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Good Governance, Markets and Donors

Brian Van Arkadie

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by

Brian Van Arkadie
Economic and Social Research Foundation
51 Uporoto Street
Ursino Estate
P.O. Box 31226
Dar es Salaam
Tanzania

E-mail: vanarkadie@esrf.or.tz
BRVanArkadie@aol.com

1. **Introduction and Definition**

This essay is a commentary on some of the issues arising from the focus on governance in the donor-African aid "dialogue" in recent years. The reflections are somewhat personal, drawing on what is now four decades of observation of, and from time to time, involvement in that scene. The comments on the way the issue has been handled in that dialogue are critical, in some places sharply so. Therefore at the outset the point should be made that the recognition of the central importance of governance in development is obviously to be welcomed. The introduction of governance issues and the increased awareness of the importance of institutions is obviously an advance over the preceding period of structural adjustment, in which donors concentrated on a rather mechanical narrow approach to economic policy issues.

The criticisms concern flaws about the particular ways governance has been introduced into the aid dialogue, which in turn raises questions about the "governance" of the aid process itself.

It may be useful to start by asking how the term "governance" is defined in its current usage. From what is now a huge literature, a straightforward definition can be found in a recent UK government policy document.

The UK-DIFD strategy paper on governance and the poor[1] uses the term governance to mean:

> *"how the institutions, rules and systems of the state – the executive, legislature, judiciary and military – operate at the central and local level and how the state relates to individual citizens, civil society and the private sector. We use government to mean the executive function at central and local levels. The political system and politics is the way power in the state is acquired and how groups inside and outside government influence the use of that power."*

That definition and the discussion in the DFID document present "political governance" both in terms of the managerial capability of state bodies and the responsive of those bodies to the needs of citizens and of key actors in the economy.

Given the proliferation of literature, a discussion of governance could touch on a wide range of issues related to the inter-play between political processes and economic policy. In this paper, the main focus is on the attention being given to governance in the contemporary discussions of economic policy in Africa, particularly in the context of the donor-African dialogue. It is particularly concerned with governance issues as they relate to the pursuit of established economic development goals.

For the purposes of this discussion, the DIFD definition will be paraphrased, and governance will be taken to mean the practices guiding the formulation, implementation and oversight of the programs, policies and activities of organisations, and in particular governments.

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[1] Making government work for poor people – building state capability UK Department of International Development, September 2001.

Interestingly, the term is also in wide currency nowadays in relation to the behaviour of business corporations, good "corporate governance" relating to the effectiveness of management in running business in conformity with established accounting and legal rules and in responding to the views and interests of concerned parties – shareholders, workers, consumers and the community at large.

In both contexts, governance is more than a positivistic, value-neutral, technocratic term, as its use typically incorporates strong normative views about expected behaviour. In the development context, it tends to incorporate a vision of an honest and efficient state, which is both responsive to the public in general and, in the case of the DFID document quoted, the poor in particular, through a democratic process, and also conscious of and able to implement the macroeconomic and microeconomic requirements for market based growth. Personally, I find it difficult to deny the attractiveness of such a vision of the good society, but nevertheless it has to be recognised that to adopt such a vision is to commit oneself to a particular set of values.

Given these strong normative elements, it is not surprising that the use of the term both in relation to "corporate governance" and "political governance" often involves an element of moralistic exhortation about the need for ethical behaviour and greater social responsibility. However, good governance is also seen as instrumental in the achievement of effective economic performance, both by corporations and governments – it is not only seen as desirable as a social goal in itself, but also as a means to the achievement of economic goals.

2. Why Governance?

Why does governance feature so prominently in contemporary discussions of economic policy? That was not the case fifteen years ago – indeed at that time the term "governance" was not in common usage in the economic development literature. It might be useful to explore why "governance" has emerged as such a prominent feature of the economic policy discourse in recent years.

An obvious reason for the concern is the perceived consequences of poor governance. In 2002, better corporate governance has emerged, for example, as a crucial issue in light of the reaction of stock markets to corporate misbehaviour.[2] The popular current usage of "corporate governance", introduces new dimensions to the assessment of business management in reaction to discredited business fashions of the last boom. And in the development discourse governance has emerged as a central theme partly in response to the continuing poor performance of a large number of economies, which in turn has been associated with the poor performance of governments.

The term is used to extend the discussion of the appropriate exercise of power and the ethics of managerial behaviour into new areas, to address aspects of the political process crucial to development that were neglected by mainstream development economists in the recent past. It is evident that the nature of governance is likely to be a determinant of

[2] Corporate scandals and calls for improved surveillance of corporate governance become big news during periods of deep market down-turns, as is the case in 2002 and was the case following the crash of 1929. During periods of stock market boom, those raising such issues might be seen as party poopers.

economic performance and the distribution of the benefits of growth. The widespread contemporary use of governance concepts reflects a heightened awareness of the instrumental importance of political and administrative factors conditioning economic performance.

However, the governance discourse is also concerned with specifically political agendas/objectives, incorporating visions of desirable political models. Inevitably, the instrumental and the normative are inter-twined, good governance practice sometimes being justified for the economic benefits it will generate, at other times as a political end. This creates no problems when arguments drawing on either of these approaches work in the same direction. The discussion becomes more difficult when the evidence suggests that politically desirable concepts of good governance are not a necessary condition for fast economic growth and may even be inconsistent with it – then a choice may have to be made between governance and growth objectives.

3. Governance as a development fashion

At one level, a cynical view might be that the popularity of the term "governance" is largely a matter of fashion[3]. Fashion is a characteristic of most human activities and fashions in development policy are a significant exogenous factor influencing policy in Africa. The dynamics of fashion in development policy respond to a number of influences, such as changes in the political climate in the developed countries, the returns to be reaped by practitioners from apparent innovation, as well as, in the African context, the continuing failure to make an economic development breakthrough.

The defining influence on development policy thinking in the 1980's was the emergence of the "Washington consensus", espousing the maximum use of market instruments and a minimal economic role for the State. While that reflected analyses of the poor performance of government policies within the developing countries, it was even more a response to political shifts in the developed economies, where under the Reagan administration in the US and the Thatcher administration in the UK, the earlier hegemony of Keynesian and moderately interventionist approaches to policy were displaced by a new orthodoxy, somewhat inaccurately described as "monetarism".

Given the rather poor institutional memory in development agencies, the cyclical nature of fashions sometimes goes unrecognised. Thus "basic needs" featured for a while on the development menu, and then was taken off for some years, before much the same issues re-emerged under the guise of "poverty alleviation". "Development plans" came and went, to re-emerge as "comprehensive development frameworks", while "a partnership in development" was unsuccessfully floated by Lester Pearson at the end of the 1960's, to be resuscitated (in this case with no change of label) thirty years later. Likewise, many of the themes which now appear on the governance menu enjoyed an earlier currency in discussions of nation building and the politics of development in the early post-colonial years.

[3] "Fashion", involving changes in vocabulary and adornment should be distinguished from "innovation" which involves the creation of new ideas and techniques.

Unpredictable shifts in donor fashions have become one powerful source of exogenous instability affecting policy making in heavily aid-dependant countries. Currently this is particularly evident in the changing attitudes of donors to poverty programs. In the early 1970's, propelled by the ILO World Employment Program and by work in the World Bank by such economists as Hollis Chenery, Mulbub al Haq and Paul Streeten, basic needs and poverty focused development became the flavour of the period. Then, with the oil shocks, economic crisis, and the decisive political shifts in the US and UK, structural adjustment, the retreat of the State and belief in the market became the order of the day. Now poverty alleviation has again become the focus of aid agencies. For Third World officials, the changing views of donors are almost as powerful a source of uncertainty as fluctuations in international markets For a country such as Tanzania, it may seem somewhat ironic that officials are now lectured on the need to emphasis poverty alleviation, long the established priority of Tanzanian policy, by the same institutions that had pushed policies that had led to downgrading of "basic needs" priorities in the not so distant past.

One result of shifts based on fashion is a certain superficiality, as everyone adopts the new style with its accompanying vocabulary (until it is displaced by a new fashion). Since the term governance became a trendy "buzz-word", it has been used with little discrimination to mean many things, so that arguably it has been leached of meaning.[4] It is over-used – often in a rather imprecise and confusing fashion. This is partly because of the holistic, ambitious nature of the concept, encompassing a wide range of aspects of state management and politics. But also, as a cliché, it is often used rather pompously as a synonym for "government" and "good government".

To pursue the fashion analogy, sometimes "governance" seems to serve a cosmetic purpose, to dress up traditional subjects in a more attractive contemporary guise (e.g. the study of public administration, politics or government seems to have been displaced by governance). In the development literature, it has even had a euphemistic function, providing an umbrella for discussions of delicate issues, such as corruption or the promotion of exotic models of democratic practice.

4. Governance as a component of economic policy

Approaches to governance are most straightforward in the contexts in which good governance is seen as a component of, or prerequisite to, effective economic policy.

i. Governance and the economic role of the State

One route by which the term entered the discussion of economic policy in developing and transitional economies initially was in the context of the evolution in approaches to economic reform.

A stylised (i.e. simplified) outline of the development of mainstream approaches to economic reform could be described as follows. In the era of market based reforms in the 1980's and early 1990's the main focus of the economic debate centred around alternative

[4] In checking references through an Internet search engine, over one million eighteen hundred thousand references to "governance" came up, and over a quarter of a million references to "African governance".

ways market tools could be used to implement effective policies and to explore differing transitional routes from controlled to liberalised economies (e.g. the debates about "big bangs" versus gradualism in transitions to the market in formerly centrally planned economies).

In the African context, the role of government was discussed largely in terms of appropriate economic policies and of minimizing the role of government, both in terms of reducing government budgets and reducing government interventions in the economy.[5]

Economists most committed to market based solutions saw their main tasks as the advocacy of the efficiency of the market and the promotion of the broadest extension of market solutions. Attention to the government as such largely focussed on the need to reduce State ownership and government controls, trim public expenditure and, in particular, to reduce the size of the "bloated" civil service. Within that context, the political agenda could be seen as very much a matter of limiting the role of government to what it could manage effectively, preventing the government from generating fiscal and monetary instability, and eliminating what economists described as "economic distortions".

One reason for the introduction of governance as a dimension of the economic reform debate was the increasing recognition that such an approach to policy was not sufficient. An economic agenda defined largely in terms of dismantling important parts of the State apparatus easily neglected consideration of areas where the role of the State continued to be crucial. Experience demonstrated that when liberalisation stimulated market responses, an inadequate supply of public services and ineffective operation of public institutions constrained growth. In a number of countries, an initial impetus to private investment following liberalisation ran into the constraints resulting from poor and deteriorating public services – roads, water and power. Pro-market economic doctrine had always recognised that there were many needs which would not be met by the market, requiring effective government intervention, but that concern was down-played in the drive to dismantle the apparatus of government interventionism.

However, even those who thought that the main task of policy was to unleash the "magic of the market" had to accept that the effective operation of markets required that the State should provide critical inputs, including establishing an appropriate institutional environment and providing a range of services ("public goods") that would not be supplied effectively by the market. If the State was to continue to play an important role, the effectiveness of political processes could not be ignored.

In Africa, the introduction of structural adjustment reforms had coincided with a sad decline in the capacity of governments to carry out required tasks. During the pre-reform period, government capacities had eroded as a result of the impact of such external shocks as the oil crises, from the effects of governments trying to do too much, taking on management tasks that over-stretched bureaucratic capacity and, as a result of dysfunctional and failed control systems. Scarcities and bureaucratic controls created rent-seeking opportunities that

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[5] In the African context, that was the approach of the World Bank report on the economic crisis in Africa, <u>Accelerated Development in Sub-Saharan Africa: An Agenda for Action</u> World Bank 1981 (the "Berg" report) which set the stage for the World Bank's promotion of structural adjustment in Africa in the subsequent decade and a half.

provided income opportunities to needy public servants, just when their real incomes were eroding as a result of economic crisis (to use the Tanzanian term of that time, the era of "technical *know-who*").

Moreover, bureaucratic inefficiency (and corruption) greatly increased the transaction costs of business. And perhaps most critical for long-term development, deteriorating educational systems resulted in a decline in the quality of the work-force.

Structural adjustment was intended to render the economic role of government more manageable, but at the early stages of structural adjustment, the feedback of austere economic policies onto the effectiveness of government itself was neglected. Fiscal austerity and removal of policies that protected State employees contributed to a further severe deterioration in the capacity of governments to deliver even the most basic services. Initial efforts at Structural Adjustment, crafted by the Bretton Woods institutions, made a crucial blunder, in promoting liberal reforms without addressing the prerequisites for the effective administration of those functions that necessarily remained the responsibility of the State. In fact, Structural Adjustment in its early applications further demoralised the public service, as sharp devaluations and budget tightening drastically reduced the real value of public service salaries, at the same time as many perquisites of office derived from the State management role also disappeared.[6]

There was from the late 1980's an increasing awareness of the negative consequences of the erosion of government capacity, which generated a range of "capacity building" initiatives, now subsumed as a set of activities within the more general governance framework.

At the theoretical level, a shift in emphasis was also supported by renewed attention to market failure, weakening the doctrinal foundations for the support of the minimalist State.

At the empirical level, one reason for the revival in emphasis on the importance of the role of the State was the recognition that a key characteristic of the successful economies of East Asia was that a buoyant private economy was supported by coherent and effective State action.

If government remained central to the development process, "good governance" could be seen as having a crucial instrumental role in achieving economic development goals. In this respect "governance" issues were no more than concerns that government should play its necessary economic role effectively. From that point of view, governance incorporated more traditional approaches to public administration and to the formulation of economic policy, while adding a political economy dimension which explored the political conditions that make for effective policy implementation.

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[6] Writing on Structural Adjustment in the early years (1983), I commented that many African governments had made the mistake of assuming in the 1970's that if you did not pay farmers, they would nevertheless produce – they did not. An equally dangerous error was being made – not paying civil servants and assuming they would continue to work. This created the civil servant's response – "the government pretends to pay us and we pretend to work". "Some Realities of Adjustment: An Introduction". Editorial introduction to External Finance and Policy Adjustment in Africa: special issue of Development and Change, Vol. 17, Number 3, July 1986.

The recognition that even if the reforms of the past two decades involved a considerable retreat of the State, the State remained a crucial economic actor is an important part of a newly emerging consensus. There is of course considerable debate over what the precise role of the State should be, but there is wide support for the view that the State should provide certain critical services, particularly economic infrastructure and investment in human capital.

Efforts to restore the capacity of government institutions – to raise the efficiency and probity of the public service to effective levels – have been high on the African policy agenda for the past decade. The crucial importance of government capacity for effective development is evident, but the efforts of the past decade have also demonstrated the great difficulty in achieving progress.

In particular, it has proved difficult to use external assistance as a vehicle for promoting government reform. This is in part because aid modalities have themselves been a source of erosion of coherent public administration. Faced with weakening administrative capacity, donors were unwilling to fund the public service in general, but sought mechanisms to ensure the operation of those bits and pieces of the system that they took to be important, or which were seen as necessary for implementing their own programs. This was done by such devices as project management units, special secretariats created to take on key tasks, the use of national consultants on more attractive terms than the civil service, etc. The result was that aid supported activities became an important source of distortions in the public sector salary structure and demoralisation of those officers not benefiting from donor projects. In those many cases where aid became the major source of development finance, the dysfunctional impact became a serious source of capacity erosion. And aid supported administrative reform projects have often incorporated precisely those modalities that have disrupted the smooth functioning of civil service incentive systems. Aid dependence became part of the problem, rather than the means to a solution.

ii. Governance and the recognition of the importance of institutions[7]

Another critical factor propelling the intrusion of governance issues into the pure world of the economist was the recognition of the importance of institutions for the effective operation of markets. Probably many economists working in established market economies neglected the importance of institutions because they implicitly assumed the existence of the institutions conditioning markets in their own economies, without bothering to analyse their origins or functioning. In fact, it is not surprising that the scholarly impetus to study the role of economic institutions came from economic historians.[8]

The critical importance of institutions became clear in the context of the transitional economies. When planned economies began the transition to the market, the importance of many institutions became clearer because of their absence. In most developing economies,

[7] See Brian Van Arkadie "The Role of Institutions in Development" Proceedings of the First Annual World Conference on Development Economics 1990 (World Bank, Washington)

[8] Most notably in recent years Douglas North, who received the Nobel Prize for his work on the role of institutions, but also other leading economic historians, such as Alexander Gerschonkron, had recognized the importance of institutions in a much earlier literature.

while the institutions required for effective markets may have existed in principle (such as systems of commercial law, secure land tenure, etc.), they may not have functioned adequately in practice.

While markets in economic models are abstractions, in reality they are institutions, governed by rules and influenced by the behaviour of the various actors. And effective legal institutions are not only a matter of the enactment of laws, but also the administration of the law. The effectiveness of State in setting up the rules of the game and ensuring their predictable and transparent application emerged as a key and far from simple issue. It became evident that effective governance, seen as the fashioning and implementation of the "rules of the game" that provide the context for the market economy, is of crucial importance for the effective operation of a market economy.

In transitional economies, there was an urgent need for company law, commercial law, bankruptcy laws, banking laws etc.. Land tenure arrangements were a crucial factor in rural development and land law reform a crucial step in the reform process. The legislative task was enormous. But even more challenging has been the development of all the other components that make legal systems work – the judiciary, the legal profession, a popular understanding of the law.

In transitional economies, a key issue for proponents of reform is the degree to which laws and other public institutions are biased in favour of the public sector – the standard metaphor is to argue for a "level playing field" between private and public sectors.

Even more important for the creditability of reform process was the manner in which property rights are created.[9] Property is obviously a key institution in the market, and market reform resulted in and required new patterns of ownership. The way in which property is acquired not only effects efficiency, but also the perceived fairness and legitimacy of a market system. It also affects politics – the appearance of crony capitalism and economic mafias resulted from the use of political power to accumulate illicit wealth by those with political access, and in turn the use of that ill-gotten wealth to influence the political process.

In the African context, there is not the same need to create a formal institutional fabric from scratch as was the case in the former centrally planned economies, but the same issues are of crucial importance in relation to the way the rule of the game are administered. Uncertainty about legal processes, insecure property rights, capricious and arbitrary enforcement of regulations affecting business activities, unpredictable licensing arrangements, ineffective tax administration and rent seeking officials together create a negative environment for business activity.

iii. Governance and the need for commitment (ownership) to sustain policies: governance and the process of policy-making

There has been a useful recognition that the implementation of an effective economic policy regime is not solely or even primarily a matter of professional economic analysis and design,

[9] See the discussion of the legitimacy of property rights in Economic Survey of the Baltic States. B. Van Arkadie and M. Karlsson (F. Pinter London 1992; NYU Press in the US).

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but also of political commitment. Even if economists believed that they had the right policies to sell, they also had to be concerned with factors that determined governments' willingness to buy. The commitment to policies is as important as their substantive content.

An approach that saw policy-making as mainly being about identifying optimal economic solutions neglected a number of issues central to effective economic policy. This became evident when the initial acceptance of reforms and policy packages as aid conditions was not sustained, where there was no commitment to persist with reforms in the face of setbacks, or no effective constituency supporting the reform process. This led to increasing attention being given to the political pre-conditions necessary for effective reform.[10] In particular, donors became concerned with finding mechanisms to transfer the "ownership" of their agenda to their clients. It became evident, even to donors, that economic analysis backed by aid conditionality was not sufficient to ensure effective policy implementation. To carry a difficult package of reforms through, a high level of local commitment was required – there had to be a national constituency to support policies, which could back up the program and sustain it in the face of opposition. All serious reforms threaten some vested interests, and in some cases are perceived to place burdens on the majority of the population.

To carry through a difficult reform agenda it was not enough to push the bitter medicine down the throats of unenthusiastic national authorities, there had to be a national basis of support for policies to be effectively implemented and sustained. In the discussion, this was articulated by positing the need for "national ownership" of policies.

How could the national ownership of policies be achieved? This is an issue very much subject to continuing debate. Some have sought the solution in charismatic leadership – a man on a white horse – or, as in East Asia, authoritarian or quasi-authoritarian regimes. In other cases, support is sought from small technocratic elite.

But where political governance comes into its own is through the recognition that the most durable support comes from building a consensus among a sufficient group of interests within the political system. Within a democracy, this is likely to imply building support and understanding in the ruling party as well as among the larger public. This is not to say that democratic processes necessarily lead to broad support for "good" economic policies, nor that effective consensus building in support of economic reform is not possible in a one-party state. In Viet Nam, a one party Communist system, where I have worked during the past twelve years, an aggressive program of market reforms was carried through supported by a consensus crafted by extended discussion, negotiation and careful consensus building within the one-party system.

If policies promote change, there will always be some groups whose interests are threatened. Compromises may be necessary to put together coalitions of interest that see change as consistent with their perceived interests. This is not primarily a matter of "selling" policies, but rather of crafting an effective political process whereby policies are developed. Support is more likely for a policy package that has emerged from a formulation process based in the

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[10] See the World Bank research study on the political economy of structural adjustment, ed. I.Attiyas (1996),

national decision-making structure, in which the concerns of a potential constituency are addressed, and least likely if the policy package is crafted by external experts.

This has implications for the aid relationship. Over long periods of aid dependence, donors have become accustomed to taking the initiative in defining policies, not only through conditionality mechanisms, but also by taking the initiative in identifying, preparing and appraising projects, producing reports defining sectoral; policy options and in effect determining the development budget. This process shifts responsibility from national authorities, who can hardly feel responsible for or be held accountable for programs initiated and designed by others. In effect, it has been a process of infantilisation, which has drained initiative and responsibility away from national governments.

It is not surprising if the result has been the lack of national ownership of the resulting programs. Accountability, ownership and responsibility imply control. If programs are not controlled by the national authorities and, in a fundamental sense, do not emerge from the national decision-making process, then national governance is a sham. And the reality will not be changed by a process of "consultation", orchestrated and funded by donors, with outcomes largely pre-determined by donor priorities.[11]

In this regard, the shift being made by donors to budgetary and program support mechanisms and away from project support could provide the base for greater national control and real decision-making, the necessary pre-condition for more effective national allocation mechanisms. However, it could have the reverse effect, if donors seek to use the shift to program aid as an occasion for introducing more general policy conditionality to replace the loss of control previously exercised at the project level. For program support to become the vehicle for "national ownership", donors would need to take the gamble of allowing national governments to control the disposition of the pocket money they are allocated.

5. Governance as a political agenda

In the development literature, the current emphasis on governance has been heavily promoted by donors, both as a response to perceived limitations in traditional approaches to economic policy and as a vehicle for promoting donor political agendas. In addition to effective government being seen as an *instrument* for the achievement of economic growth objectives, governance concerns were also increasingly promoted as *ends* in themselves. The donor community became increasingly assertive in promoting new social and political goals as cross-cutting issues motivating their approaches to external assistance.

The distinction is not clear-cut; gender awareness, participation of civil society, decentralisation and multi-party democracy have been promoted both as desirable in themselves and as necessary components of a successful growth strategy. Thus such key governance concerns as anti-corruption were promoted both because corrupt practices were

[11] In an earlier comment to the World Bank on aid dialogue, I commented that in some for a the Bank in effect played the role of a ventriloquist, managing and on occasions even drafting statements on both sides of the discourse. Later I discovered it was a bad metaphor, as the term ventriloquist was not in wide currency among the majority of English-users for whom it is a second language.

perceived as socially objectionable as such, and were argued on the basis of convincing evidence to be a barrier to economic progress.

i. Contradictions in the donor agenda

The use of aid to promote strategic and commercial interests has long been recognised as compromising the development impact of aid programs. There may also be contradictions in the use of aid as a vehicle for the promotion of a more benign agenda.

This assertion of goals that incorporate the prevailing values of donors is understandable enough, but has real dangers. One problem is the susceptibility of donors to development thinking that responds to changes in the state of opinion and pressure from lobbies in the donor countries, rather than relating to the specific conditions in recipient countries. Apart from any larger philosophical questions regarding the use of the aid relationship for the promotion of political values, at the very practical level political ideas, whatever their intrinsic merits, are most likely to take root when they respond to the current needs and balance of forces in the society where they are being planted, rather than reflecting the factors conditioning thinking abroad. Even if goals such as political freedom and gender equality can be defended as universally applicable, their successful pursuit is more likely when initiatives have deep national roots.

The changing donor governance agenda, as it becomes loaded with politically correct items, may be of questionable viability at it places strong pressures on fragile political institutions. As countries struggle to make the institutions of multi-party electoral democracy work, a new donor rhetoric gains currency, advocating decentralisation, local empowerment and the engagement of "civil society".

There are risks of confusion in the proliferation of objectives. Over the past two decades, governments in Africa have received a mixed message from the donor community. On the one hand, in the 1980's they were advised in quite clear terms that the capacity of government was severely limited, and that therefore the extent of government intervention in the economy should be severely curtailed. But subsequently they have been requested to incorporate a whole range of social engineering and political goals, carrying the implication that the State can "fine tune" its interventions to achieve quite sophisticated objectives.[12] A judgement is required about how much can be achieved, or else in this arena, as in earlier economic management failures, the attempt to do too much too fast may become a recipe for failure.

Even more worrying is the inherent contradiction in the donor role – what might be called the "governance of governance" issue. This arises because the very intrusion of donors into political processes itself poses controversial issues of governance. This not only relates to the now widely recognised contradiction outlined above, the conflict between the donor compulsion to design and enforce policies and the desirability of establishing ownership by national government, but also to ambitions to promote broader ownership, with governments being held accountable to its citizens.

[12] See paper by Brian Van Arkadie and Harris Mule in Aid: dialogue or domination eds. Kvell Haavnevik and Brian Van Arkadie, Nordic Institute of African Studies Uppsala 1996.

One route to political accountability is through governments being answerable to representative political institutions, hence the promotion of multi-party credible electoral processes. But how are elected representative bodies to be included in policy making processes constrained by donor conditionality? When there is a conflict between the views of such bodies and the packages promoted by the donor community, how is that resolved?

The potential conflict becomes clear when, having encouraged the election of representative government bodies, donors find the resulting decisions are not very consistent with "good" economic policy – so that donors quickly find themselves trying to constrain and even bypass the elected representative bodies.

ii. "Civil Society" and the role of representative institutions

Having supported the opening up of electoral processes, donors sometimes seem to have little faith in the outcomes. How often are governments encouraged to adjust economic policies in light of parliamentary views? Instead, the current fashion is to down-play the formal political process in favour of a broader, and ill-defined, concept of consultation, encapsulated in the term "civil society".

In the aid community, the need for consulting civil society is now the accepted conventional wisdom, and at first sight and in principle it would seem to be a good thing. However, what consultation should be in practice remains unclear. For example, in the current Poverty Reduction Strategy process, that many countries have been undertaking in relation to the HIPC arrangement, there is a good deal of emphasis on consulting civil society. All to the good, but who is to define civil society, and who is to be invited to the table?

The desired nature of the consultative processes, which are increasingly promoted by donors, remains rather unclear. It has led to a shift in emphasis from consultation with elected representatives (making formal political institutions work) to subjecting policies to informal consultations with representatives of concerned groups. There are risks of such donor sponsored consultative processes becoming a parallel and competing system to that of formal political accountability through elected political bodies, perhaps particularly unfortunate at a time when the critical importance of electoral processes is also being promoted. Moreover, the criteria by which those to be consulted are selected is unclear, subsumed under the nebulous concept of "civil society".[13]

What is civil society? Is it the citizenry at large? In which case, the only plausible consultative process is through the electoral system, unless it is proposed that be displaced by referenda or opinion polls (or even "focus groups"?)

Or is it the various organised interest groups (e.g. trade unions, farmers associations, Chambers of Commerce, etc.)? The obvious weakness with such an approach is that the main intended aid beneficiaries, the poor, are precisely the least organised, with their interest least represented by organised interest groups.

[13] Recently, in participating in an evaluation of the PRSP process in Tanzania, it was made quite clear that one evaluation criterion should be the effectiveness of government's consultations with "civil society". However, there was a astonishing lack of clarity among representatives of the donor community regarding what that term meant in practice.

A chosen way out of this dilemma is to identify NGO's as the appropriate voice of civil society. It can be argued that while national NGO's can rarely claim the sort of broad base that would justify a claim to represent a large constituency, they typically seek to serve the interests of the poor and under-privileged (e.g. women), or a more general community interest (e.g. environmental or anti-corruption concerns). While such claims may be merited by many NGO's, their role remains ambiguous. Who do they in fact represent and by what processes do they establish their credentials? Many NGO's are themselves sustained by donors, and are largely made up of small groups of middle-class development activists, often astute at assessing donor preferences. The truly poor are rarely organised and represented in policy dialogue.

Given the resources at the disposal of donors it is only too easy to create an apparent constituency for the donor reform agenda, for example through the funding of NGO's, which are non-government in the sense that they are independent of the national authorities, but which are only too often in effect donor organisations, the creatures of donor agencies responding to the powerful stimulus of donor funding. .[14]. With their middle class, professional leadership it is not difficult for many NGO's to become a link in a paternalistic chain, extending from the donor to the intended beneficiaries.

Another danger is that the consultation processes proposed could result in the co-option of possible dissent, or to lay a sort of Blairite spin-doctor's veneer over the harsher realities of policy-making. There are many issues that still need to be addressed.

The role of international NGO's in the governance of aid is also subject to ambiguity. Those international NGO's able to use leverage with development agencies to push their own agendas are caught in a contradiction. Although their objectives may be admirable, the use of donor leverage to further them is in conflict with the goal of national sovereignty for developing nations that most progressive NGO's would also subscribe to. No doubt it is preferable that donor agencies are influenced to promote progressive objectives, rather than being mainly subject to commercial influences or strategic concerns, but ultimately a process in which donors set the policy agenda, desirable in content or not, infantilizes national political processes, donor paternalism obscuring accountability for decisions.

iii. Consultation as a means and an end

With the introduction of new approaches to governance there is also some times a confusion of means and ends, so that the actual purpose of development interventions becomes unclear. If decentralisation and consultation become ends in themselves, expenditures and interventions can be justified because they promote such activity, irrespective of whether they contribute to an intended material outcome.

Insofar as the main objective of consultation is to draw on local knowledge in program design, consultation has an instrumental role and is justified (or not) insofar as it contributes

[14] A true anecdote well illustrates the process at work. Over some years I became friends with a young Vietnamese, who was working his way through university by holding down a hotel job. We often discussed future career possibilities following his graduation. About a year ago, returning to that theme, one day he said to me "Brian there is a very profitable new business that is developing fast in Hanoi called NGO's. Was I familiar with it?"

to the better adjustment of a program to local conditions and preferences.[15] However, there seems to be a sense in which consultation is valued irrespective of any instrumental outcome. The emphasis on what, in an earlier age, would have been described as a "community development" approach has obvious merits; however consultation is time consuming, involving real economic costs to participants. Those who participate may do so expecting a material return and may be unpersuaded of the intrinsic merits of meetings.

Moreover, the proliferation of governance related objectives in project design may obscure the appraisal and evaluation of the intended material outcomes.

6. The need for a deeper analysis – some examples

The following critical paragraphs are based on personal observation of how governance issues seem to be used in practice in the aid dialogue in the African setting. As such, they do not respond to academic treatment of the issues, but rather reflect the treatment of governance in the day to day practice of the aid community.

Such observation suggests that to meet the legitimate concerns for the social and political dimensions of development programs there may need to be a more careful specification of intentions and more profound investigation of social reality than is typically attempted in most public program formulation. The following paragraphs seek to offer some examples of areas where greater clarity is required.

<u>i, The political model</u>

The model of the good society informing the good governance dialogue is typically left implicit. It seems to involve a vision of a pluralistic society, with formal political processes that are democratic, a public service which operates effectively and honestly, subject to consultative processes engaging organisations representing the various legitimate interests in society and local communities.

Insofar as formal political institutions are concerned, although there is controversy, a coherent body of doctrine is emerging about what constitutes proper process – there should be more than one party and political power should be transferred through elections which are free and fair according to emerging international criteria. This is, of course, an attractive vision of the prerequisites for democratic process.

However, such an approach rules out of court any possible merits of one party rule, although a number of the development successes of the 1970's, 80's and 90's were implemented under *de jure* (China, Vietnam) or *de facto* (Singapore, colonial Hong Kong, Korea for extended periods, Taiwan) one-party regimes.

There would obviously be great difficulties with the incorporation of the political governance agenda, as described above, into approaches to development policy if comparative study were to suggest that even if the democratic, pluralistic society is an

[15] The strength of the case made over the years by Robert Chambers for "bottom-up" programming derived particularly from the evidence that the local community and peasant farmers had access to knowledge critical for the success of agricultural projects.

attractive goal, it may not be always compatible with the requirements for fast growth in poor countries. The difficulty becomes greater if, in particular situations, it appears that higher levels of economic welfare may be a prerequisite for the stable political institutions with the desired governance characteristics. The historical record of a number of countries seems to have incorporated a sequence of authoritarian government and high economic growth leading only later to a process of democratisation. Such a model might even suggest the awkward possibility that authoritarian regimes may be some cases be the precursor for subsequent democratic “good governance”.

This should not be taken to argue that authoritarian regimes have in general been consistent with economic growth. There have been more cases of kleptocratic dictators than authoritarian “development states”. However, it does suggest that in addition to exploring why systems are more or less democratic, it may be of equal interest to explore why some authoritarian regimes have promoted economic growth while others have been quite economically dysfunctional.

The view that a particular model of good governance is viable and consistent with economic growth and poverty alleviation cannot be adopted as axiomatic and applicable to all countries; it has to be established by analysis and evidence. The underlying difficulty is that donor political doctrines are more axiomatic than evidence based.

ii. Decentralisation as a goal

One donor axiom which seems to have gained widespread currency in recent years is that decentralised development will be more responsive to grass-root needs, and that therefore political decentralisation should be promoted, particularly in the context of the pursuit of poverty alleviation.

The potential merits of decentralisation derive from the premise that local government, being closer to the people, will be more responsive to their needs.

However difficulties arise from the anodyne vision of society implicit in some of the approaches to decentralisation and “bottom-up” decision-making. Are the local communities presumed to be homogeneous? It is interesting that the donor vision of rural society seems to be of a village community based on equality and shared interest (rather similar to Julius Nyerere’s vision of the Ujamaa village), a building block for a democratic participatory process, which was flawed in its failure to reflect critical potential conflicts of interest (e.g. between bureaucrats and villagers; between family and village, etc.).

An additional axiom of donor thinking seems to be that the more local (decentralised) the decision-making process, the more egalitarian, participatory, fair and free from corruption it will be. Under some circumstances this may be true, but it is not a universal or axiomatic case. Decision-making processes and public resources can be captured by elites and interest groups at the local level even more readily than at the national level. Experience suggests that local government is as likely to be captured by local interest groups (e.g. landowners, local business people, local party machines) as to reflect grass-roots concerns. The realities of economic inequalities, social differentiation and patron-client political networks seem to be ignored in the appeal to bottom-up, participatory processes.

Nor does available electoral evidence suggest that constituents typically feel that local government is closer to their concerns than national government. It is an almost universal experience that participation in local elections is less than in national elections, and often very much so.

As decentralisation is demanding in the use of personnel and can be fiscally expensive, there needs to be a strong case made that it is likely to deliver what is hoped of it in the particular circumstances in which it is being promoted.

iii. Who and what are the "stakeholders"

In addition to the concept of consulting "civil society" at the policy-making level, there is also a new emphasis on involving "stakeholders" in project and program preparation and implementation. "Stakeholder" is another popular but ill-defined term in the governance vocabulary.

Recently, in examining the donor portfolio of agricultural projects in Tanzania, the influence of current fashions was obvious. Most projects included references to procedures to ensure the participation of "stake-holders" in decision-making, "bottom-up" approaches, the "empowerment" of farmers, engagement of civil society and the promotion of decentralisation.

However, it is surprising that rarely, if at all, is any effort made to define the term or identify who are the stakeholders in question. In an agricultural project, are they the farmers, or landlords, or the consumers, or the traders and processors? When differing stakeholders' interests conflict, how is the conflict to be resolved? Insofar as the economic interests of these groups are in conflict, is consultation, rather than competitive market transactions, the appropriate means of resolution?

Insofar as it goes beyond a woolly verbiage, the emphasis on consultation of stakeholders seems to imply two things: that collective decision-making by the various interest groups in usually a good thing, and that the interests of the various stakeholders can be conciliated through a consultative process.

Adam Smith, in **The Wealth of Nations**, pointed out how a gathering of interest groups (e.g. traders) was more likely to lead to collusion in the particular interest, than the promotion of the public good. And it is not difficult to think of instances where the "stake-holders" are also the "rent-seekers".

Moreover, whereas some conflicts can be resolved through consultation (particularly where there is a positive sum game), economic decisions more typically involve choices between meeting competing interests, which either require resolution through a central allocative mechanism (e.g. the national budget) or through the market.

iv. Good governance and equity

A particular sense in which "good governance" is now seen as more than just an instrument for the achievement of economic policy goals but as an end in itself is in relation to issues of distribution, equity and poverty reduction. A responsive and just system of government is important both as a social goal and for its instrumental role in promoting an equitable pattern of growth.

In particular, it seems to be increasingly recognised that good governance implies a willingness of the State to promote economic equity. This means that even though market instruments are used, they are not worshipped. There seems to be increasing recognition that where necessary, the State should intervene to protect the weak and promote the interests of the poor. That is all to the good.

This is not to say that market solutions are necessarily unresponsive to the needs of the poor. Rapid market based growth can lead to poverty alleviation. Indeed, where systems of intervention and control have been used to bolster the interests of better-off groups, liberalisation may benefit the poor.[16] Even much criticised Structural Adjustment programs, with associated devaluations and decontrols, in many countries initially shifted the terms of trade in favour of the peasantry.

The strong case that poverty alleviation and market led economic growth can go hand in hand draws on the evidence of East Asia, where market based, export-led strategies resulted in high rates of growth associated with remarkable reductions in poverty. This was true under a range of different political regimes, in Taiwan, Singapore and South Korea, as well as the People's Republic of China, and now Viet Nam. However, the evidence also suggests that although that has happened in some cases, the consistency of growth and poverty alleviation may not be the general case[17], but may require special conditions (e.g. in some societies, the benefits of growth were spread widely following radical land reform and dramatic social change – as in China and Vietnam).

Before celebrating the East Asian experience as demonstrating the absence of the market-equity dilemma, a number of points should be noted about characteristics of the East Asian experience in addition to the commitment to the market based, export-led strategy.

The first relates to initial conditions. The successes generally started with a reasonable degree of rural equality in terms of access to land, whether as a result of communist revolution (PRC and Viet Nam) or American sponsored post-war land reforms. Property relations were changed by the forceful State action.

Secondly, all the East Asian successes involved a strong commitment to investment in the human capital stock, not only through universal primary education but also through massive investments in higher education.

Thirdly, although quite committed to market-led export growth, the range of tactics adopted in relation to State intervention has been broad and heterodox, ranging from Korean support for big business, to Singapore's version of the welfare State, to the continuation of the leading role for a partially reformed State owned sector in PRC and Viet Nam.

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[16] This was certainly the hope of economic reformers in post-Marcos Philippines, where the crony-capitalism interventionism of the Marcos era had benefited the economic elite and underpinned economic inequality.

All this suggests that in the East Asian experience there were a wide range of economic governance mechanisms, in the sense of State interventions in the economy and in the nature of the political regimes, but while they differed they were all responsive to the needs of economic growth and ensured the reasonable diffusion of benefits, particularly through education and access to land, throughout society. Market yes, but with policies sensitively crafted to reflect local political and economic realities, and with a political economy which makes it plausible that there will be a diffusion of the benefits of growth.

There have been other experiences where growth has not been associated with such a broad diffusion of benefits, with negative social consequences and also, arguably, where unequal patterns of growth have contributed to economic stalemate. This is one possible interpretation of the history of many Latin American countries and in Asia, Pakistan and Indonesia enjoyed periods of high growth that were neither sustained nor led to broad diffusion of benefits.

This paper had its origins in participation in an OECD-South Africa Dialogue, and while this discussion has not sought to address South African issues, it is fitting to note that managing the governance-growth-equity nexus is likely to be central to the future of that country. The proceedings of that Dialogue demonstrated the degree to which the government of South Africa have been walking a political tight-rope, having to balance the need to maintain a policy regime that encourages business against the need to meet the aspirations of the mass of the population. The underlying dilemmas of policy-making in that setting are not going to be resolved in the short-term, and establishing governance that both provides a stable environment for economic growth while responding to popular aspirations may become increasingly difficult. This will involve not only an emphasis on the need for stable macroeconomic policy and efficient incentives, the typical stuff of economists' approaches to policy discussion, but also how such policies can be combined with vigorous action to increase African access to education, jobs and property. This is likely to require an honest engagement in analysing areas where there are positive sum gains to be played out (particularly over the longer term, faster social and economic change is likely to under-pin the stability that will be to the general economic benefit), and areas where choices will have to be made and governance will have to manage difficult shifts in the balance of income and wealth.

7. A concluding comment

From an Africa-wide perspective, the key question that now needs to be addressed is whether models of governance now being promoted (e.g. through the PRSP process, and NEPAD, the new initiative for African development) will make the State more responsive to the potential for broad based development, or whether it will be another instance of donor rhetoric promoting approaches that fail to root in local realities. The fundamental difficulty for the outsider is to come to terms with political and social realities as they exist, and to judge what is appropriate and what is possible given those realities, rather than promoting images of society largely based on an idealised interpretation (typically not very deep) of OECD experience.