

## Key findings

# Checks and balance, Political Leadership, and Bureaucratic Autonomy: Evidence from National Development Banks

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**M**otivated by the discrepancy between formal political institutions and large within-country variation of bureaucratic governance in reality, this paper argues that the governing structure and capacity of development agencies crucially depend on the interaction between formal institutional constraints entrenched in the political system, and the strength of political leadership. Without strong leadership, institutional checks and balance may give rise to excessive veto points in policy-making, and undermine bureaucratic autonomy. On the other hand, without proper institutional checks and balance development agencies' autonomy and capacity tends to be compromised by the moral hazard of strong leadership.



## Objectives and research questions

This paper argues that development agencies exhibit strong autonomy and capacity when both strong leadership and institutional checks are existing. Institutional checks are necessary to contain the moral hazard of political leadership. Meanwhile, strong leadership plays a vital role in empowering development agencies, and garnering political supports for long-term development projects. The authors use a new dataset of National Development Banks (NDBs) to test this theory, and conduct two case studies, on the Brazilian Development Bank (BNDES) and Nigerian Industry Development Bank (NIDB). They find strong evidence in support of their argument.



## Methods

The paper draws upon the literature of bureaucratic organizations and the political economy of development to propose a 2 by 2 diagram for the institutional environment creating National Development Banks, according to the presence of checks and balance and the strength of political leadership. It theoretically predicts that development agencies exhibit strong autonomy and capacity with the presence of both strong leadership and institutional constraints. The authors use a cross-country dataset of National Development Banks to test this theory.



## Results

Both the regression results and case studies are consistent with the tested theory.

The authors find that only the combination of strong leadership and strong checks and balances results in a high level of corporate independence of NDBs. Moreover, they find that the autonomy of NDBs helps strike a balance between accomplishing development goals and maintaining financial viability.

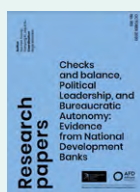
The paper also conducts case studies on the Brazilian Development Bank (BNDES) and the Nigerian Industrial Development Bank (NIDB). Established in fragmented political systems, those two agencies appear to differ in their degrees of autonomy and their accomplishment of development goals. Further examination on the agencies' history confirm that the interaction between political leadership and institutional checks shapes these differences.



## Recommendations

- ➔ **Countries with successful records of development agencies should continue what they are already doing:** pursuing development goals, with clear supports from leadership, meanwhile putting policy-making under institutional checks.
- ➔ For development agencies that are yet to accomplish capacity building, the authors' recommendations include introducing more professionalism, **promoting the discretion of agencies, and for the leadership to work on consensus-building across ideological spectrum**, at the same time.

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**Access the research paper**

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