

16 Institutional Analysis for Capacity Building*

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1 INTRODUCTION

Institutions are usually defined as the rules and enforcement mechanisms which together govern human interaction in a more or less predictable manner. In this respect, the challenge of development policy is 'getting the institutions right'. Since the beginning of the 1990s, there has been a noticeable increase in development policy debates and activities with a focus on topics such as 'institutional development' (ID), 'capacity building' (CB), and 'governance'. In this area, not only conferences, publications and the formulation of principles of development cooperation, but also financing schemes and new approaches to project work abound. In Section 2 this is linked to the changing view of the state as an agent of development; the extensive criticism of the effectiveness of technical cooperation (TC) in general, of which ID and CB are part is addressed in Section 3. The new focus on ID and CB which has recently triggered the development of new approaches to institutional analysis is discussed in Section 4; Section 5 argues that these are of particular relevance for TC in the domain of macro-economic management; and Section 6 draws on some additional insights from institutional economics. It is argued in Section 7 that the joint forces of initiatives to improve ID/CB on the one hand, and of academic research on institutions on the other, could lead to more credibility and sustainability of comprehensive economic reform processes.

2 CAPACITY BUILDING AND THE CHANGING ROLE OF THE STATE IN DEVELOPMENT

Since the Second World War, the perception of the role of the state in development has gone through at least two changes of paradigm (Israel, 1989; Evans, 1992). The state was originally seen as the architect of development, with a strong direct involvement in production and widespread regulation. It was this view and the negative implications imputed to it by economists such as Krueger (1974) or Bates (1981) of rent-seeking, distorted allocation, chronic budget deficits, towering public debt and so on, that subsequently came under attack in IMF-led stabilization and, more specifically, under structural adjustment programmes, initiated by the World Bank in the 1980s. Stabilization called for control and often drastic reduction of public expenditure, and structural adjustment's slogan of 'getting the prices right' aimed at a reduction in the state's involvement in production and regulation to allow private-sector initiatives to bring about the supply response to market incentives.

By the end of the decade, after a number of frustrated economic reform programmes, the voices arguing for a more differentiated view of the role of the state increasingly gained acceptance (Lamb, 1987; Israel, 1989; Klitgaard, 1991). Fearing the virtual collapse of public institutions in the attempt to scale down state intervention in the economy, they argued that basic state functions and the new demands of market-oriented macroeconomic management required a competent public administration, together with adequate financial resources and incentives. In particular, it was increasingly acknowledged that an enabling environment for private-sector activities was a necessary public good in itself.

Meanwhile, transition countries, in their attempt to introduce market-oriented economies, have replicated this change of paradigms in a zoomlike fashion. As a result, within the context of development cooperation, ID activities were called upon to contribute to the handling of the 'orthodox paradox': the containment and further reduction of public expenditure in the face of new demands on the state's management and administrative abilities.

3 CRITICISM OF THE EFFECTIVENESS OF TECHNICAL COOPERATION AND OF EFFORTS IN INSTITUTIONAL DEVELOPMENT

Another stimulus to the current preoccupation with ID, was the need to find a constructive answer to the repeatedly voiced criticism of the effectiveness of development aid, and of TC in particular.¹ This, to quote from OECD (1987, p. 127), is because of the centrality of ID for TC itself:

Although technical assistance programmes may have a variety of purposes and objectives, generally their main purpose, and ultimately the test of their effectiveness, centres on the extent to which they successfully promote increased self-reliance in recipient countries, by strengthening and expanding the institutional capacities of these countries to mobilise and manage development resources on their own.

'Capacity building', 'capacity development' and 'institutional development' have a number of – often conflicting – definitions (Berg, 1993, pp. 58–63). However termed, ideas seem to converge nowadays towards a broader notion, with 'an emphasis on the overall environment within which organizations operate and interact' (UNDP, 1994, p. 2), away from the earlier narrow focus on individual organizations, and more in line with the modern understanding of institutions in economics, as used at the beginning of this chapter.

While recognizing the many achievements of TC, there is now a wide consensus among donors and recipient countries alike, of its critical shortcomings. A common finding of several reports is that the weak points of TC are particularly prominent in CB/ID activities:²

- the donor-driven nature of TC programmes;
- continued reliance on expatriate advisers in gap-filling line functions (instead of in teaching and coaching roles), and insufficient use of local experts;
- inadequate institutional environment (salary level in the public sector, recruitment practices, accountability, delegation structures) and inappropriate reactions of donors (topping-up payments, parallel administrative structures);
- inappropriate project design (over-ambitious, input-oriented, oriented towards short-term results rather than long-term capacity development goals, little use of the programme approach);

- lack of cost-consciousness on behalf of donors and recipients alike;
- inadequate involvement of non-governmental and decentralized entities (including the private sector); and
- lack of donor coordination, resulting in overlap and donor competition.

4 A NEW FOCUS ON INSTITUTIONAL DEVELOPMENT AND INSTITUTIONAL ANALYSIS

Towards the end of the 1980s, the growing consciousness about the pervasiveness of these shortcomings, together with the conviction that strengthening capacities is central to providing an enabling environment for economic development, sparked a number of comprehensive initiatives with the aim of facing these challenges head-on. The international efforts that received most attention were; first, the process (1989–91) within OECD's Development Assistance Committee (DAC) leading to the 'Principles for New Orientation in Technical Cooperation' (now part of OECD, 1992); second, the United Nation Development Programme's (UNDP, 1995) NaTCAP initiative (National Technical Cooperation Assessment and Programme); and third, the study and conference programme 'New Avenues for Technical Cooperation in Africa' of the European Centre for Development Policy Management (Bossuyt, Laporte and van Hoek, 1992). At the same time, numerous bilateral donors reacted by changing or improving their delivery of TC.³

Among these initiatives, the DAC Principles (OECD (1992), pp. 53–9) have become the reference document for all multilateral or bilateral strategies for improving TC performance. These can be interpreted as an attempt to draw the consequences from the criticism levelled at TC, and to respond to the qualified new emphasis given to the role of state capacities in development:

1. *The central role of the recipient country and the partnership concept* Technical cooperation must be demand driven and its environment carefully studied. This includes the need to 'assess the relevant socio-cultural, economic, political and institutional environments' and to identify appropriate methodologies for such assessment.
2. *Participatory development* Participation of the beneficiaries in all stages of the TC process (identification, planning, implementation and evaluation). The same principle also calls for support for democratization, government accountability and the strengthening of the

- rule of law.
3. *Institutional development* The centrality of ID within development cooperation is stressed, with long-term commitments on both sides, as opposed to instantaneous problem-solving and gap-filling by expatriate advisers. In the choice of institutions to be strengthened 'enhancing the policy-making and resource management capacities at central, local and sectoral levels should be given primary emphasis. The effective design and implementation of structural adjustment programmes will often depend on effective institutions'.
 4. *Improved functioning of governments and civil services* 'Competent civil services and public management are essential for development'. A primary concern is insufficient remuneration for qualified national personnel, a problem that is itself exacerbated by public finance constraints under structural adjustment.
 5. *Comprehensive programme approaches* In the planning, selection and design of TC activities, a programme approach rather than a project-by-project approach should be followed.
 6. *Greater attention to costs and cost-effectiveness* Particular emphasis should be given to the carrying-capacity of the recipient in terms of recurrent costs.
 7. *Recognition of private-sector needs* 'Technical cooperation activities aimed at strengthening private sector enterprises encompass, *inter alia*, institutional development and policy advice for economic policy reforms'. Other key areas are credit services and the strengthening of the legal framework.
 8. *Improved coordination* Aid coordination needs to be strengthened as a central government function.

These principles are shared by a great number of aid agencies and researchers, and currently many suggestions are being made regarding their operational implementation.⁴

Given the focus of this chapter, three initiatives will be singled out: the UNDP's capacity assessment approach; the World Bank's 'Governance Approach to Civil Service Reform in Sub-Saharan Africa'; and the OECD's 'Informal Network on Technical Cooperation'.⁵

1. UNDP (1994) has developed guiding principles for CB strategies together with a framework for capacity assessment. This is based on an extensive study with numerous field applications summarised in Hilderbrand and Grindle (1994). For UNDP, CB initiatives include the assessment of, and action in, the wider project environ-

ment (encompassing the non-governmental sector). Starting with the identification of the key functions that are to be the focus of the CB strategy in question, capacity assessment proceeds at five levels (as concentric circles), in which the micro problem at hand is embedded: first, in the outer circle, the overall context for capacity development is considered (the broad economic, social, cultural and political conditions); the second dimension is the policy and institutional environment of the public sector, including economic management; third, the task network is examined (the institutions and interorganizational relationships involved); the fourth level is the organization in which the function is performed; and finally, the availability and qualifications of the required managerial and technical personnel are assessed.

2. The World Bank's Africa Technical Department has launched a 'Governance and Civil Service Reform Programme' to explore innovative ways to improve the effectiveness and efficiency of the civil service in Sub-Saharan Africa (Dia, 1993). Starting with a rather pessimistic review of the World Bank's experience with retrenchment and pay and employment reform policies in a social and political environment that is largely depicted as being *patrimonialized* by ruling elites, the approach advocates so-called Institutional Environment Assessments comparable to UNDP's capacity assessment (Dia, 1993, pp. 26–35). This would include the examination of the broader institutional environment (role of the state, rule of law, accountability, mass media, interest groups), of the pay and employment incentive system, of economic and policy management, and of the quality of service delivery at the sectoral level. The nature of the reform package and the World Bank lending package would depend on the result of this assessment. Depending on the 'patrimonial profile' of the country in question, programmes of various degrees of comprehensiveness would be proposed. This approach and its implementation are currently being tested in a limited number of African countries. As in the UNDP approach, participation is a key feature of the process.
3. The OECD's 'Informal Network on TC' was launched in 1994, to examine the progress towards implementation of the DAC principles, and a forum on ID and CB for the exchange of experiences in institutional analysis and project cycle issues was established. As with the UNDP and the World Bank (who are part of the Network), the emphasis was on the analysis of the wider institutional environment – political, cultural, legal, economic, and the need to develop

and disseminate further guidelines for institutional assessment. Another of the sub-group's concerns is with inter-institutional networks, largely corresponding to UNDP's 'task network' level in the assessment of capacity.⁶

While the study of individual organizations and functions has been a regular feature of the project preparation procedure of most donors, in-depth analysis of the wider institutional environment of a given TC initiative, even at the purely descriptive level as suggested by the approaches described above, has been the exception.

5 THE INVOLVEMENT OF TECHNICAL COOPERATION IN MACROECONOMIC MANAGEMENT REFORM

Nowadays, TC in the form of long-term expatriate policy advisers who work in daily contact with political decision-makers is rare. In most cases, advisory work is done indirectly – that is, through the build-up of domestic human and organizational capacities (often in a network of organizations); direct policy advice-giving has become the exception (often delivered in specialized short-term assignments). At times of crisis – such as the period immediately following the collapse of the Soviet Union – direct, high-level, short-term expertise may be provided, but eventually, capacity building carries the day.⁷ To this extent, then, TC in macroeconomic management is basically affected by the same criticism (and subject to the same efforts of improvement) as are other CB/ID measures.

There are three reasons why TC in macroeconomic management is in particular need of tools for the study of the wider institutional environment: its high priority, its embeddedness in a particularly complex institutional structure, and its need to produce policy advice for often the most important players in this structure:

1. *Priority* Macroeconomic management capacity is now given priority as a necessary condition for successful reform (see, for example, DAC Principle 3, above). 'One thing is clear: if this capacity is not in place, basically nothing else works well', as Israel (1989, p. 13) wrote, 'Thus, we wish to postulate that to have this central capacity for policy analysis and management at the macro and sectoral levels is the first priority in the reorientation of the role of the

state’.

2. *Complex institutional setting* Another peculiarity of CB/ID in macroeconomic management is its embeddedness in a complex wider institutional context. Ideally, macroeconomic management includes economic analysis (exploring and evaluating various options) leading to the design of economic policy measures or programmes, and the decision on, and enactment of, the respective policy measures, as well as their implementation and monitoring. Although often conceived in this way, policy reform is not a linear, but ‘an iterative, often haphazard and highly political process’ Lamb (1987, p. 6).

In particular, implementation (where CB is often needed) is not just another link in the chain. It cannot be treated as a black box. In fact, it contains, in miniature, a chain (again, more an iterative feedback process) of a similar structure: thus, for example, the decision for a particular taxation policy – a macro institutional change – may set in motion a similar process of micro institutional changes within the ministry of finance: a TC team may be called upon to analyse and design the required procedures, organizational changes, training, information systems and so on that the Minister of Finance has to agree to (policy decision), being subject to a number of uncontrollable influences (from the advisory team’s point of view), needing in most cases coalition building (within and outside his ministry) to achieve a viable and sustainable strategy for implementation of and monitoring the required – simultaneous – micro and macro institutional change. Many macro reforms get stuck at one or several points of this micro process, and many such failures are, in fact, interrelated.

3. *Political economy of policy advice* With respect to the analysis and design stages of policies (the first links of the chain), economists have yet to learn how to incorporate adequately the interaction between politics and the economy in their advisory work.

In most cases, the crucial ingredients of policy reform are simple. The real difficulties are political: for example, how to share the burden of adjustment, how to implement the programme without creating social unrest, and so on. Political issues are much more difficult than the technical issues of how to design the perfect programme, from the point of view of economic theory. This is not meant to deny that good technical advice to leaders is not important; nevertheless, as Alesina (1994, p. 40) argued, political conflicts and constraints are often much more difficult to overcome than technical difficulties.

Lamb (1987, p. 22) maintains that both conceptual types of TC intervention in macroeconomic management reform, direct policy advice, and CB point to the same need to study the wider institutional environment, but:

At present, institutional and policy objectives of assistance programmes are too often poorly linked. Donors try to strengthen economic functions and agencies that are not always the critical ones in terms of policy reform objectives, and recommend policy measures with sometimes inadequate consideration of institutional constraints on implementation, or of whether better policy-making processes will be instituted as a result of the intervention.

6 INSTITUTIONAL ECONOMICS AS A SOURCE FOR DESIGNING SUSTAINABLE INSTITUTIONAL CHANGE

How can TC for sustainable institutional change the benefit from the insights that have been developed in economics and the other social sciences under the label ‘new institutional economics’ (NIE)? Because of the vastness of the area covered by NIE and the equally wide-ranging issues affected by CB and ID, the potential overlap of concerns is great.⁸ The following discussion is therefore limited to the issues in the preceding sections.

6.1 Policy Advice Caught between Economic and Political Rationality

NIE embraces a number of currents and schools of thought. Much of its work on developing economies comes under the heading of new political economy (NPE) and covers issues of economic policy reform.⁹

Probably the most important aspect for policy advisers is that NPE can make them aware – that is, help them to understand their roles and what they are doing, by clarifying the context within which they are working.¹⁰ Central to this is that NPE removes the illusion of the state as an entity interested in maximizing social welfare, often epitomized as ‘benevolent dictator’ or ‘social planner’ (see, for example, Alesina and Perotti (1994), p. 351). Instead, the state is analysed as a multi-headed system made up of rational self-interest maximizers. In this perspective, many phenomena of the above-mentioned patrimonial state often found in the analysis of the wider institutional environment of policy reform (rent-seeking, clientelism, corruption and resistance to,

or abortion of, policy reform) acquire the status of an individually rational, but socially irrational, action. Such insights can be frustrating for policy advisers because in Meier's (1991, p. 9) words, 'in showing why governments do what they do, the new political economy at the same time shows why economists are not listened to'. Or, as Grindle (1991, p. 44) states:

Neoclassical political economy offers an explanatory framework to help development specialists understand why governments of developing countries do not adopt their advice with greater regularity. . . . politically rational behaviour of an individual is capable of fairly consistently overwhelming the demonstrable logic of good economic policy advice.

However, as will be seen in a moment, NIE has also developed insights with respect to coalition-building and the mobilization of economic and political resources which make public or collective action for reform a possible outcome of politically rational behaviour.

6.2 Policy Advice by Donors

As to the policy adviser's role, there is an awareness among donors (and their policy advisers) that advice 'from outside' is not always welcome, or put into practice. This applies especially to advice linked to donors having leverage through conditionality: their advice is correctly seen as an expression of one of the interested parties. As demonstrated in Chapter 15 by Killick in this volume, policy advice from financing institutions can therefore usefully be subsumed under the principal-agent problems implied in credit relationships (which is a prominent branch of NIE itself). However, only a few studies have so far discussed this with specific reference to conditionality in international development finance.¹¹

6.3 NIE Insights Applicable to the Design of Reform

Many topics analysed under NPE are of direct relevance to the subject matter of policy advice. At the same time, they are not entirely new to advisers. Their derivation from rational behaviour can, however, in some cases strengthen or, in others, as Alesina (1994, p. 37) maintains, lead to the revision of long-held convictions: 'Once [these] political variables are appropriately brought into the analysis, economic policy decisions that, at first view, appear wildly incoherent and suboptimal,

can be interpreted as the rational outcome of a political–economic equilibrium.’

Some widely, sometimes unanimously, accepted insights and approaches of NPE that might be useful for policy advice practitioners are the following:¹²

- Politicians in power depend on the political support of interest groups and other constituencies. This support is often obtained in exchange for economic presents (rents; immunity). This political market is present in both democratic and dictatorial regimes.¹³ While they are most frequently depicted as being motivated by self-interest in these dealings, politicians may have motives other than narrow egotism, or their self-interest may be coupled with the success of the reform programme, as has, for example, been shown in chapters by Olson and McGuire, Aizenman and Bates in this volume.
- Bureaucrats are often interested in disaggregated public resources, access to which can be traded against personal advantage (Grindle, 1991; Tanzi, 1994).
- There are also bureaucrats genuinely interested in reform. The design and successful launching of reform processes was often initiated by well-motivated technocrats and bureaucrats who were insulated from political interference (Haggard and Webb, 1993). The implementation phase, on the contrary, may be more prone to distortion by the bureaucracy.
- There is no clear evidence whether the political market causes more harm in democratic or in dictatorial regimes; the empirical relationship between economic growth and regime type is inconclusive (Alesina, 1994; Alesina and Perotti, 1994; Haggard and Webb, 1993, and the contribution by Brunetti (Chapter 6) to this volume), and much depends on the time horizon and breadth of interests of the political leaders, see McGuire and Olson (Chapter 3) in this volume.
- However, political and economic-policy instability on the one hand, and growth rates on the other, are negatively correlated, both in democratic and in dictatorial regimes (Alesina, 1994; Alesina/Perotti, 1994, and Aizenman’s, Brunetti’s, Gavin and Hausmann’s, and Keefer and Knack’s chapters in this volume).
- In particular, the security of property rights has a strong positive influence on growth (Haggard and Webb (1993); Borner, Brunetti and Weder (1995), and Brunetti’s Chapter 6 in this volume).
- In democracies, the polarization and fragmentation of the party system is detrimental to the sustainability of reform and growth, and

some electoral systems show a better record than others (Alesina, 1994; Haggard and Webb, 1993).

- Winners and losers in a reform programme can be identified. In order to forge a reform coalition, the winners should be encouraged to support the programme actively and the losers should be marginalized or compensated in a non-distortionary way.¹⁴ The designers of a reform strategy can draw on the insights of the theory of collective action (Sandler, 1992)
- The speed and scope of the supply response is crucial for the political sustainability of reform. Given the many and lengthy processes of institutional change that constitute the backbone of this response, the required capacity building (both in the public and the private sector) has to be initiated at the start (Evans, 1992; Borner, Brunetti and Weder, 1995).¹⁵
- In particular, markets cannot be created (and kept alive) merely by 'getting the prices right'. Instead, they are institutions that often need the protection of public authority. Above and beyond the traditional concerns of competition policy, attention must be paid to informational requirements to reduce adverse selection and moral hazard (Klitgaard, 1991) and the need to provide the adequate legal environment for the protection of property rights and the enforcement of contracts (Platteau, 1994; Ensminger, 1992).

In summary, NPE (and NIE in general), offer some guidance for policy advice which can be used for identifying and suggesting the establishment of the required reform coalitions, to take their interests and bargaining positions into account and to suggest deals for gaining their cooperation (and the reverse applies to the opponents of reform.) Of course, these orientations have to be tested and modified with respect to the situation at hand and should not be misunderstood as ready-made recipes for immediate application.

While NPE may thus be useful in analysing the 'outer spheres' of the institutional environment of a given capacity development initiative (see Section 3 above), other areas of institutional economics offer promising approaches for the analysis of the 'inner circles' – that is, the policy and institutional environment of the public sector, the task network, the particular organizations concerned, and the availability and motivation of qualified staff.

Of particular interest are the economics of bureaucracy (Dunleavy, 1991) and the theory of organization and transaction costs (Williamson, 1993), particularly as applied to public institutions (Picot and Wolff,

1994; Tirole, 1994). These approaches have their origin in the analyses of industrialized countries, but their application and further development in the context of developing and transition countries promises to be rewarding both for practitioners of institutional development and researchers of institutional change.

By and large, the above considerations are suggestions for the use of NIE insights in the development of the methodologies and tools for the kind of institutional analysis and assessment which is now on the agenda of development agencies. In particular, NIE, and explicitly NPE, can contribute to 'enhancing the policy-making and resource management capacities' which should be given primary emphasis according to Principle 3, and to policy advice for economic policy reforms mentioned in Principle 7 above. Moreover, the analysis of, and the practical answers to, the issues raised in the other principles can expect useful contributions, especially through an adequate analysis of the 'market' for TC.

Explicit references to this corpus of literature are still a rarity in the institutional development policy discourse (Picciotto, 1995; de Capitani and North, 1994). But it is interesting to observe how, in the ID and CB discussions presented above, the understanding of what institutions are is losing its earlier focus on organizational development and is slowly starting to reach out to the richness of NIE's definition of institutions as rules. Many promising areas of cross-fertilization remain to be explored.

7 CONCLUSION

The institutions of the local polity are important starting conditions for the process of institutional change, either to garner political support, or to marginalize opposition against change. Non-sustainability of development efforts very often suggest neglect of political-economy considerations in the study of these starting conditions and of their dynamics under the impact of reform (reform strategies have often unwarranted implicit assumptions about existing institutions).

In this context, part of the fallout of the recent increase in the interest of donor organizations (and to some extent of recipient countries) in clarifying the basis for successful TC and CB/ID are attempts to provide better bases for the analysis of institutions. Such bases are particularly urgent for TC in macroeconomic management. Three reasons have been advanced for this: its top priority; its particularly complex environment;

and its subject matter – that is, the necessity to give advice to important players of this very environment.

The subsequent *tour d'horizon* of insights developed in institutional economics allows one to conclude that there is the supply to meet this demand, both for the special case of macroeconomic management and for the more general CB/ID concerns. Cooperation between development practitioners and researchers in this field has the potential of contributing in an essential way to securing more sustainability of future reform processes.

Notes

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1. Berg (1993) presents a summary statement (pp. 246–7), a synthesis of earlier comprehensive reports (pp. 18–28) and a list of the international conferences dedicated to this topic in the 1980s (p. 35). According to OECD (1992, p. 51) total outlay on TC per year is in the order of US\$15 billion – that is, between 25 and 30 per cent of total official development assistance. Roughly two-thirds is from bilateral sources.
2. See Berg (1993), pp. 23–30) and Hilderbrand and Grindle (1994, p. vi) on this last point. Berg (1993, particularly ch. 1), Bossuyt, Laporte and van Hoek (1992) and UNDP (1994) contain summaries of the criticism.
3. The list in Section 3 emphasizes the shortcomings of TC. It is not intended to present an overall assessment of TC, which could also point to a considerable number of important achievements, and to important differences between the various donors and the extent to which their procedures and practices are subject to the above criticism. See GTZ (1995) for an ID/CB approach within a bilateral aid programme.
4. See, in particular, Bossuyt, Laporte and van Hoek (1992), Berg (1993), Hilderbrand and Grindle (1994), UNDP (1994), and BMZ (1995).
5. They can be understood as efforts to develop methodologies and tools for broad-based institutional analysis in preparation of CB/ID strategies. As such, these initiatives represent a direct contribution to the first of the above principles. Such analysis is also a necessary condition for a better record on the remaining principles and therefore for the sustainability of institutional change.
6. TC in a network setting is part of the new operational orientations for German bilateral TC. Its importance has also been underlined in recent evaluations of German-financed policy advice projects. See Kochendörfer-Lucius and Kleiner (1995).
7. This is, for example, a recurrent result of the evaluation exercises, carried out by the European Commission, of its 'Policy and Legal Advice Programme' for the Commonwealth of Independent States.
8. See Nabli and Nugent (1989) for surveys on and applications of NIE applied

- to developing economies. Most traditional fields of TC obtained excellent coverage. See, for example, rural development and water management (Ostrom, 1990), development finance (Krahn and Schmidt, 1994), and poverty (Dasgupta, 1993).
9. A useful collection for the policy reform context is Meier (1991).
 10. It is important to note that many of the issues raised by NPE and NIE in general are not new to practitioners in the field. What NPE and NIE basically contribute is an heuristic to explain those observations and to inform future interventions.
 11. See, for example, Pietrobelli and Scarpa (1992), and Vaubel (1991). To this author's knowledge, there are no specialized contributions from NIE which study the 'free-standing' policy adviser sent by donor agencies (UN or bilateral, mostly free of charge).
 12. Most of the literature mentioned here summarizes the debate on the issue under consideration and leads to the original literature.
 13. See Frey and Eichenberger (1994) for a simple model explaining supply and demand (and therefore, prices) on this market.
 14. 'The nontradable goods sector opposes devaluation, firms producing import substitutes balk at trade liberalization, farmers object to cutting agricultural subsidies . . . Under the right institutional conditions, astute political leaders can build new coalitions of winners that crowd out those with an interest in maintaining the status quo' (Haggard and Webb (1993), p. 144). In doing this, it is important that the gains are attributed to the present government and the losses imputed to the heritage of the past (Frey and Eichenberger, 1994).
 15. The European Commission (1995, p. 12) develops this case forcefully: 'Early institutional reform and capacity building facilitate the response of economic growth to the reforms in exchange rates, relative prices and de-control. The confidence necessary for private sector investment has been badly affected by long delays in implementing full structural reforms after they have been announced. Moreover, institutional reform within the administration is of utmost importance for the government to manage and monitor the process of political transformation.'

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