

WHAT DONORS MEAN BY GOOD GOVERNANCE

HEROIC ENDS, LIMITED MEANS, AND TRADITIONAL DILEMMAS OF DEVELOPMENT COOPERATION

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I INTRODUCTION

Why are the ambitions of economic development and reform so often disappointed, especially in low-income countries? One possible answer is that conventional reform strategies are seriously wrong. Most economists, probably, would not subscribe to such a verdict. A fairly broad consensus has emerged that there is no way but to adopt prudent macro-economic policies, implement outward-oriented strategies, and remove distortions in goods and factor markets.¹ Another answer is, thus, that good plans are not implemented properly. Frequently, economic recommendations fall on institutionally barren ground (Borner, Brunetti and Weder 1993) and reforms are stalled because of internal bottlenecks in terms of governance. In other words, Western advisers and donors have neglected the political economy of decision making in low-income countries, while overtaxing the existing texture of their societies (Hiemenz 1989: 24).

Past failures suggest that development economists have to offer more than 'price mechanists' (Lal 1983: 107) typically have done. This is not to deny that their principal message of getting the prices right, according to which market forces should be relied upon as far as possible, is still relevant. However, in order for markets to work efficiently in low-income countries, the institutional and political framework must no longer be ignored (see also Williamson 1994). Consequently, the recent discussion on development cooperation has centred around institution building and good governance.

It is quite easy to agree on the importance of adequate institutions and good governance in principle, but, typically, the exact meaning of these terms and the role of external donors in this area are not precisely defined. A rather confusing variety of catchwords is mentioned: property rights, participatory development, rule of law, administrative capacity building, and investment in human capital are only a few among them. For example, the World Bank (1994a:

2) concludes from a recent assessment of economic adjustment programmes in sub-Saharan Africa: 'Adjustment alone will not put countries on a sustained, poverty-reducing growth path. That is the challenge of long-term development, which requires better economic policies and more investment in human capital, infrastructure, and institution-building, along with better governance'.

It is clearly beyond the scope of this short paper to clarify the confusion prevailing in the present discussion. In what follows the focus is on donor perspectives with regard to revising and extending bilateral aid policies. Section 2 summarizes and critically discusses one of the potentially influential documents, i.e. the recent OECD publication on orientations of the Development Assistance Committee (DAC) on participatory development and good governance (OECD 1994).² These orientations were endorsed by the DAC at its High Level Meeting in December 1993 and may indicate the donors' future stance in bilateral development cooperation. Subsequently, we will argue that only limited means are available to achieve the impressive – though not always consistent – list of heroic ends (Section 3). What is feasible largely resembles earlier suggestions for reforming traditional aid policies. In Section 4, it will be discussed whether a bottom-up approach with respect to participatory development offers a promising alternative to the top-down approach applied by public international aid agencies. Section 5 concludes that changing donor perspectives will have little impact unless aid recipients are ready to tackle the fundamental bottlenecks hampering economic and social development in their own realm.

2 HEROIC DONOR PERSPECTIVES

The OECD document on participation and governance (OECD 1994) presents a most impressive agenda for achieving sustained economic and social development in Third World economies. It

¹ For a detailed presentation of widely agreed reform elements of the so-called Washington consensus, see Williamson (1990).

² For the World Bank's perceptions and experience, see World Bank (1992; 1994b).

addresses a fairly wide range of issues and identifies a number of close to 100 policy measures, part of which are broadly defined while others are highly specific. The document covers five topics and, thereby, applies a most comprehensive definition of sociopolitical conditions for development. The topics are: (i) participatory development, (ii) democratization, (iii) good governance including the rule of law, public sector management, controlling corruption and reducing military expenditure, (iv) human rights, and (v) coherence and coordination of donor policies.

Participatory development or popular participation is defined as a process by which people take an active and influential hand in shaping decisions that affect their lives. Empowering groups, communities, and organizations to negotiate with political institutions and bureaucracies is considered essential for influencing public policy, providing a check on government discretion, as well as enhancing the effectiveness and sustainability of development programmes. The request for popular participation ranges from the grassroots level to the political life of the country. Participatory development is linked to equity goals of external aid policies. Priority is attached to programmes providing effective services for education, training, and health for the population, with equal access for women. Practically, donors are requested:

- to support grassroots organizations and intermediary organizations such as professional associations, consumer groups, and trade unions;
- to involve all project stakeholders in programme design and implementation, and
- to provide support for decentralization programmes.

Most development economists will probably agree that human resource development is a precondition for popular participation. They have argued for years that external aid should be focused on basic education, training and health services. However, the aforementioned areas for DAC action involve several problems which cannot simply be ignored. For example, the experience of NGOs suggests that popular participation in aid programmes is

frequently resisted by Third World governments as it may undermine the power base of the ruling élites. So far it is completely open to question whether and in which way donor governments can overcome the widespread resistance to participatory development. Furthermore, it appears to be somewhat naive to assume that more participation and decentralization will automatically result in greater efficiency of aid projects. Exactly the opposite may happen if the conflicting demands of various groups and institutions have to be identified and coordinated in a time-consuming negotiation process.

The second topic, i.e. **democratization**, 'integrates participation into the political life of the country' (OECD 1994: 12). Democratic principles revolve around the keywords consent, legitimacy of the government and accountability to the people. Periodic free and fair elections are considered to be an essential feature of functioning democracies. Democratization requires 'the development of a pluralist civil society comprised of a range of institutions and associations which represent diverse interests and provide a counterweight to government' (*ibid.*). Hence, the OECD document calls for donors supporting pluralism and better access to information, as well as helping improve the functioning of representative political institutions, electoral processes and consultative mechanisms.

Donors consider democratization to be of intrinsic value. In addition, they are tempted to sell the idea that political and economic progress are closely associated. The empirical foundations of this reasoning are weak, however.³ The ambiguities are particularly pronounced when it comes to the question of causation. Sometimes, e.g. in the case of China, it is argued that the public demand for democratization will rise only after economic progress has been achieved. If so, economic development would be a major determinant of political liberalization. The available evidence at least provides little justification to assume causation running from democratization to better economic performance. The best performers among the developing countries are located in Southeast Asia, and most governments in this region have little reputation with respect to early moves towards Western style democracy.

³ See also Moore and Robinson (1994). Haggard and Kaufman (1989: 233) argue that democratic and authoritarian categories are too broad to be of analytic use. Specifically, there is 'no systematic

association between either democracy or dictatorship and the ability to stabilize'.

By contrast, many Asian governments stand out in terms of their determination 'to use ... political authority and exercise ... control in a society in relation to the management of its resources for social and economic development' (OECD 1994: 14), which appears to be a widely used definition of **good governance**. This implies that DAC orientations on participation and democratization on the one hand, and governance on the other hand may involve serious conflicts and trade-offs.

A closer look at the elements that the DAC considers to be part of good governance reveals that even the best performers in Asia would not pass the test. This is primarily because controlling corruption is one of the dimensions of good governance according to the OECD document. Another one concerns the request for reducing military expenditure if it is 'excessive' so that development needs are sacrificed. Not surprisingly, however, donor perceptions are rather vague on how to improve governance in these respects. The problem of corruption shall be tackled by exposing corrupt practices, e.g. in the media, and reducing the opportunities for corruption, e.g. through greater reliance on transparent and competitive bidding processes in public procurement and on auctions in foreign exchange allocation. The difficulties in reducing military expenditure start with defining what is excessive in a particular case. Moreover, if donors cease to provide aid which may have helped sustaining excessive military spending, it is open to question whether the military or the population will be the first to suffer from such a move. Most importantly, Western aid administrations face tremendous credibility problems in campaigning against military spending as long as other government departments in donor countries are deeply involved in promoting arms exports to developing countries (Moore and Robinson 1994: 148).

More concrete suggestions are made with respect to the two remaining dimensions of good governance, i.e. the rule of law and efficient public sector management. It is beyond serious doubt that inefficiencies in the legal system increase business costs, discourage investors and obstruct economic development. Such inefficiencies include the lack of predictability in the legal environment, the lack of an independent court system, delays in handling legal conflicts and insufficient enforcement of court decisions. A wide range of technical assistance by external donors may help to strengthen the rule of

law. Donor support may relate to the dissemination of legal information, 'legal literacy' programmes, the design of appropriate and enforceable legal provisions for property rights, trade and investment, as well as training the legal staff.

Public sector reform is frequently required for two related reasons. On the one hand, many governments are tempted to extend their activities far beyond their role in providing public goods. Streamlining and reducing the size of public sector institutions is particularly important where 'government market intervention ... (is) bordering on state economic management' (Hiemenz 1989: 6). On the other hand, overcharged governments typically fail to fulfil their key tasks, among which the establishment of a predictable, coherent and transparent framework of basic rules and regulations guiding private economic activities figures prominently. Put differently, good governance calls for strong, though small governments. For example, governments must be strong enough to resist well organized pressure groups. Obviously, this may involve conflicts with greater participation in public decision making. While such internal inconsistencies are largely ignored in the OECD document, the DAC agenda offers detailed suggestions to strengthen the competence of governments and public administrations in formulating and implementing appropriate policies. The long list of areas for action comprises:

- improved accounting by training the relevant staff and modernizing accounting and auditing procedures;
- improved budgeting and expenditure management, e.g. through efficient information systems, effective tax and customs administration, and technical support granted to finance ministries and central banks;
- civil service reform, which requires reliable data on employees, ghost employees, and payrolls in the first place, and may then proceed to appropriate adjustment measures.

As concerns **human rights**, a substantial body of international laws and agreements such as the 1993 Vienna Declaration can be referred to. DAC members expect developing country governments 'to share a common commitment to securing the human rights of all human beings, regardless of

gender, ethnic identity, religion, race or socio-economic status' (OECD 1994: 22). In contrast to aid recipients, the human rights definition of external donors focuses on civil and political liberties, rather than socio-economic rights (Moore and Robinson 1994). However, the DAC acknowledges that extreme poverty has to be reduced by coordinated efforts of both donors and recipients of aid, since poverty is frequently linked with violations of civil rights, e.g. the widespread discrimination against women.

The donors' inclination to consider the human rights situation in recipient countries when deciding on the allocation of aid has grown since the end of the Cold War, during which politically motivated compromises were all abroad. Nevertheless, the credibility of donor governments continues to be seriously deficient. The critical question is about the donors' reaction if the policy dialogue with aid recipients, which is the approach favoured by donor governments, fails in protecting and promoting human rights. First indications are that donors will not apply the same criteria across all recipients when a reduction or suspension of aid is called for due to persistent violations of human rights. The recent termination of sanctions against China suggests that human rights are sacrificed sooner or later once significant export interests of industrial countries are at stake. It can safely be assumed that tougher standards will be applied in dealing with countries with small and stagnant markets.

As is evident from the previous discussion, the DAC orientations on participation and governance necessitate **coherence and coordination** of donor policies. As a matter of fact, the OECD document addresses this issue in a short section. However, a list of specific areas for action is missing, which is in striking contrast to all other sections of the document. The DAC appeal to improve policy coherence within donor governments 'by promoting horizontal approaches to the issues encompassed in participatory development and good governance in developing countries' (OECD 1994: 25) will probably have little impact as aid ministries and agencies typically rank low in the power structure of donor governments. Furthermore, coordination of donor policies at the DAC level will prove difficult. For example, the US approach towards democratization in developing countries, with its vigorous insistence on formal electoral processes, is significantly different from the European approach (for details, see Moore and Robinson 1994: 147).

3 WHAT DONORS CAN ACTUALLY DO: LIMITED MEANS AND TRADITIONAL DILEMMAS

So far we may conclude that DAC donors have presented an impressive list of topical issues related to greater participation and improved governance. There is little to quarrel about the desirability of these aims. However, the list involves various problems which may render it rather difficult to achieve these aims. First of all, the consistency of objectives listed in the DAC agenda is open to debate. In other words: it may prove impossible to improve the socio-political conditions for development in one specific dimension without compromising other dimensions. The eventuality of trade-offs between different objectives is largely ignored in the OECD document, although the linkages between various topical issues are ambiguous quite obviously. As argued before, democratization does not necessarily lead to better economic performance. Likewise, greater participation by various interest groups in public decision making may compromise good governance, which requires small but strong governments.

Second, the development impact of the agenda is likely to suffer from a lack of credibility on the part of donors. Behavioural changes by recipient governments cannot reasonably be expected if it is anticipated that conflicting interests within the donor countries will have as a result that the rules of the game are not strictly enforced. An obvious example of credibility defects concerns military spending: commitments to reduce military spending are difficult, if not impossible, to enforce by aid agencies as long as other branches of donor governments support arms exports. Likewise, donor policies are not credible if recipient countries are treated differently, e.g. according to their market potential for Western exports.

Third, major problems arise when it comes to the question by which means to achieve the heroic ends and, specifically, what donors can do in this respect. The DAC guidelines refer to incentives and external support on the one hand, and sanctions and conditionality on the other hand:

- 'A deepened and strengthened policy dialogue with development partners is the most important vehicle for advancing ... (donor) concerns at the policy level' (OECD 1994: 9).

- Operationally, the focus of external assistance is placed on local capacity building, i.e. helping partners to develop and harness their own expertise. Better education, especially of women, is – rightly – emphasized as a critical prerequisite to economic, social, and political progress.

- While donors 'wish to rely to the maximum extent on measures of positive support, ... they also wish to be clear about the potential for negative measures affecting the volume and form of their aid, in areas of serious and systematic violations of human rights and brutal reversals from democratization, or when a complete lack of good governance renders efficient and effective aid impossible' (ibid).

Evidently, donors have to rely on traditional concepts and mechanisms of development cooperation in dealing with the demanding issues of participation and governance. We are back to the old and well-known dilemmas of external aid, among which the following figure prominently: First, aid of whatever form and dimension will not turn the tide unless the recipients themselves are determined to establish the institutions and implement the policies required for successful economic and socio-political development. Second, conditionality imposed on aid recipients by external donors has typically failed to compensate for a lack of 'ownership' of economic reform programmes by developing countries. Letters of intent have frequently been signed only to get access to the money involved; dozens of programmes have been abandoned after the transfers had been made. The same is likely to happen if conditionality is extended to institutional and political conditions. Third, donors have rarely been committed to effectively sanction the breach of contractual obligations by aid recipients. As mentioned before, the credibility of donors is particularly deficient in the case of developing countries with promising markets.

In effect, it is little what donors can do beyond supporting moves towards participatory development and attempts at better governance that are initiated from within the developing countries. This is what has been coined **premium approach** in the late 1980s already (Hiemenz 1989). According to this concept, donors should be prepared to reward domestic reform efforts by increasing external support. Empirical evidence suggests that financial

support for governments undertaking reforms has lagged behind their needs in the past. Gulhati and Nallari (1988), for example, argue that it was at least partly due to lacking aid response, particularly by bilateral donors, that policy reforms were abandoned or stagnated in several African countries such as Malawi, Zaire, Zambia, and Uganda.⁴ A reward of reform efforts will, of course, require the specification of criteria upon which aid disbursements can be based, once letters of intent are no longer accepted as sufficient proof of reform-mindedness. An important implication of the premium approach is the request for greater flexibility in aid allocation among developing countries. Country managers in aid institutions should have more discretion to increase or suspend aid flows depending on socioeconomic developments in individual countries. Flexibility of country quotas is especially called for at times of stagnating overall aid volumes.

Also in terms of substance, the recent discussion on participation and governance largely boils down to attaching new labels to rather conventional suggestions for reforming aid policies. If we had to define a common denominator of what appears to be feasible among the DAC orientations, we might refer to the earlier request for **software orientation** of external aid (Hiemenz 1989). This means that aid programmes should concentrate on institution building and human resource development, rather than hardware (such as physical infrastructure) not related to the fundamental bottlenecks of economic and social development in recipient countries.

Provided local governments are committed to reform, institution building may be supported by external donors in various respects:

- The transparency within societies and the access to information may be improved by promoting diversity of written and broadcasted opinion, increasing the flow of relevant economic information, as well as facilitating the establishment and articulation of producer and consumer interests.

- In order to define, protect and enforce property rights, external support may be needed, e.g. for cadastral surveys, land-registration authorities and independent courts.

- External aid may help revising accounting systems which neglect public use aspects of the environment, especially with respect to public health conditions. In this way, donors can contribute to preventing an excessive exploitation of natural resources.

- Efficient financial intermediation may be encouraged if donors provide more technical assistance related to financial accounting systems, credit procedures, branch networks of financial institutions and stock exchange facilities.

- Likewise, external support may foster institutional development in the area of customs and tax administration.

As institution building has an intra-regional dimension, donors may encourage the cooperation among neighbouring countries with respect to institutional development. Institution building at the intra-regional level may comprise: improving communication networks, rationalizing energy investment, strengthening ecological cooperation, joint food security policies, and removing barriers to the movement of goods and factors of production (Hiemenz 1989: 18).

As concerns human resource development, the empirical evidence on the returns to investment in education clearly reveals that the earlier focus of aid policies on higher education was mistaken (see e.g. Psacharopoulos 1993). Similarly, the frequently favoured establishment of sophisticated health care facilities was not suited to local needs. It is mainly basic health care, primary education and vocational training that have been shown to increase productivity. External aid could involve the development of adequate curricula, the training of teachers and the supply of teaching equipment, as well as the improvement of hygienical conditions. NGOs may play an important role in these respects. As far as higher education is concerned, emphasis should be put on the transfer of management and marketing know-how. Finally, external assistance may help to stop the brain drain in many developing countries by supporting improved local research facilities, e.g. in the area of technologies for processing of commodities.

4 A BOTTOM-UP APPROACH TOWARDS PARTICIPATORY DEVELOPMENT: A PROMISING ALTERNATIVE?

The NGOs' contribution to a stronger software orientation of aid policies may well spread beyond more conventional activities in education, training and health care. Some development economists have indeed pinned their faith on NGOs in order to initiate participatory processes from the grassroots level and, thereby, 'building new constituencies for state reform' (Borner, Brunetti and Weder 1993: 208). Such a bottom-up approach is believed to provide a way out of some of the inherent flaws of the top-down approach applied by Western governments and international aid agencies, notably the World Bank.

The activities of official donors, as far as they relate to the agenda on participation and governance, have largely been confined to technical assistance and training programmes for improving public administration and legal systems.⁵ Evidently, such projects fall short of the comprehensive reform agenda outlined above. The reluctance, for example, of the World Bank to enter into politically more sensitive issues related to popular participation may at least partly be attributed to statutory limitations. Furthermore, the well-known problem of intruding into the sovereignty of developing countries is further complicated when conditionality is extended to socio-political reform requirements.

NGOs may be less constrained in terms of their legal mandate and political considerations. Hence, they may be better prepared to engage in the mobilization and organization of marginalized groups and to help establishing new instruments and channels through which these groups can strengthen their participation in the economic and political sphere. This is what Borner, Brunetti and Weder (1993) have called **entitlement and empowerment** of marginalized groups:

- The former aims at participation through better access to the formal economic system. Entitlement comprises: endowing marginalized groups with property rights, e.g. legal titles for land and houses; granting them access to credit; enabling them to appropriate the returns of their investment; offering them access to the legal system; and reducing bureaucratic hurdles in formalizing their business.

⁵ For details and practical examples, see World Bank (1992; 1994b) as well as Borner, Brunetti and Weder (1993).

- The latter aims at improving participation in the political system. Empowerment may start with organizing neighbourhood groups in the informal sector. Intermediary institutions may then provide the link through which political articulation at the grassroots level affects public decision making at the local, provincial and state level.

The proponents of the bottom-up approach argue that the organization of popular pressure and participation from below is a necessary prerequisite for political change and economic progress. They are extremely sceptical about the political system's ability and willingness to truly reform itself. Under such conditions, the effectiveness of the top-down approach may suffer indeed, as official donors have to work mainly through the governments of recipient countries. At the same time, however, the bottom-up approach is bound to fail under such conditions.

The potential of NGOs to foster participatory developments beyond the grassroots level is fairly small. The activities of various NGOs are typically focused on specific projects, coordination among NGOs pursuing different aims is rather weak, and spillovers beyond narrowly defined target groups are uncertain at best. In any case, empowerment from below is an extremely time-consuming process. Most importantly, though, it is rather naive to assume that participatory developments at the grassroots level can be promoted to any significant extent in developing countries whose governments are notoriously unwilling to reform the political and economic systems. If governments are not reform-minded, they will suppress participatory developments wherever they emerge as soon as such developments threaten to undermine the power base of the ruling elites. The experience of NGOs in various countries provides ample evidence to this effect. As concerns entitlement as defined above, the bottom-up approach obviously relies on supportive measures by government authorities. The definition, protection and enforcement of property rights is one of the core activities which governments have to perform. Likewise, better access of marginalized groups to the formal economic and legal system requires a change in political and bureaucratic attitudes by definition. Hence, the bottom-up approach does not provide an alternative to top-down attempts at greater participation

and better governance. Rather, both approaches may supplement each other in countries revealing at least a minimum of domestic reform-mindedness.

5 CONCLUSION

The ongoing discussion on participatory development and good governance arose from growing concerns about the effectiveness of conventional development cooperation. Externally financed programmes and projects often failed to deliver the expected results. Economic recommendations fell on institutionally barren ground, and their implementation suffered from internal bottlenecks in terms of governance. Past failures have motivated donors to consider broader concepts of development cooperation. Participation and governance are emphasized as a means to improve the developing countries' capabilities in coherent policy formulation and implementation and, thereby, achieve sustained economic growth and social development.

The desirability of greater participation and better governance is beyond serious doubt. However, the extended agenda on development cooperation will achieve little to this effect unless traditional dilemmas of external aid are taken into account. The review of the recent DAC orientations reveals that the donors' credibility is still at jeopardy. In order to be credible, donor principles for granting or suspending aid must not be compromised once export interests are at stake. At the same time, donors should be aware that conditionality is unlikely to achieve better results than in the past, if it is extended to socio-political conditions. Experience strongly suggests that external aid cannot turn the tide unless the recipients are ready to tackle the fundamental bottlenecks hampering economic, social and political development in their own realm. Hence, the focus of aid should be on supporting local efforts at economic and political reform. The incentives for recipient governments to initiate such reforms would increase if donors were credibly committed to help stabilizing the economic and social situation of reforming countries during the difficult transition period.

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