

GOVERNANCE, DEVELOPMENT AND AID EFFECTIVENESS: A QUICK GUIDE TO COMPLEX RELATIONSHIPS

The relationship between governance and development has risen up the international policy agenda. There is widespread agreement that governance matters - intrinsically and for improvements in economic and social outcomes (see Box). But what exactly is 'good governance'? In what ways and why does governance vary among countries? When, why and how do governance issues make a difference to the way countries develop? What are the priorities for poor countries? Why does governance matter for aid effectiveness and what can donors do?

Box: The Importance of Governance

'Good governance is perhaps the single most important factor in eradicating poverty and promoting development.'

UN Secretary General, Kofi Annan, 1998

'Of all the ills that kill the poor, none is as lethal as bad government.'

The Economist, 1999

'The issue of good governance and capacity-building is what we believe lies at the core of all of Africa's problems.'

Commission for Africa, 2005

'There is no excuse for any country, no matter how poor, to abuse its citizens, deny them equal protection of the law or leave them victims of corruption, mismanagement or economic irrationality.'

UN Millennium Project, 2005

These are not easy questions to answer, but they are crucial to whether developing countries make economic progress and achieve the Millennium Development Goals (MDGs). This Briefing Paper provides a synthesis of thinking on governance, development and aid effectiveness. The paper is based on an ongoing programme of governance research, advisory work and training. It particularly draws on the findings of *Making Sense of Governance* a recent book that includes an extensive review of the literature, conceptual development and comprehensive empirical governance assessments in 16 countries: Argentina, Bulgaria, Chile, China, India, Indonesia, Jordan, Kyrgyzstan, Mongolia, Pakistan, Peru, The Philippines, Russia, Tanzania, Thailand and Togo.

What is Governance and Why Does it Matter?

Thinking about how best to govern is not a new issue. It was central to Aristotle's thinking about how best to facilitate people's ability to lead 'flourishing lives' in Ancient Greece. There is now a substantial literature on governance. Virtually everyone agrees on some key points. First, that governance refers to processes – how things are done, not just what is done. Second, that discussion of governance requires more than a focus on government. It also relates to the nature of relations between state and society. Governance refers to the nature of rules that regulate the public realm – the space where state and economic and societal actors interact to make decisions.

Part of the problem, however, is that governance is seen as a 'catch-all' concept. Many fail to make distinctions that are important for assessing the relationship between governance and development. Another challenge is that international donors engage with governance in ways to fit their own specific mandates. For example, the World Bank has its own interpretation of governance because its official mandate prevents it from dealing adequately with political issues. It is important to transcend these limitations.

A key lesson is that governance is contextual (see Figure). While it is possible to identify concepts and principles of governance that are universal, they make no sense without adequate contextual references. The particular conditions of each country provide both constraints and opportunities to improve governance. It is also critical to recognise that there are multiple and complex relationships between governance and development. We cluster discussion around two elements: instrumental and constitutive issues.

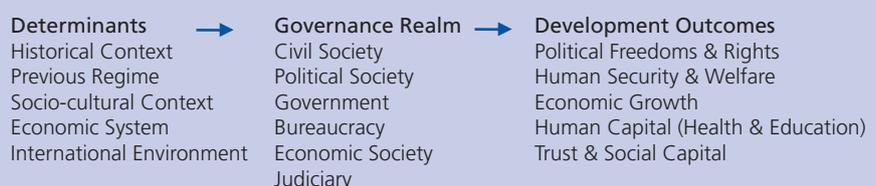
The evidence from cross-country analysis is clear: governance matters instrumentally for socio-economic development performance. Better governance is positively associated with improved investment and growth rates. Government effectiveness, an efficient bureaucracy and rule of law are associated with better economic performance, adult literacy and negatively associated with infant mortality. Corruption hinders development.

On the other hand, some governance issues are seen as constitutive of development. As outlined by Amartya Sen, poverty is not just a matter of being economically deprived. It is defined and sustained by a sense of helplessness and lack of self-respect on the part of the poor. These are not just academic discussions. The *Voices of the Poor* study highlights powerlessness and lack of voice as crucial components of poverty as stated by the poor themselves. The *Gallup Millennium Survey* – the largest ever public opinion survey – highlighted the importance of human rights to ordinary people in both developed and developing countries. On paper at least, there is also overwhelming international agreement about the intrinsic value of democracy, human rights and good governance.

Making Sense of Governance and Operational Implications

It is important to start with a cohesive framework for analysing and addressing governance issues. This must recognise the inherent political character of activities in the governance realm. Literature on political processes and practical experience

Figure: Framework for Analysing Governance and Development



highlight six main ‘arenas’ of governance:

- i. **Civil Society**, where citizens raise and become aware of political issues;
- ii. **Political Society**, where societal interests are aggregated;
- iii. **Government**, executive stewardship of the system as a whole;
- iv. **Bureaucracy**, where policies are implemented;
- v. **Economic Society**, refers to state–market relations; and
- vi. **Judiciary**, where disputes are settled.

But what is ‘good’ governance? Many equate good governance with a Western model of liberal democracy. To go beyond this ethnocentric perspective, it is necessary to relate good governance to a set of universal principles. The *Making Sense of Governance* book identifies six core principles that are widely accepted by researchers and governance stakeholders in developing and transitional societies around the world:

- **Participation**: the degree of involvement by affected stakeholders.
- **Fairness**: the degree to which rules apply equally to everyone in society.
- **Decency**: the degree to which the formation and stewardship of the rules is undertaken without humiliating or harming people.
- **Accountability**: the extent to which political actors are responsible to society for what they say and do.
- **Transparency**: the degree of clarity and openness with which decisions are made.
- **Efficiency**: the extent to which limited human and financial resources are applied without unnecessary waste, delay or corruption.

Each principle can then be applied to each governance arena to give a core set of issues. Table 1 highlights 36 issues, based on theory and practice, that are central to discussions of governance.

Assessing Governance: The Need for Rigorous Independent Approaches

If governance matters, so does the need for more reliable and valid data on key governance processes. Better information can provide a basis for: understanding a context; identifying what

the main challenges and opportunities are – for governance and other aid interventions; identifying reform priorities; and monitoring change.

A serious challenge is the lack of reliable and valid (and comparable) data on key governance concerns. Assessing governance poses challenges that are very different from other socio-economic issues. First, there are few objective or ‘hard’ indicators that make sense, therefore indicators tend to be based on subjective criteria. This is not a fatal drawback – perceptions of efficiency and legitimacy do matter – but such data should be treated with care. Second, governance remains a sensitive issue making it difficult to collect data.

There are increasing numbers of sources of information on governance in developing countries. Some of the approaches used include:

- Specific institutional diagnostics (in key organisations such as tax and customs authorities) can help set benchmarks, monitor governance situations and provide the basis for interventions to improve governance.
- Specific governance indicators, usually generated as part of cross country comparisons, are increasingly used. They remain problematic – generally being provided by international panels comprising only a few individuals or that focus on a narrow set of issues. Public surveys can be more useful.
- Aggregate indicators – developed by the World Bank Institute, these are helpful in providing broad comparative assessments and are a valuable starting point. But, there are many methodological challenges with aggregation and the indicators often have substantial margins of error.

The problem is that existing indicators provide poor measures of key governance processes. More generally, doubts still exist concerning both what we measure and how we do it. Without advance on such issues, it is risky to make judgements about how governance varies across the developing world, what the key issues for reform are and what are appropriate aid interventions.

To help overcome current shortcomings, a team of researchers have developed a new, systematic approach to generating *Comprehensive Governance Assessments* at the national level. The approach has the benefits that it: focuses on key arenas of the political process; adopts a set of universal principles;

Table 1: Governance Fundamentals – Based on Political Arenas and Key Principles

Principle / Arena	Participation	Fairness	Decency	Accountability	Transparency	Efficiency
Civil society	Freedom of association	Society free from discrimination	Freedom of expression	Respect for governing rules	Freedom of the media	Input in policy making
Political society	Legislature representative of society	Policy reflects public preferences	Peaceful competition for political power	Legislators accountable to public	Transparency of political parties	Legislative function affecting policy
Government	Intra-governmental consultation	Adequate standard of living	Personal security of citizens	Security forces subordinated to civilian government	Government provides accurate information	Best use of available resources
Bureaucracy	Higher civil servants’ part of policy-making	Equal access to public services	Civil servants respectful towards citizens	Civil servants accountable for their actions	Clear decision-making process	Merit-based system for recruitment
Economic society	Consultation with the private sector	Regulations equally applied	Government’s respect property rights	Regulating private sector in the public interest	Transparency in economic policy	Interventions free from corruption
Judiciary	Consultative processes of conflict resolution	Equal access to justice for all citizens	Human rights incorporated in national practice	Judicial officers held accountable	Clarity in administering justice	Efficiency of the judicial system

draws on the views of a panel of experts within each country; generates qualitative as well as quantitative information; and is independently managed – adding to its accuracy and legitimacy. By regularly assessing the views on governance among stakeholders in a given country, it becomes increasingly possible to see how governance affects regime legitimacy and development performance.

Key Governance Challenges

The findings of the *Making Sense of Governance* book, comparing 16 developing countries (accounting for 51% of the world's population), highlight significant governance challenges and opportunities. Assessments range considerably across developing countries and over time. Importantly, ratings for specific governance issues also vary greatly within countries; broad or aggregate ratings miss this detail. An indication of the types of empirical findings is provided in Table 2. More generally, some of the more important findings of the book can be summarised as follows with reference to each arena:

Civil Society: Space for civil society is increasingly open. However, public input into policy remains quite limited. Peoples' views tend to be ignored or misrepresented.

Political Society: Most striking here is the low rating for the accountability of legislators. The respondents noted that legislators tend to ignore the public's interests and that many legislators run for office because of financial advantages. Decision-making processes are often not clear and patronage remains prevalent in the public realm.

Government: The good news here is that in many countries the military is increasingly seen as subordinate to civil government. There are also interesting findings on regime type. Governments can gain legitimacy from strong development performance. On its own, being elected is not a guarantee of legitimacy.

Bureaucracy: Ratings for the accountability and transparency of the bureaucracy are generally low. Since bureaucratic accountability and transparency are central for delivering services to the public, they deserve further attention as countries push to achieve the MDGs.

Economic Society: There are multiple comments of a general character to suggest that cronyism and bribery are quite common in the transactions between government and the private sector. Government officials, especially politicians, do not hesitate to ask for a 'piece of the cake' when business transactions are being negotiated. For example, corruption was identified as the number one governance problem in India.

'Right from birth to death nothing happens without bribery and corruption. People can neither live nor die with dignity.' *A governance expert in India*

Judiciary: There are major concerns regarding the quality of justice systems. One is that 'money buys justice'. A second refers to inefficiency and the slow processing of cases – a common view is that 'justice delayed is justice denied'. A third highlights that many of the poor and illiterate people fear to approach the courts.

Improving Governance: What to Focus On and Where to Start?

The broad definition of governance and the high priority attached to it has had an unfortunate byproduct – developing countries are showered with governance issues to consider. Merilee Grindle has made the sensible call to distinguish between the 'essential and the merely desirable'. An outline of the core governance agenda, based on theory and practice, is contained in Table 1. This provides a cohesive and comprehensive set of governance issues that matter for state legitimacy and effectiveness.

The matrix provides a comprehensive, long term agenda for progressive governments. But, where to start? Focus is often crucial, though for some countries it may be necessary to work on certain critical fronts at the same time. Reforms may well complement each other. For example, better service delivery is associated with both transparency and accountability (alone, neither lead to improved performance).

Rather than be ideologically driven, in the short term it is important to start with where a country is.

- i. What is the current situation with regard to the core governance agenda? What are the main barriers and weak points?
- ii. Strategically, it will then be important to focus on reforms that are politically feasible. Experience constantly reminds us that reform is a political not just a technical exercise.
- iii. And local context will affect the approach taken. Experience highlights that countries often deal with similar challenges in quite different ways.

In some countries, there remain constraints to expanding civil and political freedoms. However, substantial progress can be made in other governance areas – administrative performance, state-market relations and rule of law. And these can help accelerate socio-economic development and thereby the legitimacy of a regime. In the longer term, however, advances in civil and political society are seen as a foundation for state legitimacy.

In other contexts, there may be scope for rapid advances in civic freedoms and promoting more open political systems. Such reforms do not necessarily lead to accelerated economic performance, but they are important in their own right. And poor countries across the world – from Tanzania to Mongolia to Chile – have shown that countries do not need to be rich to have relatively high standards of political governance.

Governance Considerations and Aid Policy: Towards a Systematic Approach

Donors now widely accept that the quality of governance does matter for development performance and aid effectiveness. They have expanded their work on governance and political issues. This includes:

Table 2: Governance Assessments: Selected Indicators, 2000

Indicator	Togo	Argentina	India
Freedom of expression	2.55	3.97	4.11
Civil society input in policy making	1.79	1.86	2.61
Legislature representative of society	1.67	2.17	2.83
Legislators accountable to public	1.83	2.20	2.56
Military subordinated to civilian government	1.75	4.23	4.67
Civil servants accountable	1.95	2.11	2.92
Government's respect property rights	2.67	2.74	3.21
Regulations equally applied	2.76	2.36	3.18
Equal access to justice for all citizens	2.19	2.43	2.86
Judicial officers held accountable	2.12	2.21	2.92

Note: The full Governance Assessments include 36 indicators over different time periods. We have highlighted 10 here for three countries for indicative purposes. The higher the rating (on a scale of 1-5), the better governance is perceived by a group of experts from across the governance realm.
For more information, see: http://www.odi.org.uk/wga_governance

- supporting the development of international agreements and initiatives on governance (for example, human rights treaties or the Extractive Industry Transparency Initiative);
- substantial funding and technical assistance for governance reforms and capacity building in developing countries;
- promoting policy processes that foster participation – the PRSP process is one example;
- supporting regional mechanisms for improving governance – such as the African Peer Review Mechanism (APRM).

These are important initiatives and signals. But in many cases, the impact of these interventions has remained limited.

The hottest topic at present concerns how to orient overall aid allocations to better reflect governance considerations. The principle has been accepted by the high-level reports of the UN Millennium Project and Commission for Africa. Basically, more aid would go to countries where it would be used better. This approach could also provide a useful systemic incentive for countries to try to improve governance (which would then have further beneficial spillovers). But the major reports have provided few answers on how to operationalise the approach. The most important – and challenging – policy issue is: how can linking aid to governance be done rigorously and systematically?

Many donors already consider governance issues (as part of a range of considerations) in selecting focus countries or in informing their aid allocations across countries. The World Bank uses the Country Policy and Institutional Assessment (CPIA), which includes governance assessments, for IDA funds. DFID and the Dutch also use the CPIA as part of a model to inform their aid allocation. However, the CPIA is methodologically weak and is not conducted in a transparent manner. The Millennium Challenge Account of the USA uses aggregate governance indicators to help with country selection for extra funding – an improvement and currently the most transparent approach. DFID's Drivers of Change analysis is also a step in the right direction. The bottom line, however, is that no donors do rigorous, transparent governance assessments and link these governance assessments to aid allocation and country programming.

'Without progress in governance, all other reforms will have limited impact.' Commission for Africa, 2005

What should donors do? The first step should be to support more independent, rigorous and detailed governance assessments – and it is critical to draw on the views of local stakeholders. A key issue is to build up local capacity to conduct such assessments. The *Making Sense of Governance* framework and approach provides one way forward. Improved governance assessments can help improve aid policy by identifying useful governance interventions, important governance issues that would affect broader country strategy and criteria for allocating aid across countries.

The next step is to orient the level and type of aid according to the specific conditions in each country. For well governed poor countries it makes sense to provide more aid, over longer periods, through direct budget support to governments, and thus for the range of development activities defined by the country. For poorly governed countries, the approach might mean the provision of limited amounts of aid, for short periods, for humanitarian response, directed through NGOs and oriented towards improving governance. Many countries will lie between these two positions – the key is to find nuanced approaches

regarding quantity, time frame, breadth of activity and type of aid based on rigorous governance assessments.

There are a number of other considerations:

- the findings of governance assessments and the aid-governance 'agreement' between donors and recipients should be made clearer – this could help avoid the start-stop approach to aiding difficult contexts;
- donor support (especially in heavily-aided countries) should not diminish accountability to domestic stakeholders such as local parliaments, private sector and civil society actors;
- donors should coordinate better – this improves the systemic impact of linking aid to governance issues.

A final issue is to be realistic about the lengthy time that it takes for governance constraints to be overcome. Recent arguments to increase aid dramatically seem to assume that governance can be improved quickly enabling aid revenues then to be dramatically boosted. However, if history teaches us anything it is that there is usually no shortcut to building sound institutions in the poorest countries.

Governance matters for development performance and aid effectiveness. This policy brief has put forward ideas on: a set of core governance issues; an approach towards more rigorous governance assessments; and considerations for aid allocation and country programming. More attention needs to go towards assessing governance issues in a comprehensive, rigorous and independent manner – and drawing on the views of local stakeholders. Better orienting aid interventions to governance contexts would help make development assistance more effective and allay fears about doubling aid. And that would both benefit poor people in developing countries and reassure taxpayers in donor countries.

Sources and Further Information:

This paper draws on the findings of research reported in: Hyden, G., Court, J. and Mease, K., 2004, *Making Sense of Governance: Empirical Evidence from Sixteen Developing Countries*, Boulder, Co.: Lynne Rienner. More information can be seen at the Assessing Governance Programme Website http://www.odi.org.uk/wga_governance

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