

Good Governance and Development in the Least Developed Countries

Jomo Kwame Sundaram* and Anis Chowdhury**

Abstract : *The paper highlights the conceptual limitations or lack of the clarity of ‘ good governance’ concept favoured by the donor community and debunks its central hypothesis that good governance causes economic growth. Good governance can mean many things and countries possessing features of good governance can be different both structurally and institutionally. Countries that are developed recently did not have the ideal features of good governance – these features evolved with economic growth. Donors should not impose onerous good governance conditions with the expectation that developing countries must all look the same in the image of the recent developed countries. Most poor countries do not have administrative and financial capacity to achieve these reforms or institutions; hence, the donor conditionality often becomes a recipe for failure. Therefore, the reform agenda should aim at strategic bottlenecks for development and enhance state capacity and capabilities to deal with these bottlenecks.*

Keywords : Good Governance, Development, Least Developed Countries

* Assistant-Secretary-General for Economic Development, United Nations Department of Economic and Social Affairs (UN-DESA).

** Senior Economic Affairs Officer, UN-DESA and Professor of Economics (on leave), University of Western Sydney, Australia, chowdhury4@un.org.

Introduction

The notion of ‘good governance’ began to influence policy debates as it became evident that the liberalizing market reforms from the 1980s would not accelerate economic growth or development. It was then generally presumed that such reforms would reduce, if not end, problems of economic inefficiency, corruption and arbitrary rule in developing countries. In this context, good governance was advanced as an alternative institutional conception of authority that would insulate markets from rent-seeking ‘distributional coalitions’.¹

The security of property rights from threats by the ruler or the state has also influenced the good governance discourse. This emphasizes the role of institutions in providing checks and balances on the powers of various arms of the state to ensure a stable, predictable and non-arbitrary state – considered a fundamental condition for spurring economic growth and prosperity.²

In the evolution of the notion of governance, the first phase emphasized a fairly narrow view of governance implying technocratic measures to improve government effectiveness and an effective legal framework for market-based development. After over a decade of growing influence, new thinking about governance seems to have become even more influential in policy circles recently.

Nevertheless, a new phase seems to be emerging, characterized by increasing sensitivity to power, politics and social conflict in shaping development outcomes; these are difficult to address with the existing institutional and governance analytical frameworks and programmes. For example, many new institutions (anticorruption programs, ombudsmen, special prosecutors, etc.), intended to achieve good governance, have been quickly taken over by corrupt political regimes, networks and other interests.³

There has been a growing debate over the political economy of governance. It is now widely acknowledged that political factors are not only more important than previously thought, but also that neither politics nor power is easily addressed simply with ‘good governance’ reforms to engineer institutional change. Such political economy understandings of governance may well rescue the relevance of the governance discourse to development. However, efforts continue to depoliticize development in favour of ostensibly technocratic solutions. Ironically, the political economy approach to governance may result in a more realistic and pragmatic, but still technocratic approach to institutional reform.

Governance and Growth: Conceptual, Methodological, Measurement Issues⁴

Effective government matters, but it is not obvious or clear what that means. The existing definitions are both extremely broad, and functionalist (e.g. ‘good governance’ is ‘good-for-economic-development’), or mainly refer to corruption. The problem with the first definition is that if good governance –or ‘Quality of Government’– “is everything, then maybe it is nothing”.⁵ That is to say such a functional definition is just about as broad as any definition and it does not distinguish between the content of specific policy programs on the one hand and the governing procedures on the other.

Secondly, the functionalist definition often borders on tautology. As *The Economist*⁶ noted, defining ‘good governance’ as ‘good-for-economic-development’ may generate tautological explanations with meaningless policy implications: “What is required for growth? Good governance. And what counts as good governance? Whatever promotes growth and what is required for growth? And so on.”

The widely used World Bank good governance indicators are historically as well as contextually indifferent. Governments regarded as effective did not look as they do today when they first facilitated accelerated development. For example, the pre-1990s’ Swedish model, often cited as exemplary in the literature, did not have many features of ostensible good governance (such as small size). Instead, it was a big government –a welfare state model successful and sustained for most of the 20th century.⁷

Much of the good governance discourse suggests one-best-way model, ostensibly of an idealized, developed country government. The agenda thus often implies an inappropriate model of government that ‘kicks away the ladder’ which effective governments today once climbed to reach their current situations.⁸ Given the considerable evidence of multiple pathways to development, the idea of a one-best-way model is very problematic indeed.⁹ The implied model often lacks consistency, and cannot be easily replicated. Hence, it is inappropriate for emulation. In short, the good governance agenda resembles a set of well meaning, but problematic proverbs.

The good governance models usually proposed do not stand up well to critical scrutiny, even when they cite ostensibly effective governments as exemplars. Governments are very different and difficult to replicate, even if they may be genuine examples of good government.

Different countries face different development challenges at various stages of their development, and hence require different capacities and approaches to tackle them effectively. Thus, while a particular regulation may be perceived as ‘red tape’ in some context, it may be required as a ‘check and balance’ or ‘safeguard’ in another context. That is, one country’s unwanted regulation may be another country’s steering and stability mechanism depending on their stages of development. Thus, deploying ideas of deregulation from a model country to a poorly governed country may actually exacerbate instability, thus further undermine development.

The popular definition of the quality of government that focuses only on corruption –or its absence– presumes that government policy space, discretion and interventions necessarily lead to corruption and abuse. However, there is no sound empirical support for this presumption. Small governments are not synonymous with the absence of corruption, while countries with very low levels of corruption have relatively large governments, as in Scandinavia and the Netherlands.

In any case, defining good governance simply in terms of the absence of corruption is not very useful. While considerable corruption is clearly antithetical to good governance, good governance implies much more than merely the absence of corruption, or even clientelism, nepotism, cronyism, patronage, discrimination and cognitive, regulatory or policy capture. In any case, there is no empirical basis for the view that the record of government failures implies that minimalist government is the best for development as implied by the Washington Consensus, which the ‘good governance’ agenda was once closely associated with.

A number of methodological and measurement flaws can result in overestimation of the impact of governance and institutions on growth.¹⁰ Firstly, methodologically, most cross-country econometric studies suffer from selection bias, as African countries where institutions are generally weak and growth performance has been poor, especially in the 1980s and 1990s are typically over represented.

Secondly, most cross-country regressions use reduced-form equations where some measures of institutional or governance quality are used along with other variables, such as investment, assumed to affect growth directly. Such regressions can overestimate the impact of institutions on growth, if institutional or governance quality also affects the efficiency of investment. It is difficult to disentangle the direct effects on the growth of institutional quality variables from their indirect effects through their impact on investment.

Measurement problems arise from the lack of consensus in the growth literature on the definition of economic, political and social institutions, how they change and the likely channels of their influence on economic outcomes. Thus, a wide range of indicators – including institutional quality (enforcement of property rights), political instability (riots, coups, civil wars), political regime characteristics (elections, constitutions, executive powers), ‘social capital’ (civic activity, organizations) and social characteristics (income differences, ethnic, religious, cultural and historical background) are used in empirical work, although each may have a different channel of impact on growth.

There are also other issues. First, subjective measures of institutions are provided by risk-rating agencies. These indices may be subject to biases arising from ‘group’ or herd behaviour, for instance, if foreign investors’ judgements are too optimistic or too pessimistic for long periods. Second, indicators used to capture economic and political efficiency may be influenced by recent growth measures and by political developments. In many developing countries, institutional quality can sharply deteriorate periodically, due to exogenous factors such as terms of trade

or climate shocks, or even because of fiscal austerity programmes imposed by international financial institutions.

Is Good Governance Necessary for Development?¹¹

Nevertheless it has to be acknowledged that the good governance discourse has defined policy reform goals for developing countries that have been widely embraced by many governments in developing countries not least due to their endorsement by the donor community despite their dubious analytical, historical and theoretical bases. These goals include strengthening the protection of property rights, rooting out corruption, achieving accountable and democratic governments and imposing the rule of law.

However, the evidence conclusively shows that countries have only improved governance with development, and that good governance is not a necessary precondition for development. All developing countries do poorly on good governance indicators, although some perform much better than others in terms of economic development. This implies the urgent need to identify the key governance capabilities that will help developing countries accelerate economic development thus, eventually improve their governance on a sustainable basis.

Many ‘good governance’ proponents implicitly presume, for convenience, a binary world in which all countries have the same set of institutional characteristics. Poor countries score badly due to pathologies, such as corruption, lack of democracy, state failures, market failures, etc., that are presumed to prevent them from ‘catching up’ with the wealthy countries. Improving governance to overcome these pathologies, again presumed to be reflected by improved scores on ‘good governance’ indicators, is then supposed to enable them to catch-up on the development front.

Developing countries are not simply countries that would be “wealthy if they were not ill”. Rather, they are different in many ways, therefore, it is not analytically or practically useful to characterize development problems as ‘pathologies’. Universal ‘good governance’ prescriptions have actually had modest or even adverse impacts on growth. Advocates of ‘good governance’ often also presume that the same incentives, especially prices, will have similar effects on everywhere, regardless of culture or level of development, for example.

The imposition of formal rules from wealthy countries in low income countries has not worked either. As governance reforms may destabilize existing social and political orders, they have often engendered insurmountable resistance in the short to medium term. Hence, although ‘good governance’ is unobjectionable, if not desirable, reforms inspired by this approach have not been and cannot be successful in accelerating economic growth in such circumstances.¹² This is why, the relationship between ‘good governance’ and growth is so weak, and why

programmes and other efforts to promote ‘good governance’ have been so ineffective that economic development has not been accelerated.

Ostensible statistical evidence, using problematic measures actually suggest that growth and development improve governance, rather than vice versa. Correlations between institutional variables and growth are not robust, and causality can run in both directions, from good institutions to growth, or from growth to better institutions. They also reflect heterogeneity across indicators, regions and time that specific, targeted reforms to improve critical aspects of governance –rather than wholesale reform– may be more effective in accelerating economic growth.

As governance is measured on a spectrum from bad to good and national contexts vary considerably, it is impossible to be sure, in advance, that any particular institutional reform will accelerate economic development. There are many reasons to welcome a meritocratic public administration, an independent judiciary and other hallmarks of good governance, but expecting such institutions to yield large ‘development dividends’ is little more than wishful thinking.

Contrary to the typically exaggerated claims about how much ‘institutions matter’, the case studies imply that greater transparency, accountability and participation are often consequences, rather than direct causes of faster development. They also show that institutions that change appropriately over time in response to new conditions may provide a more satisfactory basis for rapid growth. Policymakers need to better understand such processes before expecting governance reforms to accelerate economic development in most developing countries.

The incontrovertible long run association between good governance and high incomes provides very little guidance for appropriate strategies to induce high growth. China and Vietnam are all growing rapidly despite poor governance indicators. Many other cases show that large scale institutional transformation implied by the good governance agenda is hardly ever a prerequisite for getting growth going.

Poor countries suffer from a multitude of constraints, while effective growth acceleration interventions usually address the most binding among them. Poor governance may well be the binding constraint in some countries, but certainly not in countries growing rapidly despite poor governance. Thus, as a rule, broad good governance reform is neither necessary nor sufficient for growth. It is not necessary, as the examples of China, Vietnam and Ethiopia show, and also not sufficient, as it is difficult to sustain governance improvements without accompanying growth.

Obviously there are cases where economic growth is not led by a strong developmental state, but instead by a state with ‘just enough’ development accelerating governance; more rapid growth, in turn, becomes the basis for further political and social reforms contributing to governance improvements. For example, although fixing the problems of corruption and limited democratic accountability is still daunting in Bangladesh (an IDC), it has begun to grow impressively. In so far

as governance improves with growth, a country like Bangladesh may now be better able to further improve its institutions as it continues to grow.

After reviewing some key conceptual issues involved in the complex dynamic relations between institutions and economic development, Chang concludes that definitional issues, the failure to distinguish between institutional forms and functions, excessive focus on property rights and the lack of a plausible sophisticated theory of institutional change are some major problems of the currently influential literature.¹³ While it is unlikely that we will soon have a comprehensive theory of institutions and economic development that will adequately address such theoretical and methodological issues, recognizing and addressing these problems is imperative. More careful and non-ideological development of key concepts and better knowledge of historical and contemporary experience are also necessary for such progress.

Reform Implications and Priorities

Among the multitude of governance reforms deemed necessary for economic growth, development or poverty reduction, there is typically little guidance about what is deemed essential and what is not, what should come first and what should follow, what can be achieved in the short term and what can only be achieved over the longer term, what is feasible and what is not.

The good governance agenda is particularly demanding on the least developed countries (LDCs), given their particular circumstances and resource constraints.¹⁴ Using national accounts statistics, shows how daunting it is. In 2009, the average GDP per capita per day in the LDCs was \$1.59, while household consumption was \$1.14, leaving 45 cents for financing foreign investor profits, public consumption as well as public and private investment.¹⁵ This would include running the government -- paying the wages and salaries of government workers, purchasing goods and services, running the police, judicial system, and administration at local and national levels, etc. Government (final) consumption expenditure in 2009 averaged 20 cents per person per day in the LDCs, compared with \$20 per person per day in developed countries. With generally much higher shares of national income collected as fiscal revenues, developed countries spent much higher shares of their much higher per capita national incomes (19%) running their governments than LDCs (12%). Even if the LDCs increased their shares of national income spent on governance to developed country levels, this would only mean about 30 cents per person per day, i.e. an increase by half. Needless to say, this is very meagre, and does not really allow much to be done in terms of improving all aspects of their governance to the high 'ideal' standards demanded by the donor community.

But the problem is compounded when developing country policymakers receive very confusing, if not misleading, signals as donor government policymakers

condition aid allocations and disbursements on such performance standards. Compliant LDC governments are rewarded for good, – that is, i.e. conformist or obedient, - behaviour (efforts, if not outcomes) with more generous aid, while non-compliant governments are punished. Thus, instead of developing institutions and policies to foster growth and development, the LDC governments become preoccupied with figuring out and conforming to donor governments' norms of good behaviour, such as what will improve governance effectiveness scores.¹⁶ However, the answers are unclear, as aid recipients are rewarded for policies that are not coherent, if not downright contradictory, including stabilizing polities, deregulating markets, lowering tax rates, especially for foreign investors, ensuring public health and well-being, maintaining macroeconomic stability, often principally understood as ensuring low inflation, providing reliable services and adequate infrastructure, and guaranteeing civil servants' capabilities and integrity.

Aid recipient governments have great difficulty in raising taxes to enhance fiscal space and provide better infrastructure, health care and education. In their efforts to impress donors, financial markets and the international media, influenced by the popular benchmarks of good governance, they risk social and political stability by cutting government spending and raise living costs by liberalizing prices and eliminating public subsidies for food and public transport.

Almost every recommended public policy solution aggravates other problems, just as many supposed good governance measures adversely affect economic development. Donor use of such benchmarks thus often punishes poor countries for the governance consequences of their own poverty. After all, if they had achieved economic development and consequently improved their governance, they would not need foreign aid in the first place.

In some cases, it may not be possible to make much progress on one dimension without prior or simultaneous progress on others. And if certain institutional and policy reforms matter more for development, these should probably receive the most support. Selectively, concentrating resources would be better than spreading limited resources thinly across a whole range of ostensible good governance reforms, as foreign development agencies and their favourite good governance consultants tend to recommend.

The governance reform agenda should be more realistic, pragmatic, nuanced and better prioritized, with a more subtle and sequenced understanding of the evolution of institutions and governance capabilities. Such an approach necessarily recognizes priorities, pre-conditions and trade-offs in a context in which all desirable things cannot be pursued simultaneously. This implies acting on the knowledge of what is the most important and achievable, rather than trying to fill all supposed governance shortfalls or gaps at the same time, while designing and implementing public policy reforms, mindful of conditions and context.¹⁷

Current understanding of institutions and governance, including the costs and benefits of reforms, only provides vague guidance. For example, there is no consensus on norms, standards or yardsticks for identifying a ‘governance break-even point’, when the gains from ostensibly improved governance exceed the costs of overcoming waste associated with poor governance. Thus, imposing unrealistically high standards of governance and corresponding requirements for governance reform on low-income countries may have adverse consequences. Development gains may not be as significant or as rapid as expected.¹⁸

Pragmatism does not mean merely looking at mundane problems and their immediate causes. Deeper analysis requires taking greater account of the state-society relations underlying key institutions which shape the capacity, capabilities and incentives for accelerating economic development. This implies having a long-term vision of change which would transform the poor from clients dependent on patronage to citizens with rights, entitlements and responsibilities, besides identifying measures to support that process. Those seriously interested in supporting development in the LDCs should therefore work to strengthen the capacity for improved developmental governance, instead of imposing unnecessary, burdensome, hence, anti-developmental good governance reform agendas on the LDC governments.

NOTES

1 Mancur Olson regarded rent-seeking by distributional coalitions as undermining economic development and contributing to economic decline. He saw society as a constant struggle between creative and productive agents, whose hard work help enrich an economy and organized groups of lobbyists, special interests, brigands and tax-collectors whose rent-seeking activities reduce the overall size of the pie and could well turn economic growth into stagnation and even regression. Mancur Olson, *The Rise and Decline of Nations*, (New Haven: Yale University Press, 1982).

2 Douglass North focused on securing property rights from the threat of appropriation by the Monarch. While for North, security and constraints on the executive were paramount, for Olson, the nature and origins of property rights were just as important. Douglass North, *Structure and Change in Economic History* (New York: W.W. Norton, 1981).

3 See Department for International Development (DFID), “Better Government for Poverty Reduction: More Effective Partnerships for Change”, Consultation Document, Department for International Development, (London, 2003); Wil Hout and Richard Robison (eds.), *Governance and the Depoliticisation of Development*, (London: Routledge, 2009); Nicolas Meisel and Jacques Ould-Aoudia, “Is ‘Good Governance’ a Good Development Strategy? “*Working Paper No. 2007/11*”, Direction Générale du Trésor et de la Politique Economique (DGTPE), (Paris, November 2007); and Alina Mungiu-Pippidi, “Corruption: Diagnosis and Treatment”, *Journal of Democracy*, vol. 17, no. 3 (2006): 86-99.

4 Matt Andrews, “Good Government Means Different Things in Different Countries”, *Governance: An International Journal of Policy, Administration, and Institutions*, vol. 23, no. 1 (2010): 7-35; Janine Aron, “Growth and Institutions: A Review of the Evidence”, *The World Bank Research Observer*, vol.15, no. 1 (2000): 99-135; Marcus J. Kurtz and Andrew Schrank, “Growth and Governance: Models, Measures, and Mechanisms”, *The Journal of Politics*, vol. 69 no.2 (2007): 538-554; Laura Langbein and Stephen Knack, *The Worldwide Governance Indicators and Tautology: Causally Related Separable Concepts, Indicators of a Common Cause, or Both?* Policy Research Working Paper 4669, (Washington, DC: World Bank, 2008); Bo Rothstein and Jan Teorell, “What Is Quality of Government? A Theory of Impartial Government Institutions”, *Governance: An International Journal of Policy, Administration, and Institutions*, vol. 21, no. 2 (2008): 165-190; and Melissa A. Thomas, “What Do the Worldwide Governance Indicators Measure?”, *European Journal of Development Research*, vol. 22, no 1 (2010): 31-54.

5 Bo Rothstein and Jan Teorell, op. cit., 168.

6 The Economist 4 June 2004, <http://www.economist.com/>

7 Matt Andrews, “The Good Governance Agenda: Beyond Indicators without Theory”, *Oxford Development Studies*, vol. 36, no. 4 (2008): 379-407;

8 Ha-Joon Chang, *Kicking Away the Ladder: Development Strategy in Historical Perspective* (London: Anthem Press, 2002).

9 See, e.g. Matt Andrews, “Good Government Means...”; Arthur Goldsmith, “How Good Must Governance Be? Paper presented at the Conference on ‘the Quality of Government: What It Is, How to Get It, Why It Matters’”, *Quality of Government Institute*, Göteborg University, (Sweden, 17-19 November, 2005); and Mushtaq Khan, “The Illusory Lure of Good Governance and the Hard Realities of Growth in Poor Countries”, *Seminar Paper*, Danish Institute for International Studies, (Copenhagen, 24 June, 2010).

10 See the considerable work of Professor Mushtaq H. Khan of the University of London’s School of Oriental and African Studies, e.g. Mustaq Khan, op. cit.; Mushtaq Khan, “Governance and Anti-Corruption Reforms in Developing Countries: Policies, Evidence, and the Way Forward”, *G-24 Discussion Paper Series*, No. 42, UNCTAD, (Geneva, 2006): 6, www.unctad.org/en/docs/gdsmdpbg2420064_en.pdf; Mushtaq Khan, “Governance, Growth and Poverty Reduction”, *DESA Working Paper*, No. 75, Department of Economic and Social

Affairs, United Nations, (New York, 2009).

11 Francis Fukuyama, “What Do We Know About the Relationship between the Political and Economic Dimensions of Development?”, *Governance, Growth and Development Decision-Making: Reflections*, (Washington, DC: World Bank, 2008); Arthur Goldsmith, op. cit.; P. Huynh Kim and David T. Jacho-Chávez, “Growth and Governance: A Nonparametric Analysis”, *Journal of Comparative Economics* “no. 37 (2009)” 121-143; and Dani Rodrik, “Thinking about Governance”, *Governance, Growth, and Development Decision-Making: Reflections* (Washington, DC: World Bank, 2008).

12 See, e.g. DFID, op.cit.; Merilee Grindle, “Good Enough Governance: Poverty Reduction and Reform in Developing Countries”, *Governance: An International Journal of Policy, Administration, and Institutions*, “vol.17 No:4 (2004): 525-548; Pan Suk Kim, “The Aid-Good Governance Conundrum: Searching for More Realistic Discourse”, *International Review of Administrative Sciences*, vol. 75 no. 4 (2009): 555-563; Nicolas Meisel and Jacques Ould-Aoudia, op. cit.

13 Ha-Joon Chang, “Understanding the Relationship between Institutions and Economic Development - Some Key Theoretical Issues”, Paper presented at the WIDER Jubilee Conference, (Helsinki, 18-19 April, 2005).

14 Merilee Grindle, op. cit.

15 UNCTAD Policy Brief no. 20F (May 2011)

16 After reviewing much of the relevant literature, Kim questions the wisdom of donor pressure on developing countries to adopt ostensible ‘global (or international) standard’ policies and institutions since there are no ‘best practice’ policies and institutions that everyone should adopt. Instead, for him, improvements in institutions should be encouraged, but this should not be understood as imposing a fixed set of ostensibly superior (typically Western) norms and institutions on all countries. He also suggests that reform priorities should be determined by the recipient countries, in place of the current, mainly donor-driven, supply-side initiatives, and insists that ‘good governance’ reform efforts need to take account of the local context and realities. Pan Suk Kim, op. cit.

17 Interestingly, UK’s development agency, Department for International Development (DFID) seems to have realized that “if getting good government is a long-term endeavour predicated on economic and social development, a more useful question may be how to achieve economic growth and development in spite of weak governance”. Instead of pursuing comprehensive systemic reform in support of an ambitious comprehensive policy agenda, a more modest incremental approach involving a few important, but feasible reforms, targeting several key constraints or bottlenecks, may be more pragmatic and likely to succeed. DFID, op. cit., 12.

18 Arthur Goldsmith, op.cit. Andrews argues that the good governance agenda inadvertently imposes an inappropriate model of government that effective governments today ostensibly emulated in order to develop; this misleading agenda effectively ‘kicks away the ladder’ for other governments aspiring to accelerate development. According to Andrews, the model’s major problem is the lack of a convincing theoretical framework to better understand government roles and structures in development; such a framework is needed before one can measure government effectiveness or propose specific models of what government should look like. Given the evidence of multiple pathways to development, the idea of a one-best-way model is very problematic indeed. Matt Andrews, “Good Government Means...”, (Sweden, 17-19 November, 2005).