Developmental States in the New Millennium: Concepts and Challenges for a New Aid Agenda

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The developmental state is back at the centre of the international policy debate. But policy-makers still have much to learn from the large research-based literature on the subject. In introducing a theme issue of DPR on this subject, this article provides an overview of three central topics: the relationship between the project of building or rebuilding effective states and the 'good governance' agenda; the role of the international aid community in stimulating or hindering state-building; and the search for a way forward which incorporates awareness of the variety of successful development models and of the role that aid inevitably plays in the incentive structure of state elites in poor developing countries.

1   Introduction

Two decades on from the recognition of good governance as one of the keys to development and poverty reduction, the developmental state is back at the centre of the international policy debate. Policy thinking shows an increasing willingness to abandon value-laden prescriptions about governance and to adopt approaches rooted in comparative history and evidence-based analytical theory. The concept of the developmental state serves as a marker of this trend. Although the language was hardly new even in the 1980s when the first flood of studies of East Asian industrialisation brought it into currency, the idea of the developmental state has enduring value as an anchor for discussions among researchers and policy-makers on how to bring evidence from history to bear on today's policy challenges.

The focus of these exchanges is how states can become more capable and more supportive of development and human security. The emphasis has shifted from determining the 'right' role for the state – a vital question in the 1990s (World Bank, 1997) – to questions about commitment and capacity. The immediate sources of this shift are clear enough. As the Commission for Africa acknowledged in its 2005 report, the way states function is increasingly seen as one of the most important factors affecting development in the poorest countries. At the same time, collapsed and fragile states imperil international peace and security, posing enormous challenges to current models of development co-operation. These observations provide a practical incentive to revisit what is known about state-building and the development of state capacity. Underlying the new interest, however, is a growing sense that the tools currently available to policy-makers interested in governance for economic, political and social

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development as well as security are not good enough. There is a need to return to the sources.

The sources are not insignificant. There are rich academic literatures on the role of the state in the development of the countries of East and South-East Asia; on the neopatrimonial or patronage-based states that prevail in much of the rest of the developing world, especially in Africa; and on failed and fragile states. However, their relevance to today's policy concerns has never been entirely clear. Relatively few attempts have been made to use them as building blocks for policy reflection, or to spell out how they might better inform current policies for developing countries. This theme issue is a contribution to filling this gap.[1]

A key premise of the collection is that states – and their political economies – matter for social and economic development. We follow the definition provided by Chesterman et al. (2005: 2) of the state as 'an abstract yet powerful notion that embraces a network of authoritative institutions that make and enforce top-level decisions throughout a territorially defined political entity'. This definition incorporates Mann's (1986) interest in the infrastructural power that enables the state to penetrate society and implement decisions, adding to the minimalist definition classically advanced by Max Weber, which focuses on (legitimate) control over territory. A defining characteristic of the 'modern' state in this tradition is that political power becomes progressively depersonalised and formalised. A central question in discussion of developmental states is how much and by what means prevailing governance systems need to change in the direction of so-called modern state forms in order to be effective in delivering development and security.

Among the contributions to this volume, there is general agreement that better and more effective states are needed if development is to succeed in the world's poorest countries. The disagreements focus on what exactly that entails, how the challenges are to be met and what the contribution of international actors and policies might be. Three issues are of particular concern. They are addressed in turn in this overview article.

One is the relationship between the project of building or rebuilding effective states and the 'good governance' agenda, including democracy and democratisation. After some further elaboration of the concept of the developmental state and why we believe it is worth revisiting, we explore some of the complexities of this relationship, including a discussion of the perennial question of whether developmental states have greater affinities with authoritarian or democratic political regimes. We argue that the developmental state agenda is both less and more demanding than the good governance agenda.

A second issue is the role of external actors. International thinking on states in developing countries has evolved in recent years, and it could be said to have become more friendly to efforts to build developmental states than even a few years ago. However, it is far from clear that on balance the international development business is a positive influence on state-building, or that aid donors in general know how to

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1. Most of the contributions were first presented at an ODI meeting series convened and organised by the issue editors in 2006 under the title '(Re-)building developmental states: from theory to practice', details of which can be accessed at http://www.odi.org.uk/speeches/states_06/index.html. Both the meeting series and the preparation of this theme issue were supported by DFID. The views expressed here are, however, those of the authors and are not to be attributed to DFID.

contribute to it in useful ways. We look at the shifting donor thinking on the role of the state, and assess current efforts at making the aid system more effective in supporting key aspects of state construction under the banner of the Paris Declaration.

The third issue is the way forward. We take the view that a new interpretation of the developmental state (in particular one that takes into account the various contextual factors that encourage or impede its emergence and evolution) could serve as a powerful vision for reconfiguring current development and aid policies. Within this context, more emphasis may need to be placed on the political character of state-building, and the impossibility of approaching it with merely technocratic tools. The political system and its political-economy underpinnings are crucial in shaping commitment to development, as well as the reformist capabilities that are required to make change happen.

The contributions to this theme issue point to many difficult challenges. While developmental states are desirable, they are impossible to 'manufacture' and not susceptible to any of the more obvious forms of promotion. Domestic political-economy factors – neopatrimonial structures, clientelism and populism – as well as external influences – from fragmented aid to bribery by foreign companies – militate against their emergence in today's developing countries. Nonetheless, developmental states have emerged, in the recent as well as the more distant past, in different places and under various circumstances. The lessons of these experiences need to be learnt before we reach firm conclusions on where and how developmental states may emerge in the new millennium.

2 What are developmental states and why do they matter?

What do we mean by the developmental state? And why do we believe that this concept contributes something useful to contemporary thinking on development policy?

Drawing on the work of Johnson (1982), Deyo (1987) and Evans (1995) among others, we understand a developmental state to exist when the state possesses the vision, leadership and capacity to bring about a positive transformation of society within a condensed period of time. To be judged developmental, a state does not need to be in control of everything and successful in all spheres. A transformation that is positive overall may be accompanied by a range of negative consequences, such as major environmental damage or greater social tension, which become problems that society and the state have to address in a subsequent phase.

The transformation can also take various forms. In the classic East Asian examples, it was aimed at speeding up growth, while at the same time enhancing opportunities to participate in the modern economy – most commonly through the expansion of public services such as education, health care and agricultural extension. The developmental state was associated with rapid processes of industrialisation and/or the adoption of new technologies – that is, moving into higher value-added activities relative to the starting point. Typically, there was a shift from subsistence agriculture to more commercial, export-oriented farming, or to textile processing, or to tourism, or a mixture of these.

Clearly, not all social transformations are actively promoted by developmental states. There are many instances of private-sector-led growth in which the state's role has been quite limited. In addition, not all attempts at state-led transformations succeed.

In fact, in developing countries, ambitious attempts at state-led transformation have commonly met with failure, often with far-reaching negative consequences (Scott, 1998; Lockwood, 2005). Moreover, the developmental orientation of a state is not a permanent condition but rather a dynamic feature with a limited time horizon. Germany and Japan, for example, had developmental states at critical junctures in their history which triggered considerable economic and social transformations, while also storing up unresolved issues for the future (Moore, 1966). Today the challenges are different and those countries' states would no longer be considered developmental. Nor need the developmental condition be even across the entire state: a state may be characterised by the co-existence of sectors or institutional areas that have a clear developmental orientation with areas where significant anti-developmental factors are in play.

Developmental states have been the subject of research and analysis at various points in history. The roots of the idea of a developmental state reach back at least to List (1909) and Gerschenkron (1962), whose concern was the role of the state in rapid 'late' industrialisation in continental Europe. The most recent experiences with successful transformations generated by developmental states have been those in East Asia between the 1960s and 1980s. Over a period of 30 years, a set of city-states and countries including Hong Kong, Singapore, South Korea and Taiwan underwent rapid economic growth and radical socio-economic change, moving from being poor agrarian societies in the 1960s to producers of high technology and high value-added goods by the 1990s (Fritz and Rocha Menocal, 2006). These so-called 'Asian tigers' have generated a considerable literature (Evans, 1995; World Bank, 1993; Haggard, 1990; Kohli, 2004). Since the 1980s, developmental states in China and Vietnam have also overseen a remarkable process of social transformation. More limited examples of state-led development can be found in countries such as Brazil, India and Mauritius (Evans, 1996; Grindle, 1996; Rocha Menocal, 2004).

As this illustrates, we can with hindsight quite easily identify developmental states; that is, once the transformative outcomes have become visible. However, it is less easy to specify *ex ante* the key characteristics. Developmental states are marked by a combination of capacities, visions, norms and/or ideologies. They are not associated with specific policies; at different times and in different places, very different policies have ushered in social and economic transformations. At most, as Woo-Cummings (1999: 1-2) explains, the developmental state is 'neither socialist … nor free-market … but something different: the plan-rational capitalist developmental state … [which links] interventionism with rapid economic growth'.

A common factor among developmental states appears to be a committed leadership that is embedded in the 'right' context of demands. Developmental states are usually characterised by a leadership which is strongly committed to developmental goals, and which places national development ahead of personal enrichment and/or short-term political gains (Ghani et al., 2005; Leftwich, 2000; Rotberg, 2004). Historically, many of the examples of the emergence of such a leadership have been associated with a severe crisis (the perceived threat that Japan posed to South Korea, for example), and the response that political elites have designed to overcome it (Lange and Rueschemeyer, 2005; Herbst, 2000). On the other hand, a degree of political stability is usually a precondition for such capacities to be sustained and to flourish. Aspects of the domestic context are important as well: demands arising from society, and in particular

from wider elite groups, as well as international factors, may help or hinder the efforts of a national leadership in pursuing developmental goals.

Many of the original leaders in post-colonial developing countries had a developmental vision; Julius Nyerere of Tanzania and Kwame Nkrumah of Ghana are perhaps the best-known African examples. Patrice Lumumba had the potential to become a visionary leader in the Congo. However, wider conditions were disadvantageous. Domestically, there were strong clientelist demands for spoils, and tribal rivalries that needed to be managed. The international context of the Cold War was particularly unfavourable, providing the backdrop to the elimination of potentially good leaders (for example, the murder of Lumumba), as well as the imposition or tolerance of outrageously bad ones.

The importance of the structure of domestic demands is reflected in a fundamental characteristic of the developmental state: what Evans (1995) calls its 'embedded autonomy'. According to Evans, the developmental state is autonomous insofar as it has a rationalised bureaucracy characterised by meritocracy and long-term career prospects, traits that make civil servants more professional and detached from powerful rent-seeking groups. On the other hand, the state cannot be too insulated from society without running the risk of becoming excessively detached, unable to appreciate and act upon societal needs. Thus, it must also be embedded in society, that is, '[connected to] a concrete set of social ties that binds the state to society and provides institutionalized channels for the continual negotiation and renegotiation of goals and policies' (Evans, 1995: 12).

State capacities generally cannot increase if a developmental commitment among the state elite is missing or insufficiently resolute. This may be the main reason why so much donor-sponsored capacity-building has proven ineffective. However, commitment at the elite level is insufficient on its own. It is usually necessary for the elite to expound a vision that connects the state and society in a mutually binding way, through some form of shared 'national project'. Another of the underlying requirements of the developmental state is thus the creation of a nation-wide public (Ghani et al., 2005). A nation-wide public need not be rooted in a unified sense of 'nation' based on cultural and linguistic unity, but may well take the form of a more civic identity (as in the case of the US). The important issue is that all citizens see themselves as Nigerians or Tanzanians as much as or more than as Igbo or Nyamwezi. Post-independence leaders in sub-Saharan Africa often understood this challenge, and their drive to expand primary education was in good part aimed at creating a national public consciousness (Turner, 1971; Deutsch, 1953; Connor, 1972).

Many African countries experienced some sort of big push for development during the early independence years. However, subsequently governance deteriorated too sharply for this to be followed through. The deterioration was due to a combination of domestic and external factors. On the one hand, clientelistic and/or neopatrimonial social structures strangled the potential of promising economic sectors and undermined attempts at state-led industrialisation. Efforts to spread education stalled, *inter alia* when increasingly authoritarian leaders found that those with some education, but lacking good employment opportunities (due to the clientelistic throttling of the economy), become politically dangerous. National armies discredited themselves through bloody coups and internal divisions along ethnic lines. The project of national

integration failed. Instances of civil and inter-state war became increasingly widespread, with multiple negative spill-over effects for neighbouring countries. External interventions driven by a Cold-War logic exacerbated domestic conflict and further undermined any developmental orientation of the state. Political instability and economic management perverted by neopatrimonialism resulted in severe fiscal and debt crises. The structural adjustment period of the 1980s and 1990s brought the *coup de grâce* to any remnants of a 'national project'.

Today, the poorer developing countries are again at a turning point. The fiscal and debt crises have been resolved for many, even if much remains to be done. Abusive and anti-developmental dictators are no longer supported by external actors for purely ideological reasons. Success stories of developmental states in Asia provide powerful symbols, showing that poor countries can become considerably wealthier in a generation or two. Turning Malawi or Kenya, or Bangladesh or Nepal, into prosperous, well-governed countries may remain a daunting challenge, but the vision of such a trajectory is potentially a powerful one, which may indeed have a broader appeal and greater traction than one focused narrowly on 'poverty reduction'. However, for this to become a real option, several things have to fall into place. On the one hand, domestic constraints – neopatrimonialism and the absence of a national public – need to be reduced. On the other hand, the way aid supports institutions and policies in developing countries needs to improve. In assessing whether such changes are likely or possible, we therefore need to examine two sets of relationships more closely: those between the developmental state and the good governance agenda, including democratisation, and those between the international aid system and states in the developing world.

3   Developmental states, democracy and the good governance agenda

A fundamental question is whether the developmental state is compatible with a state that respects human rights and is democratically governed. This is a matter which Vicky Randall, in particular, explores in her contribution to this issue. Historically, many developmental states have been based on various forms of non-democratic political regimes: monarchies in nineteenth-century Europe, capitalist dictatorships in South Korea and Taiwan, and communist authoritarian regimes in contemporary China and Vietnam. However, the fact that it is possible to name a good number of authoritarian developmental states does not settle the issue.

It certainly does not imply that all authoritarian regimes are developmental. It also does not mean that states need to be authoritarian in order to be developmental. As mentioned earlier, there have been many examples of 'anti'-developmental or non-developmental authoritarian states in Africa, Asia, and Latin America. On the other hand, Brazil, India and South Africa, as well as Mauritius and Botswana, are examples attesting that democratisation and an increase in the developmental orientation of the state can occur simultaneously.

However, there is also little doubt that building developmental states in a democratic context does bring with it particular challenges which for the most part

Asian and other historic success stories did not face.[2] For one thing, democracy has an inherent tendency to disperse power and slow down decision-making processes, and it also makes the state less autonomous and less insulated from societal demands.[3] In addition, a majority of developing countries that have experienced a democratisation process beginning in the 1980s find themselves 'stuck' in an unfinished transition. In these 'hybrid' regimes (combining traits of authoritarianism and democracy), political leaders confront increasing pressures to deliver but state capacity remains limited and accountability mechanisms weak. This combination can lead to increased citizen disenchantment and the further deinstitutionalisation of democratic structures (Fritz and Rocha Menocal, 2006; Rakner et al., 2007), while development goals remain elusive.

Looking beyond human rights and democracy, what is the relationship between the 'developmental state' and the wider 'good governance' agenda that has become so central to development policy thinking and practice today? Donor emphasis on the importance of 'governance' – or the way public power is exercised – emerged in the 1990s from a growing concern about the detrimental impact of state capture, rent-seeking and weak accountability on state capacity, government institutions and development effectiveness. More recently, the 'good governance' agenda has taken centre-stage and generated a wave of policy pronouncements within the international assistance community (2006: EC Communication on *Governance in the European Consensus on Development*; 2006: DFID White Paper 3: *Making Governance Work for the Poor*; 2007: World Bank, *Strategy on Governance and Anti-Corruption*; and many others).[4]

As we have argued elsewhere (Fritz and Rocha Menocal, 2006), the developmental state and the good governance agendas overlap in important respects, but are nonetheless distinct. The emphasis of the developmental state paradigm is on the emergence of a shared project and on results. Consequently, it tends to stress issues related to state capacity and achievements (or outcomes). The good governance agenda, on the other hand, is concerned with rules, processes and standards in specific institutions. Both concepts have an important place in policy thinking for the new millennium. The good governance agenda contains a set of norms and principles (such as accountability and respect for human rights) which provide minimum standards to

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2. Over time, however, East Asian developmental states ended up unwittingly promoting the demise of authoritarianism (Evans, 1995): having successfully nurtured strong business and working classes through their policies, these then have turned upon the state to demand greater political freedoms and, ultimately, democracy. Eventually, in most of these countries civil and political liberties were established peacefully.

3. A key factor is the way power is exercised and decisions made. In the case of authoritarian developmental states, power tends to be centralised in the hands of a few key actors and/or institutions, enabling political leaders to make and implement decisions (especially 'difficult' ones that may be opposed by certain segments of the population) more quickly. One of the characteristics of a democratic system, in contrast, is the diffusion of power among various sets of actors and institutions both inside and outside the government, which inevitably slows down the decision-making process, and makes it more difficult to take decisions that hurt important constituencies. This can be somewhat eased by constitutional arrangements. For example, in the UK power is considerably more concentrated in the hands of the Prime Minister than in Germany, which has a federal constitution and a more collegially structured cabinet.

4. http://www.worldbank.org/html/extdr/comments/governancefeedback/gacpaper-03212007.pdf;
http://ec.europa.eu/development/Geographical/europe-cares/africa/docs/COM(2006)421_EN.pdf;
DFID White Paper 3 – see: http://www.dfid.gov.uk/wp2006/

which states should be held, so that practices do not fall below minimum standards. At the same time, the new emphasis being placed on states as the seat of governance at country level has to be welcomed, as it focuses attention on actual experience in the transformation of economies and societies.

An important link between the two agendas is the concept of 'good enough governance', originally coined by Merilee Grindle and explored further in her contribution to this collection. The 'good enough governance' agenda emphasises the *minimal* conditions of improved governance that are necessary to enable further political, social and economic development. Compared with the good governance agenda, it is less normative and more 'situational' and pragmatic. It is less concerned with setting general (often idealised) benchmarks of governance. It directs attention instead to the next steps to be taken, given the current state of affairs and the political opportunity structure in a country. The 'good enough' governance concept thus bridges key concerns of both the developmental state agenda (achieving results on social progress) and the good governance agenda (the development of fair and humane rules of the game). Table 1 compares the three perspectives.

A related, more economics-oriented view is that of Mushtaq Khan (2006), who argues that, for low-income countries, the 'growth-enhancing elements' of governance may initially be more important than the 'market-enhancing' ones. Khan suggests that, in particular, political stability and state capacity are key 'growth-enhancing' components of governance, while complex legal rules and the enforcement mechanisms needed to implement them (lawyers highly trained in complex economic matters; effective court and penal systems) are too costly for very poor countries. He also argues that some fluidity in property rights may be good – not for individuals, but for societies overall – as it can facilitate the shift of assets such as land to more productive uses.

In some respects, the developmental state agenda is less demanding than the good governance one, while in others it may be more so. It is *less demanding* in that substantial pockets of poor governance may continue to exist (a degree of corruption, some unfair rules, etc.) so long as governance is good enough to achieve results. On the other hand, the developmental state concept is *more demanding* in that, if the state is to play a substantial role in the development effort, it must not be undermined by social pressures, but be capable of developing policies, taking decisions and implementing, monitoring and adjusting them.

Thus, setting relatively fair rules of the game and letting the private sector do the rest (the 'minimalist' good governance agenda) is not enough for a developmental state. The state must be able to be pro-active without making major errors (for example, market interventions that destroy investor incentives). It must be capable of planning and building a road without the bulk of the funds being creamed off in kick-backs, or the routing being decided on a purely political basis. At the same time, and today more than ever, the state cannot expect (or be expected) to do everything; hence it needs to be able to build a productive relationship with the private sector and other relevant national and international actors.

The articles in this theme issue discuss the challenges of moving in the direction of a 'well-enough governed' and development-promoting state from several key

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

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

Source: Fritz and Rocha Menocal (2006).

perspectives. Diana Cammack emphasises the inevitably political character of state-building and considers the implications of the persistence of deeply entrenched neopatrimonial structures in the poorest countries. Vicky Randall examines the roles of political parties, showing how these serve first and foremost the interests of powerful cliques, thus militating against the creation of a developmental state as well as against pursuing a serious agenda for improved governance. Nancy Birdsall explores the 'weak institutions trap' that many poor countries are caught in, and argues that aid has to become better at supporting, and not harming, those groups in society with the potential to demand and promote a change in how state institutions operate. While domestic actors matter most for bringing about or failing to construct developmental states, the external dimension is important, and can have powerful positive as well as negative impacts, especially in very poor, aid-dependent countries.

4   The evolution of donor thinking on the role of the state

The role of the state in promoting economic growth and social progress in the developing world has been a subject of contestation among international development experts for the past 50 years. In the 1960s, donors assumed that states in the developing world could act as engines of development and therefore could be funded to enable investments and generate growth. However, these presumed developmental states increasingly failed to deliver, turning variously into oppressive and/or rent-seeking regimes. In reaction to the accumulation of international economic crises and a history of inefficient state intervention in the economy in Africa, Latin America and Eastern Europe, the international community made a radical shift in the 1980s and 1990s towards a market-oriented model of economic development.

As Albert Hirschman (1981) put it, the backlash against state-led development was so thorough that the state 'was … charged with intellectual responsibility for whatever had gone wrong'. Led by the IMF and the World Bank, the international co-operation community embraced a set of neo-liberal economic policies that converged in what came to be known as the Washington Consensus (Williamson, 1990). At the core of this thinking was an insistence that aid-recipient countries adopt structural adjustment programmes designed to reduce the size and reach of the state. Instead, they should rely on the market as the most effective mechanism for allocating resources and promoting economic growth. Key recommendations included eliminating government controls, promoting trade liberalisation and fostering a greater role for the private sector in the economy. Donors also promoted reforms seeking to reduce the number of civil servants, many of whom had not been hired on any kind of meritocratic basis. As expressed in the World Bank's 1991 *World Development Report* (1991: 9), government intervention should be used sparingly and only where most needed. 'Put simply, governments need to do less in those areas where markets work, or can be made to work, reasonably well.'

This turn 'against the state' had a number of unexpected consequences, however. One of the key prescriptions advocated by the international community was to bring public wage bills under control. However, in general the way this was done was not by 'meritocratic weeding' of the civil service, but rather by letting salaries erode through inflation; governments were thus able to evade possible domestic conflict while fulfilling international demands. But the result was an even less professional and more

poorly performing public sector, with increasingly underpaid and unmotivated staff. Furthermore, as assistance from both West and East became more scarce with the ebbing of the Cold War, the availability of funds to 'buy' political stability began to dry up. As a consequence of these changes, state fragility increasingly became a problem among low-income countries.

Since the mid-1990s, another shift in understanding the role of the state has become perceptible. There has been a growing awareness among development practitioners as well as academics that the orientation and effectiveness of the state are the critical variables explaining why some countries succeed whereas others fail in meeting development goals. This new thinking is based in large part on the recognition that, as described here, there has been a very different experience of state-led development in a number of Asian countries, especially in East Asia. Tellingly, the 1997 *World Development Report* was dedicated to 'rethinking the state', reaffirming the position that 'the state is central to economic and social development'. More recently, the Commission for Africa (2005) also highlighted this thinking, identifying state capacity and effectiveness as a key bottleneck in Africa's ability to meet the Millennium Development Goals (MDGs) (see Fritz and Rocha Menocal, 2006). Alice Sindzingre explores some of these points in her article, focusing on what the Asian experience implies for states in sub-Saharan Africa today with particular reference to the crucial issue of tax systems.

Thus, the new thinking is based on a combination of three factors. First, the developmental success of East Asia (and more recently that of the East European transition countries, as well as Brazil and India) has served to highlight the fact that even market-based economies require functioning, capable states in order to operate well and to grow (Amsden, 1989; Fritz, 2007). Secondly, the international community became increasingly concerned about deeply malfunctioning and fragile states in the 1990s – from Haiti to Sierra Leone to Afghanistan. Thirdly, the international community has come (once again) to expect that states meet the basic needs of their populations and deliver essential social services. The 1997 *World Development Report* defines even 'minimalist state functions' as including public health and anti-poverty programmes (World Bank, 1997: 27).

The emergence of Poverty Reduction Strategy Papers (PRSPs) and the MDGs since 2000 has strengthened the expectation that the state will ensure universal basic health and education services, even if it is not regarded as the sole provider or stakeholder in drafting a national development strategy. Moreover, PRSPs have effectively reintroduced state-co-ordinated planning processes. However, while the thinking about states has clearly evolved, no firm new consensus has yet emerged. States have come to be expected to perform more functions, including leading on aid co-ordination, but more focused reflection on how to promote development-oriented, capable states able to fulfill these functions is only just (re)emerging as a top priority within the development community.

5   The role, aims and shortcomings of external aid

One of the crucial questions that we seek to address here is how the international sphere – and aid policies and activities specifically – interacts with developing countries to

foster the building of more capable developmental states.[5] Has international assistance contributed to the emergence and strengthening of such states, and what lessons can be drawn from these efforts in order to make future donor practice more effective? Nancy Birdsall's and Jeremy Armon's articles explore these issues from different perspectives. Here, we set the scene by looking at some key structural features of the international aid system and the Paris Declaration as a recent central initiative and process.

Aid has contributed to promoting capable developmental states in some countries, but overall the record is disappointing, even for the period since the end of the Cold War when more donors began to direct their programmes towards more purely developmental objectives. Aid, and the various modalities through which it is provided, can generate negative or perverse incentives and unintended consequences for the development of capable, well governed, effective and accountable states.

On the other hand, external aid played a positive role in many of the East Asian success stories discussed earlier. While much of the impetus for these successful transformations came from within, aid was also an important contributing factor. In particular, both South Korea and Taiwan received substantial amounts of aid from the 1950s to the 1970s.

In both cases, the US was by far the most dominant donor (Knack and Rahman, 2004), considering the region of essential strategic importance in the fight against communism. This was a factor giving coherence to the aid effort, a quality that, as will be discussed later, has been sorely missing in more recent experiences. The fact that the aid provided was strongly driven by foreign policy and geopolitical concerns may also have contributed to a positive interaction between state-led development and external assistance by harmonising donor (namely, US) priorities to generate successful outcomes. In addition, in both cases, the interests of the US and of local technocrats were aligned, thus enabling them to build an alliance in pursuit of certain fundamental reforms (land reform, moving from import-substitution industrialisation to export-led growth) (Haggard, 1990). As Temple (1999: 152) has argued, 'US foreign aid was a key ingredient in strengthening both state bureaucrats and the national econom[y]'. The experience of East Asia thus indicates that, on the one hand, state-led development is possible as a transformative model, and, on the other, external development aid can play a positive role in that process.

Another, more recent, example of this is offered by contemporary Vietnam. Many aspects of the Vietnamese political system are problematic; among other things, it has a highly authoritarian regime and significant levels of corruption. On the other hand, Vietnam has been able to make substantial progress in the area of (socio-economic) development. Within a short period of time, it has developed a state that is regarded as reasonably efficient and that has produced a solid track record in tackling poverty. Since the 1990s, the economy has grown at rates averaging more than 7% per year.

Vietnam has also become one of the 'darlings' of the international donor community.[6] But, unlike many other developing countries, it has managed to build a strong capacity to manage and exert considerable leadership in its relationships with donors (Rocha Menocal and Mulley, 2006). Donor experiences with Vietnam reflect the

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5. This discussion is largely drawn from Fritz and Rocha Menocal (2006).
6. There are 25+ bilateral agencies and 15 multilateral organisations present in Vietnam.

fact that the international community places considerable value in engaging with states that can be considered 'developmental'. For one thing, their aims and those of donors can be closely aligned: achieving social and economic transformation in a condensed timeframe. However, while a 'developmental state' may be the perfect environment for making aid 'work', we still know much less about how aid may contribute to making states 'work' in the first place.

International debates recognise various weaknesses in how external aid interacts with states. The 'Paris diagnosis' underpinning the Paris Declaration on Aid Effectiveness (PD) represents an unprecedented effort to rein in the fragmentation that characterises development aid today and to make the aid system better at supporting country-led development as well as at helping capable states to emerge. Signed in 2005 by 61 bilateral and multilateral donors and 56 aid-recipient countries (with 14 civil society organisations acting as observers), the Declaration embodies a new paradigm of 'effective aid' founded on a discourse of country-led partnership and co-responsibility. The donor community and partner countries made interdependent commitments to contribute to the shared aim of providing and using aid more effectively. In particular, signatories made a commitment to reform the way development assistance is currently delivered in three broad areas: recipient-country 'ownership' of the development agenda; donor alignment with the priorities and goals set by partner countries and increased reliance on national administrative systems (including more programmatic assistance); and more co-ordinated, streamlined and harmonised actions among multiple donors. Mutual accountability and an emphasis on management for results are embraced as two cross-cutting principles, as illustrated by Figure 1.

Figure 1: The Paris framework
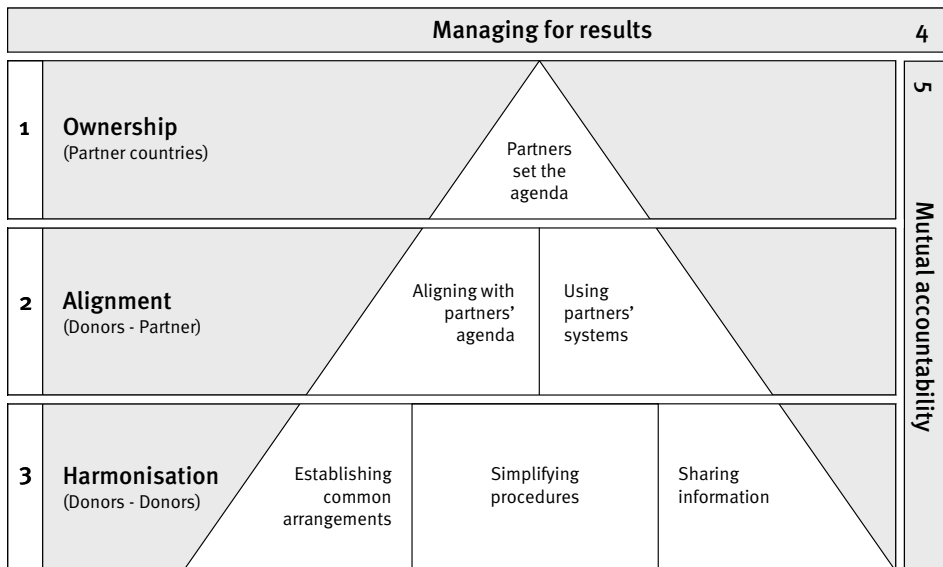
Source: OECD Working Party on Aid Effectiveness.

The Paris Declaration aims to roll back some of the ways in which aid has come to affect states negatively in the developing world. A central issue in this regard is the remarkable fragmentation of the international aid system (with not only multiple donors, but also multiple implementing agents). To give an example, more often than not public financial-management reforms are promoted, financed and managed by one set of donors, while decentralisation and the shaping of intragovernmental fiscal relations are managed and advised on by a different set, who may hold quite different views with regard to crucial questions such as the desirable degree of centralisation of power and responsibilities. Unless a developing-country government already has the capacity and will to take control of these agendas, as Vietnam has done, development assistance can actually prove to be part of the problem in addressing state capacity and not part of the solution. The PD has brought very useful self-reflection and monitoring efforts towards the goal of making aid more effective; but progress towards real substantive change remains slow.[7]

On the other hand, state-building poses challenges that, given its nature, the Paris Declaration cannot sufficiently address. There are, to begin with, significant gaps in knowledge and practice about the role of the state in development, ranging from how to assist the development of state capacity to how to improve the quality of governance. A second challenge is the 'country ownership' of the development agenda which is the pinnacle of the Paris pyramid but is absent or highly problematic in many places. A third challenge arises from the fact that donors are still reluctant to see themselves as actors, rather than neutral arbiters, in the political economy of policy choice. A fourth challenge, which may be the most fundamental, goes back to the rationale for this theme issue: whether the 'post-Washington Consensus', with its emphasis on the MDGs and good governance, has fundamental *lacunae* with regard to the role of the state in development.

As to the first challenge, once again more aid has been aimed at (re-)building the capacity of states in developing countries since the mid- to late 1990s. While the main focus has been on delivering services (health and education, water and sanitation, etc.), substantial resources have also been devoted to the reform of core functions of the state – the civil service, public financial management and wider public administration. More than $4 billion of aid was spent on 'improving government administration' in 2005, according to the OECD's aid database.[8] However, a general perception is that such 'public-sector reforms', as well as capacity-building efforts more generally, have fallen short of expectations (World Bank, 2005; 2006; ADB, 2005; European Commission, 2006).[9]

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7. A Baseline Survey to track progress to date on the Paris indicators has recently been completed. For the results see: http://www.oecd.org/department/0,2688,en_2649_15577209_1_1_1_1_1,00.html. The findings suggest that much progress still needs to be made.
8. See Dickinson (2007); based on the OECD's Creditor Reporting System.
9. The World Bank is currently undertaking several major evaluations on various aspects of public-sector reform (civil service, anti-corruption, public financial management; decentralisation; and judiciary reform). While these are focused on World Bank assistance only, they have the potential to open up and stimulate debate among the aid community more widely. See http://www.worldbank.org/oed/ongoing_evaluations.html

At least in part, this seems to be due to excessively standardised and insufficiently innovative and tailored approaches. For example, while some innovative thinking has gone into the reform of public financial management and into decentralisation, fresh perspectives on civil-service and core public-administration reform have been particularly scarce in recent years – especially in terms of thinking beyond the fashions of the New Public Management, which originated in and was primarily designed to meet the reform needs of highly developed countries.[10] Furthermore, as acknowledged in an ADB (2005) review, actual resources committed to implementing ambitious strategies for public-sector reform/governance and anti-corruption have often remained insufficient within donor agencies. As an EC (2006) review has found, there can be significant gaps between policy goals and actual tools for implementing those goals on the ground (including staff awareness of the evolving policy discourse).

The second challenge is that the Paris Declaration's goal of promoting country ownership is far from straightforward. The expectation is that national development strategies will provide a strategic policy framework oriented towards results that donors can support. What the Declaration does not address, however, is *how* greater ownership of a development agenda is to be achieved. This challenge in many ways surpasses the Paris framework, and cannot be addressed without recognising the inherently political nature of the concept of ownership. Genuine 'country ownership', in PD terms, involves having national development strategies that are not simply condensations of government priorities and objectives but also incorporate the views and needs of other relevant national social actors. The quality of government institutions and the capacity of the state are key to the attainability of this vision. What is at stake is thus the degree to which domestic political processes are capable of creating more legitimate, representative and inclusive, as well as more effective, state institutions (Booth et al., 2006; Fritz and Rocha Menocal, 2006).

Where elites lack a political commitment to development, they will not truly own a national development strategy, and other stakeholders may not be able to do so either in such a context. A PRSP unit of some kind may be created and asked to produce a national development strategy. But that will be done simply in order to access aid funds and will be unlikely to constitute a serious basis for government policies and actions. Thus, an effort such as the Paris Declaration can improve how donors interact with developing-country governments and other stakeholders; but it cannot offer any fundamental incentives for change at the country level (nor should it be expected to do so).

The third challenge is the technocratic approach to development that is so dominant among donors. Such an approach is valid in many areas, but too often it has led to a lack of awareness of the potential unintended consequences of donor interventions on the institutional dynamics of developing countries. Donors have often been unduly surprised by the less than positive outcomes that their interventions have produced. Examples include privatisation initiatives degenerating into 'piratisation', the

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10. Decentralisation reforms have received some attention. The findings thus far suggest that they have often not worked in terms of creating viable systems of multi-level governance and greater accountability, or of generating better poverty reduction outcomes (see among others Rocha Menocal (2005) and Cammack et al. (forthcoming)). However, findings have not yet been digested to produce systematic implications for aid policy.

tendency of aid to fuel corruption where it is perceived as a 'windfall', and tax increases in the domestic arena as a result of a reduction of taxes on trade in the context of economic liberalisation (as discussed by Sindzingre in her contribution to this volume). Perverse effects can also occur at the macro level, if political trends are misunderstood. Large amounts of aid – and in particular aid provided through modalities preferable from a harmonisation and alignment perspective, such as general budget support – have been disbursed to some incumbent regimes even as their commitment to development was visibly waning (Tangri and Mwenda, 2006).

One conclusion drawn by many from the problems associated with a technocratic approach is that donors ought to become more explicitly political in their work. However, what this means and how it can and should be put into practice remains an open and challenging question, as Jeremy Armon suggests in his contribution reflecting on the evolution of DFID's thinking on the issue.

Fourthly, there is growing concern within the international community not only about 'how to do things' (the Paris Declaration falls into this category), but also about 'what to do'. As Mushtaq Khan (2006), as well as Birdsall and Grindle (this volume) have emphasised, there is considerable uncertainty over what constitutes a set of 'good institutions' for a country at low levels of development. Donors have tended to act as if they had found a conclusive answer, while the research debate remains far from definitive and, if anything, has raised more doubts and questions than it has answered (Rodrik, 2004; Khan and Sundaram, 2000; Chang, 2002).[11]

As Grindle points out in this volume, the ambiguities that exist in the research on development issues are often discarded when these are translated into policy documents such as White Papers and aid strategies. The need for 'clear' and simplified messages within the aid-policy world and inside individual aid bureaucracies can often lead to a transformation of inconclusive research findings into black-and-white policy 'truths'. This in turn can reduce the ability of the aid community to support the development of states in flexible and pragmatic ways.

Furthermore, donors are still highly cautious about the idea that there could be a rationale for states to adopt a more direct and pro-active role (again) in promoting economic development, and hence have opted for a more limited view of the state. Insisting on a regulatory role is still very much the accepted principle, even if there are many problems with making such a model work in developing countries, as Khan (2006) and others have pointed out. Second-generation PRSPs – which are in effect development strategies jointly owned by donors and recipient governments – are making small steps in this direction by putting greater emphasis on the productive sectors. However, as Cromwell et al. (2005: v-vi) find in a study on PRSPs and rural productive sectors: '(i) there is little consensus over paths to pro-poor economic growth

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11. While considering similar evidence, the research community thus far draws different conclusions. Khan (2006), in particular, has argued against a strong focus on 'property rights' since he believes that the reallocation of property (including reallocation outside a strict 'rule of law') is a necessary element of a developmental transformation. Birdsall, on the other hand, does see property rights as a contributing factor to economic take-off (while acknowledging that these rights may take unorthodox forms, such as being built on trust rather than legally enforceable titles). Both might agree that having courts that are able to adjudicate disputes fairly and impartially is desirable even in poor countries, but would dispute the range of issues that can be handled by the legal system at very early stages of development.

– both internationally and at country levels; [and] (ii) the state's role in delivering pro-poor growth is far from clear and there seems to be a bias in government intervention towards spending, and away from the critical "enabling" measures.' As for aid, they point out that 'aid agencies have failed to support the engagement of the governance bodies of the rural productive sectors … to address pro-poor growth issues, in particular with regard to the role of the rural productive sectors'.

Finally, if we believe that there is a need to rethink approaches to development in the light of sharply different development trajectories followed with some success in recent decades, this points back to the issues of leadership and state-society relations which we have argued are essential for a national development vision to emerge. Can donors play a role in enabling or supporting the required changes? Randall, in particular, is doubtful that donors have the tools to transform political parties, but she also points to the important indirect link between 'enabling' ownership of development policies and the emergence of serious political parties. Cammack, despite the deeply entrenched neopatrimonial structures she describes, does see some space for donors to try to promote social transformation in a more thoughtful, deliberate way. Mo Ibrahim's initiative – to award a prize to good leaders upon stepping down – is an interesting and innovative one.[12]

In summary, recent experiences of donor interventions in developing countries have often failed to address adequately the challenge of promoting stronger institutions, as well as nurturing a strong demand side for accountable governance, despite the intentions set out in their development policies. Aid policy-makers face a continuing need to question and refine what they are doing as they seek to support the emergence of developmental states where these are currently missing.

6   Moving forward: the contours of a new aid agenda

As highlighted in this article, the ongoing debate on what institutions are the most needed at different stages of development has stimulated considerable research and thinking. The puzzles raised in the academic and policy literatures remain far from solved. For instance, some hard questions remain about what may constitute 'realistic' pathways from weak and ineffective states towards more developmental ones, taking into account a given country's current situation. There also needs to be greater understanding about what the internal drivers of change and the role of external actors should be. This suggests that some fundamental re-thinking needs to be brought into development policy and practice. This is essential if the current wave of governance and state-focused work championed by donors is to be realistic and effective, rather than dogmatic and overbearing.

The articles in this volume are meant as contributions to this debate – to stimulate thinking, rather than provide final conclusions. The different contributions clearly indicate that there is a range of issues to be considered in terms of facilitating (or obstructing) the construction of developmental states, ranging from taxation, to political parties, to the role of the middle class, to neopatrimonial structures, to the search for the 'right' mix of policies among donors.

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12. See http://www.moibrahimfoundation.org/

The emerging new aid agenda has governance as its epicentre. However, this focus should and, it is hoped, will challenge some of the 'conventional wisdom' on governance, institutions and the state that has emerged among donors over the past ten years. First, as Grindle emphasises here as well as elsewhere, demanding 'good governance' may be asking too much from weak, under-resourced states, and may be impossible to translate into pathways that enable developing countries to break out of the 'weak institutions trap' identified by Birdsall. Taking 'good enough' governance as the starting concept on which to base aid policies and interventions may be more helpful.

Sindzingre, for her part, reviews the role of taxation in development, which has become an important element in the current debate on the state (Moore, 2007). She challenges the notion that taxation should be considered as the centrepiece of building a developmental state, and emphasises that the ability to make binding commitments and to design and implement effective policies was more crucial in the case of East Asian developmental successes than high levels of taxation and expenditure. Nonetheless, she agrees with the widespread perception that aid can undermine domestic tax efforts in a way that is actively damaging. As she reports, the effect of trade liberalisation on the extractive capacity of developing countries is still contested; in some countries it was possible to raise more taxes from the domestic economy, while in others, the overall effect was a decline in revenue. This topic is also addressed by Birdsall, who points out that many of the states that are least developmental also have low levels of tax collection, especially from domestic sources (i.e. non-trade taxes). She also emphasises that the distribution of the domestic tax burden can often be skewed against the emergence of small, labour-intensive businesses.

Randall's article provides a more concrete idea of what becoming 'more political' could mean for donors. In theory, political parties are at the core of democratic governance, and in principle, they should be a source of the 'political will' and ownership underpinning the development agenda. However, as Randall and others (Carothers, 2006) have argued, political parties in most developing countries are not only narrowly focused on the interests of a small elite but also lack legitimacy, are very short-lived and are focused on the short term. The few which are more deeply institutionalised and seem to be committed to development tend to be found in single-party systems – either in authoritarian states (such as the Communist Party of Vietnam) or in polities with a dominant or hegemonic party (such as the Botswana Democratic Party, which has governed the country since independence in 1967).

Even where there are multi-party politics, an effective opposition which contributes to holding government to account is very rare, owing to a range of factors including poor party discipline, individualistic interests overriding party coherence, and openness to inducements by the ruling party or coalition. Randall is somewhat sceptical of the role that external support can play in strengthening and 'improving' political parties. However, she does highlight some options that might be tried in a more coherent and consistent manner.

As the contributions to this theme issue reflect, there is no 'one-size-fits-all' path to development. A developmental state may not be possible or needed in all circumstances, and it is always a time-bound device to launch a period of more intense development. It is a model that has the benefit of being based on the historical

experience of a range of countries rather than predominantly on theoretical concepts. It is not an easy model to emulate successfully, and the obstacles pointed out in the various contributions to this volume are formidable.

Moreover, in the past, *democratic* developmental states have been a relatively rare sub-species of a wider set of successful developmental states. Today, a much larger number of developing countries are at least semi-democratic, and the support for the principle of democracy is substantial in many parts of the world, even if people are often disappointed by the way in which new democracies actually work (see, among others, Domínguez and Shifter, 2003; Afrobarometer, 2006). As emphasised earlier, the task of building developmental states in a democratic context brings challenges that authoritarian regimes do not necessarily face.

Thus, the way forward for improved donor efforts in strengthening state capacity and nurturing the emergence/sustainability of developmental states clearly requires taking more seriously the uncertainty that has been observed about what institutions are necessary at different stages of development. The focus should be on offering lessons and options from real-life experiences rather than relying on 'ideal-type' solutions that have limited resonance with what can be accomplished in practice. It is also essential to engage with politics more intensively both within donor agencies and between donors and recipient countries.[13]

Those who embark on this course should have no illusions that politics can somehow be 'sanitised', nor should they slip into believing that external actors can impose solutions in the absence of an internal constituency committed to change. Building democratic developmental states and societies is put forward here as a vision, but one that is flexible enough to fit the opportunities and constraints that different countries face, given their specific contexts and circumstances. Developmental states are unlikely to emerge easily in many countries at once. However, donors need to become more attuned to where conditions may be 'ripe'. They need to support rather than overwhelm or undermine emerging local visions of development, as well as to think harder about how to encourage developmental visions where these are lacking.

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13. DFID is making considerable progress in this area. See DFID (2007).

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