensus democracies have superior performance records: first, the inclusion of contending groups in the decision-making process facilitates civil peace in divided societies and, second, “[p]olicies supported by a broad consensus (...) are more likely to be carried out successfully and to remain on course than policies imposed by a “decisive” government against the wishes of important sectors of society.” (260)

Lijphart’s second explanation negates the existence of a trade-off between decisiveness and resoluteness or between reform commitment and civil society involvement. Rather, he assumes that sustainable policies and credible commitments require building a consensus about the aims of reforms in society. This process is better supported by an institutional environment of consensus democracy than by majoritarian institutions and rules. Lijphart’s causal logic is intuitively plausible but its explanatory claim is also quite far-reaching if we take into account the numerous institutional features of consensus (majoritarian) democracy, the large number of performance indicators, the large number of country cases and the variation of governance entailed by different combinations of these factors in reality.

Veto Players

Since reforms can be stalled by actors in key positions, a government’s scope of action depends on the extent to which it is confronted with veto powers due to the given configuration of the political system. A more abstract and general approach of comparative politics explains policy-making with the number, cohesion and location of veto players (Tsebelis 2002). Veto players are those institutional and partisan actors who have to agree on changes of the legislative status quo. Policy stability is higher and the winset of options replacing the status quo is smaller if (1) there is a higher number of veto players, (2) agenda setters (i.e. veto players capable of initiating a policy) have less power, (3) there is a larger ideological distance between veto players, and (4) veto players are more internally coherent.

The veto player theory coincides with our focus on governance capacity since it highlights the role of government as agenda-setter and the process quality of policy-making. However, the formal elegance of the theory leads to a loss of differentiation as our elements of governance capacity would have to be conceptualized as internal cohesion of veto players (optimum use of resources, reform commitment) or ideological distance between players (political resistance, consensus building). Furthermore, policy stability is a too abstract and formal notion of
governance, because it does not allow distinguishing between negative stability in the sense of policy inertia or stagnation and positive stability as the ability to stay course and act predictably.

To characterize and recap the relationship between types of political systems and elements of governance capacity, the following table lists causal effects that can be derived from the explanatory approaches presented here.

**Table 2: Political system configuration and governance capacity**

<table>
<thead>
<tr>
<th></th>
<th>Commitment</th>
<th>Effectiveness</th>
<th>Management</th>
<th>Consensus-building</th>
<th>International cooperation</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Semi-) presidential government</td>
<td>lower decisiveness, higher resoluteness</td>
<td>myopic ad hoc policies</td>
<td>lower decisiveness</td>
<td>non-integration of the party system, politicization</td>
<td>weak impact</td>
</tr>
<tr>
<td>Parliamentary government</td>
<td>higher decisiveness, potentially lower resoluteness</td>
<td>accountability</td>
<td>higher decisiveness and accountability</td>
<td>responsive government</td>
<td>weak impact</td>
</tr>
<tr>
<td>Consensus democracy</td>
<td>higher resoluteness, policy stability</td>
<td>more generous public services</td>
<td>accountability</td>
<td>inclusiveness</td>
<td>more empathy</td>
</tr>
<tr>
<td>Majoritarian democracy</td>
<td>higher decisiveness</td>
<td>less generous public services</td>
<td>flexibility</td>
<td>majority interest privileged</td>
<td>self-interested cooperation</td>
</tr>
<tr>
<td>Many veto players, small winset</td>
<td>more policy stability</td>
<td>more policy stability</td>
<td>more policy stability</td>
<td>more policy stability</td>
<td>more policy stability</td>
</tr>
<tr>
<td>Few veto players, large winset</td>
<td>less policy stability</td>
<td>less policy stability</td>
<td>less policy stability</td>
<td>less policy stability</td>
<td>less policy stability</td>
</tr>
</tbody>
</table>

Source: own compilation. Possible negative effects are marked in italics.

### 3. Executive authority

In this section we focus on the role of the executive for governance capacity, a focus that seems justified by the fact that governments are key actors in governance. Two broad lines of reasoning can be identified in studies of executive-society and intra-executive relations. The conventional view emphasizes the importance of executive authority, centralization, autonomy and power for policy reforms and effective governance. The alternative argumentation holds that executives should consult with social actors, build broad policy coalitions and that this embeddedness in society actually strengthens their capacity to govern. Most of the debate has been about the scope and appropriateness of each of the two basic positions.

Research on the political economy of democratic transitions in Latin America and East Asia, for example, suggests that centralized and unconstrained executive authority is required to initiate economic reforms because reformers need to overcome comparatively well-organized interests benefiting from the status quo (Haggard and Kaufman 1995). Successful reform policies require governments legitimized by clear political mandates and coherent, powerful change teams to implement the necessary measures properly (Williamson 1994). However, one has to distinguish between the launching and the consolidation of economic reform, with the latter requiring the balancing and control of executive authority through representative institutions, checks on executive discretion and the delegation of authority to independent professional agencies. These mechanisms are needed to broaden the social base of support for
reforms and to reduce policy uncertainty, elements of governance that are crucial for sustaining reform policies.

A similarly differentiated position has emerged from research on the role of cabinet government for development (Manning 1999). The authors distinguish two levels of tasks for governments: at the first level of aggregate spending, they must visibly restrain themselves from pursuing macroeconomic policies that lack credibility; at the second level of setting spending priorities within aggregate limits, they must restrain themselves from erratic policy reversals and from arbitrary decisions about allocations between sectors (Manning 1999, 28). Cabinets can provide effective mechanisms to fulfill second-level tasks, i.e. to prioritize policies and to protect against unplanned policy reversals or arbitrary allocations. “We need an insulated macroeconomic elite to stabilize the ship but we need a cabinet that keeps it afloat.” (Manning 1999, 37)

To define strategic priorities and use available resources efficiently, cabinets and ministries require procedures and institutions of coordination and for solving conflicts between different parts of the government machine. The governments of OECD countries operate different models of coordination and conflict resolution, depending on whether the prime minister / head of government has a strong or weak constitutional and political position or whether the given administrative and state culture frame coordination and conflict resolution as primarily political or administrative-legal tasks (Blondel and Müller-Rommel 1993; Peters, Rhodes, and Wright 2000). There is a lack of comparative studies that would allow to make empirically founded judgments as to whether and how different patterns of intra-executive relations affect governance capacity.

Based upon the existing empirical evidence, some authors argue that in transition countries powerful prime ministers and centers of government may better overcome the state socialist legacies of institutional fragmentation and integrate different sectors of government horizontally (Goetz and Wollmann 2001). Polycentric core executives tend to create multi-layered hierarchies and a horizontal differentiation of organizational units, hampering an effective intersectoral integration and coordination. Centralized executives are more likely to produce a coherent fiscal policy and to control the state budget effectively since their decisions depend on a smaller number of institutional veto gates (Haggard, Kaufman, and Shugart 2001). Conversely, multiparty coalition government and governments with a short average tenure have tended to produce large budget deficits (Roubini and Sachs 1989). This effect is usually explained with the fact that frequent elections and short tenures weaken governance capacity because they create incentives for politicians to satisfy short-term interests, to postpone costly policy reforms and to succumb to redistributive demands (cf. e.g. Lijphart 1984, 165). To put it differently, the higher the durability of cabinets, the higher appears the ability of executives to formulate strategic, long-term policies and to sustain a problem-solving policy style rather than adapting their policy-making to the political logic of the electoral cycle.

The most general arguments for strong executive authority rely on the success of developmental states. Strong states are needed to achieve modernization in backward countries with weak civil societies since they replace the lacking domestic entrepreneurial class (Gerschenkron 1962). East Asian economies were able to catch up with Western industrialized countries because they were led by activist states that channeled export revenues into education, research and development spending and coordinated the successive technological upgrading of production facilities (Rodrik 1997).
Based upon this line of reasoning, it has been claimed that these developmental states could successfully modernize because they combined internal coherence and external connectedness (Evans 1992; Evans 1995). Such an “embedded autonomy” has, firstly, prevented executives from being captured by particularist economic and political elites and from becoming predatory states consuming the country’s resources. In this perspective, governance capacity is less jeopardized by the losers of economic adjustment than by the winners of the first reform stage (Hellman 1998). Asset stripping enterprise insiders, commercial bankers profiting from distorted markets, local officials with monopoly rents and mafiosi can “stall the economy in a partial reform equilibrium that generates concentrated rents for themselves while imposing high costs on the rest of society.” (ibid.1998, 204-5) Institutional devices that weaken executive authority such as more frequent elections and shorter executive tenures contribute to improve competition among political actors and thus reduce the blockade power of vested interests.

This argument can be buttressed by the empirical observation that the formal powers of presidents or, in parliamentary systems, of prime ministers in Eastern Europe are inversely correlated with progress in economic reform (EBRD 1999). The more advanced transition countries of Eastern Europe are characterized by weaker executives and larger numbers of parties participating in government (Shugart/Carey 1992, 148-155; Lucky 1994; Hellman 1998). The alternation of governments with liberal and social democratic priorities has fostered learning and contributed to the stabilization of reforms (Orenstein 2001). Critics have challenged the statistical validity of this argument by claiming that the inverse correlation of executive power and reform progress applies only to advanced transition countries whereas in backward transition countries executive power is positively correlated with reform progress (Kitschelt 2001; Wiesenthal 2001, 221).

A second rationale for an “embedded autonomy” position is that only governments forced to engage in policy deliberation and to build broad coalitions can sustain unpopular reforms. „Institutional configurations that constrain executive authority are more likely to yield coherent formulation and implementation of economic reforms (...) executive capacity, understood here as the capacity to formulate and implement coherent reform programs, can be increased by limitations on the unilateral prerogatives of executive authority“(Bruszt and Stark 1998, 169, 188; cf. also Goodin 1996, 20). Such arrangements induce incumbents to construct alliances, thus broadening the societal basis of reforms. This argument views governance capacity as the result of institutional constraints that enable the concertation of policy.

### III. Conclusion

The paper has discussed the impact of environmental variables, features of the political system and executive authority on governance capacity and policy reforms. Given the growing body of knowledge on these impacts selectively covered by the paper, how can governance capacity be improved? The various lines of research and explanatory approaches reported in our paper seem to converge around a qualified advocacy of “enabling constraints” (Bruszt and Stark 1998). Limiting autonomous political discretion paradoxically seems to increase the capacity to implement sustainable and far-reaching reforms. Our inductive definition of governance capacity could be described as a fusion of democratic and technocratic elements, both normatively and conceptually. We explained this fusion by arguing that accountability, participation and consensus-building on the one hand, commitment, skilful and enlightened reform management on the other are functionally interrelated and can reinforce each other. Consequentially, the democratic and technocratic logic underlying our notion of governance can be seen as mutually enabling constraints.
Among the external determinants of governance capacity, an active civil society raises participation and consensus costs of political decisions but enables political elites to convey public interests among citizens so that citizens identify with public concerns. Foreign assistance improves governance capacity if it goes beyond the technocratic elements of governance and includes its democratic elements. But for such foreign aid to have an enabling effect, local policy ownership is required which in turn transforms donors into partners. The emerging normative framework of partnership functions as an enabling constraint for both parties. Parliamentary government facilitates reform commitment but presidential or semi-presidential systems may be equally decisive and perhaps more resolute in policy making. The aim of balancing decisiveness and resoluteness suggests designing enabling constraints. The superior policy performance of consensus democracies is explained by recurring to the procedural and institutional constraints enabling sustainable, “kinder, gentler” policies. Similarly, more veto players increase policy stability. Even those who advocate centralized executive authority and insulated macro-economic reform management agree that constraints on executive discretion and the co-optation of potential reform supporters may increase policy sustainability and reduce uncertainty.

Obviously, the views differ widely with regard to what constraints are and whether a constraint has an enabling or restricting effect. To arrive at more operative conclusions on the improvement of governance, we need to deal with enabling constraints in more detail. Drawing on our definition of governance capacity, the following table lists those institutional and political arrangements that facilitate each element of governance capacity by imposing specific constraints on the political leadership.

### Table 3: Governance capacity and enabling constraints

<table>
<thead>
<tr>
<th>Governance capacity</th>
<th>Key capacity problem</th>
<th>direct assistance strategy</th>
<th>Enabling constraint</th>
</tr>
</thead>
<tbody>
<tr>
<td>commit oneself to reforms and implement them even against political resistance</td>
<td>lack of political authority</td>
<td>increasing know-how and leadership competences</td>
<td>democratic procedures, rule of law, constitution, multi-party government</td>
</tr>
<tr>
<td>make optimum use of the available economic, cultural and human resources</td>
<td>excessive transaction costs of policy implement</td>
<td>improving planning and management efficiency</td>
<td>transparency of resource utilization, public accountability procedures, public scrutiny</td>
</tr>
<tr>
<td>manage reforms in a skilful, enlightened and accountable manner</td>
<td>insufficient learning capacity</td>
<td>training leading personnel</td>
<td>professional, merit-based civil service, executive accountability procedures, delegation to independent agencies</td>
</tr>
<tr>
<td>involve civil society and build a consensus about the reform aims in society</td>
<td>technocratic habits</td>
<td>promoting dialogue</td>
<td>empowering and institutionalizing intermediary actors in decision-making processes</td>
</tr>
<tr>
<td>cooperate with outside supporters and international organizations</td>
<td>foreign-led adjustment, no visible learning effect</td>
<td>self-commitment of the elite, policy ownership</td>
<td>partnership, integration, peer pressure</td>
</tr>
</tbody>
</table>

Improving governance capacity thus suggests a two-tiered strategy. Assistance programs aimed at increasing leadership skills, know-how and resources need to be complemented with a second-tier strategy to design and calibrate suitable enabling constraints.

(1) The commitment of reformers is frequently jeopardized by the fact that they do not have sufficient political authority within the government, political elite or society. Political adver-
saries challenge the legitimacy of their mandate, powerful actors contravene reform attempts or block reforms using their veto power, and citizens display apathy and indifference, having lost their confidence in the leadership. Faced with such a problem, an assistance strategy directly targeted at reformers should seek to improve knowledge and leadership capabilities. This can be done through appropriate training and advisory programs or through involving reformers in transnational consultation bodies and epistemic communities. These activities can improve the argumentative basis and organizational-technical endowment of reformers. Such a direct assistance strategy should be complemented by institutional mechanisms that restrict the discretion of a leadership. These mechanisms include procedures of democratic participation and judicial review, effective constitutional and legal limits to executive authority and a widening of the government’s political basis through the cooptation of several parties. They facilitate a procedural legitimation of policies and entail self-commitment possibilities for a political leadership, thus indirectly enhancing its political authority.

(2) The effective use of resources is usually constrained or impeded by the fact that reform-oriented governments, in order to implement reforms effectively, have to incur excessive costs in terms of side payments to veto players, corruption, slack or frictions. High transaction costs imply a loss of resources and may lead a government to prefer less effective but more easily enforceable policies. Direct assistance strategies aim at improving the efficiency of planning and management processes within an executive. For example, they could introduce mid-term financial planning cycles or integrate the risks of revenue losses or excess spending in the budget. To fight corruption, a direct strategy aims at a more effective prosecution and sanctioning of officeholders. Such strategies should be supported by the extension of enabling constraints. Rules facilitating a transparent use of budgetary means, for example, reduce the flexibility of the executive and individual ministries. At the same time, they increase the pressure on budgetary organs to use available resources effectively since their allocative decisions become visible and can be monitored. The expansion of intra-executive auditing and the strengthening of powers of auditing offices accountable to parliament have the same effect (Kaufmann 2003).

(3) A lack of political management often results from the fact that leading political actors loose their ability to learn, i.e. to revise their own, failing policies and to replace them by more promising policies. Policy-making is not only determined by a problem-solving orientations but by bargaining, confrontation and zero-sum games. A direct assistance strategy to address these problems aims at the training of leading personnel, enlarging their horizon of knowledge, fostering their cognitive competences and thus seeking to improve their learning ability. This strategy may be complemented by a strategy that strengthens the status of expert knowledge and attempts to increase the rationality of policy-making (Dror 2001). To achieve this purpose, professional rationality criteria should guide the recruitment and assessment of civil servants. If a civil service is based upon professional criteria and qualified staff, there is a greater prospect that the preparatory stages of political decision-making ensure a maximum of learning capacity and that leading civil servants may maintain factual or professional arguments against political considerations. Professional rationality is also supported by enhancing the institutional status of expert advisors, think tanks or by delegating sectoral decision-making powers to professionally legitimized institutions (eg. independent central banks). Such institutions contribute to increasing the cognitive openness of decision-making and thus the innovative capacity of policy-making.

(4) Technocratic habits are a key obstacle to consensus-building as they induce a political leadership to interpret the participation of non-governmental actors as a cost-intensive element reducing the rationality of decision-making. This does not necessarily entail the com-
plete refusal of a dialogue with civil society but may also be combined with pseudo-dialogues that carry legitimatory intentions but do not imply a real participation. An assistance strategy addressing the political elites primarily aims at increasing their willingness to enter into a dialogue. An example of such a strategy would be to demonstrate the benefits of a serious dialogue to elites by referring to models of good practice in other countries. However, this assistance strategy should be complemented by the involvement of intermediary actors in the process of decision-making. Opportunities for effective participation and consensus requirements constrain the technocratic power of a political leadership but reinforce the credibility and inclusiveness of consensus-building. This increases the sustainability of reform policies since the concerns of critics and adversaries have to be taken seriously. Thus they have less reason to change the direction of reforms once they form a government.

(5) A meaningful and productive international cooperation is frequently hampered by the practice of governments to demonstrate a cooperative posture on the level of symbolic gestures and declarations but to refrain from substantial behavioral changes. Legal and institutional modifications resemble a remaking of the façade whereas old patterns of relations and governance pathologies persist behind the façade. Among the deeper-seated causes of this problem is the elites’ lack of learning ability mentioned above. A direct strategy to address these problems seeks to make elites self-interested in reform aims and policies. To achieve such policy ownership, bi- and multilateral development agencies have involved domestic elites into the preparation of reform programs. The focus on policy ownership reflects the experience with the disincentives of assistance strategies relying on conditionality. It represents already an enabling constraint insofar as the government has to bind itself to a particular program according to which it is evaluated but which may also underpin its commitment to reform. Such responsibility-taking should be embedded in a credible partnership that obliges both donors and beneficiaries to take into account each other’s interests. Economic and political integration constitute an additional constraint as a durable, institutionalized context of international cooperation reduces incentives for as-if-measures and exposes a state to direct monitoring and assessment of other, principally equal states. Partnership and integration support complex learning and sustained behavioral change by testing the self-commitment of a participating government and by supporting its empathy.

Even those elements of governance capacity that already imply constraints for executive authority – the need to cooperate with external actors, involve non-governmental actors, and account for policies – can benefit from a second-tier strategy ensuring the effectiveness of first-tier constraints. The enabling constraints outlined here do not undermine the direct assistance to governance but constitute, as is argued here, a functionally necessary addition to assistance strategies directly targeting political leadership. Many Western activities supporting good governance already include many of those institutions and mechanisms that have been identified as constraints. Frequently, this occurs on the basis of broad and relatively general aims and vague, diffuse assumptions about the causal effects of instruments with respect to goals. However, the key importance of governance capacity for development and transformation requires studying and assessing the enabling effects of institutions and the enabling needs of political governance systematically and precisely.
BIBLIOGRAPHY


