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THE WORLD BANK

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PUBLIC DISCLOSURE AUTHORIZED

PRDDR - Governance
September - October, 1990



1088040

R1991-138 Other #: 2 Box #: 19412B
PRDDR - Governance - August 1990 - October 1990

DECLASSIFIED
WBG Archives

Paul : Will give you
a call to see you
before I leave
on December 2.

Good comments!
Thanks.

Uma.

ROUTING SLIP		DATE: 10/29	
NAME		ROOM NO.	
Paul Jensenman			
APPROPRIATE DISPOSITION		NOTE AND RETURN	
APPROVAL		NOTE AND SEND ON	
CLEARANCE		PER OUR CONVERSATION	
COMMENT		PER YOUR REQUEST	
FOR ACTION		PREPARE REPLY	
INFORMATION		RECOMMENDATION	
INITIAL		SIGNATURE	
NOTE AND FILE		URGENT	
REMARKS: copy of draft exhibit + game 3 Sarwan Latuf this AM.			
FROM: P.B.		ROOM NO.: EXTENSION:	

TOWARDS A WORKPLAN ON GOVERNANCE

Objectives

Governance, the translation by authoritative decision makers of the needs and preferences of populations into policies, has far reaching implications for economic efficiency and development. As the role of the state is undergoing change and transformation in the post cold war era, the concepts, needs, and practices of governance are also changing. As such the concerns of the Bank for improving performance in governance within borrowing countries is receiving attention. This workplan addresses two major questions: (1) how can governing institutions and processes be made more accountable, transparent, and predictable, and (2) what can the role of the Bank be in facilitating improvement in these areas.

The tasks which need to be undertaken in order to respond to these questions are : (1) to synthesize the implications of closely related work for future development of governance, (2) to analyze the concept of governance with attention to its implications for sectoral investments as well as adjustment lending, and, (3) to generate ideas for new approaches to technical assistance aimed at improving governance.

Elements of Workplan

1. Synthesize Implications of Current Work

Many, but not all, of the building blocks essential to improving governance have long been, and will continue to be, activities in Bank work. Improving public sector management, civil service reform, privatization of public enterprises, improving government-NGO relations, improving popular participation, and efforts at capacity building are a few of the salient examples. In each instance there are both research programs in PRE and operational programs within Operations. Further, there are within many sectors, more components which reach to more micro level aspects of governance: attention to improvement in agricultural extension, attention to food security, involving NGOs in environmental assessments, and improving access of previously excluded constituencies, e.g. women, are such examples. More recently the renewed attention to decentralization--in the forthcoming urban policy paper--and to fiscal policy reform in the tax policy paper--provide additional ways of improving governance. A review synthesizing lessons learned from this experience is needed in order to move to the next step--expanding the analytical reach of the concept of governance.

However, it is also the case that there are undoubtedly elements in improving governance which have not been as directly addressed by current research or operational programs. For example, efforts at opening up

processes of decision making in order to increase the responsiveness of public sector decision makers to local needs requires more attention. Prevention of cruelty to citizenry warrants attention. The list could be quite substantial in light of the role that ruthless regimes have preempted in many developing countries. The state, in short, has not been benign and development policies cannot assume that it easily is rendered benign.

2. Develop Concept of Governance

While the role of the state is changing, and hence the concept of governance is changing, there is less consensus on how to bound the concept of governance in ways that point directly to operational work that might be done to enhance performance. There is, on the other hand, consensus on the characteristics of improved governance-- those characteristics are accountability, transparency, and predictability.

Accountability. Components which affect the accountability of governance are: information, public affairs, public information, rights to free speech, assembly, free press, fair elections, minority rights. Movement towards these components can be made incrementally within projects, or more comprehensively by conditionality attached to adjustment lending. Changes generated by technical assistance can also set the stage for more wholesale changes over longer time frames: new forms of executive level technical assistance could address information systems, telecommunications, intermediaries between public-private interests, or processes for conflict resolution (especially in multi-ethnic societies).

Transparency Components affecting openness in governance are closely inter-dependent with those above, but would add attention to access to data, disclosure of information, disclosure of the process by which critical public choices are made, and communication about those public choices. Here too there are opportunities for executive level technical assistance as the decision rules for data, auditing, disclosure, and access for the private sector organizations will require major technical and organizational change strategies for many borrowers.

Predictability Capriciousness in public decision making happens when powerful interests master techniques for hijacking decisions. While the transparency and openness discussed above are necessary for preventing capricious, they may not be sufficient. Organizational capacity--inside and outside--government, is essential if there are to be known consequences for capricious behavior. An independent judiciary, a developed legal system, a well known and widely supported legislative process, active and informed national level non governmental organizations and respected independent professional associations are required. It may be that to make progress on this front a wholly new form of technical assistance should be established--bringing, for example, executive technical talent to borrowing countries to work with indigenous leadership groups to build new organizations.

3. Develop New Approaches to Technical Assistance for Improving Accountability, Transparency, and Predictability.

Each of these core characteristics--accountability, transparency, and predictability--needs to be considered within each sector, and for crosscutting sectoral issues. The new approaches to technical assistance, and lending instruments need attention. For example, an inventory might be made of the opportunities within sectors for improvements on each of these characteristics; the opportunities within public expenditure reviews and reform efforts should be surveyed; some comparative country case studies should be undertaken to document with more empirical data the linkages between economic performance and accountable, transparent, and predictable government. Sifting that material one should be able to point to some new kinds of technical assistance which could make the differences at the margin in facilitating significant improvement in the performance of governments. It may be that both new kinds of lending instruments are needed, along with new kinds of technical assistance.

Tasks For Next Three Months

1. Sift through workplans throughout PRE to see if there are any nuggets in current research that should be examined in more detail as part of an inquiry on governance. Identify what is missing--in current research and needs to be initiated if PRE is to have more work starts on governance. Findings to be written up in a short note--10-15pgs.

2. In-depth interviews with both researchers and with knowledgeable sources in Operations about what has worked, been effective, and could be expanded upon in areas that contribute to improving governance. Shift information for new ideas for different kinds of technical assistance and its relationship to different lending instruments that could be made available to borrowers in order to improve governance. A short note should result--10-15 pgs. (Bryant to do?)

3. Bring together those within the Bank and several knowledgeable sources outside the Bank (from business and law schools, as well as from social science departments) to discuss alternative feasible approaches by which Bank lending (adjustment as well as investment lending) can improve governance, kinds of new style technical assistance, and research programs that would underpin lending and technical assistance. This workshop should probably happen in two stages--a small select group to meet in a preliminary meeting, and a latter, larger group to follow-up. Stage one could happen in early January. (Hopkins and Bryant to do this?)

Note

Ray Hopkins (Swarthmore) is already working on governance issues in regard to food security. It is possible that he could be available for 45 days--to begin approximately in early December. (It may also be possible to argue that Food Security budget should pay for a substantial number of these days.)

OFFICE MEMORANDUM

DATE: October 25, 1990

TO: Mr. Ismail Serageldin, AFTDR

FROM: Elizabeth Morris-Hughes, AFTFS

EXTENSION: 38508

SUBJECT: Governance and its Implications

90 OCT 26 PM 4: 54

PRDDR

cc: Serwar
RECEIVED
done 1/29

1. At my request, Raymond F. Hopkins who is with our Food Security Unit as a consultant this fall, attended the workshop "The Transition to Democracy" at the National Academy of Sciences October 17-19 sponsored by USAID. He has prepared this report on the workshop emphasizing points relevant to a study he is preparing on food security and governance and to anticipated further work on governance including a discussion of the linkages with the development of women in the Africa region.

2. The workshop drew on the work of American scholars, principally political scientists and social historians, whose expertise is strongest in Europe (western, southern and eastern sections) and Latin America. The workshop was chaired by Charles Tilly (New School) and Sidney Verba (Harvard) and the major papers were prepared by Terry Karl and Philippe Schmitter (both of Stanford University) and Jane Mansbridge (Northwestern). In addition to Professor Hopkins, Michael Bratton (MSU), Carol Lancaster (Georgetown), Pearl Robinson (Tufts University) and Michael Clough (Council on Foreign Relations) were African scholars in attendance along with seven USAID officials specializing in Africa, including Richard Brandt who in heading their African Bureau task force on "democratization."

3. The workshop began with a statement by Ronald W. Roskens that included the observation that "during the 1990s, the U.S. Agency for International Development will be involved in a broad array of democracy-building programs. . . .I promise you that the findings of this workshop will be widely disseminated within AID and will be an important part of our effort to support the democratic process. . . ."

4. The major theses of the conference, as germane to Africa, were: a) democracy has two components -- a set of procedural rules for peaceful conflict resolution and a deliberative process which includes wide participation and legitimation of decisions; b) the transitions to democracy can follow a number of paths, even if the final goal has similar desiderata; c) civil society's relationships are critical to transitions towards democracy and eventual stability or instability of a democratic regime; and, d) the establishment of a democracy requires a bargain among contenders for power with respect to rules for the role of the military, policy space within which democratic procedures obtain and the guarantee of special protections of minorities. Paths to democracy and "pacts" among major groups in

society, including the military, ethnic groups and religious bodies have historically been determinative of the particular path and timing of the transition towards democracy. Each country has its unique history and path, therefore.

5. The African region was explicitly mentioned by the major speakers as a problematic sphere. Discussions among African specialists concurred and emphasized that lessons from eastern Europe and South America during the 1980s may have modest short-term application to Africa. In particular, the national unity of African countries, the institutional capability of states in Africa, and the existence of a civil society comprised of intermediary groups operating between the state and the household level were all seen as more problematic, although varying considerably, among African countries.

6. Smaller working sessions of specific topics included a focus on "the relationship between approaches to fostering democracy and economic development", "the role of intermediary institutions" (unions, interests groups, women's associations, business organizations, churches, sports and cultural groups), the strategy of whether to start in promoting democracy from "a top down" or "a bottom up" focus. These sessions allowed sub-sets of workshop participants to focus on specific issues and identify areas of consensus and disagreement. With respect to economic development and democracy there was general agreement that economic liberalization in its requirement for openness was largely supportive of democratic institutions but that serious trade-offs and tension existed between requirements of the politically unpopular requirements of structural adjustment and democratic practices. Eastern Europe and Africa were both cited as areas in which the pain of adjustment process might make the establishment of more participatory and democratic activities either difficult or likely to induce greater tension and violence if economic decline were protracted. In the African context, it was agreed that moving toward more open and just societies would require strengthening of the organs of civil society, particularly voluntary groups following democratic principles within their organization, education, both for improved literacy capability that would expand voluntary organizations and entrepreneurship among broad populations, and equitable nurturance of "middle class", educated groups who might be carriers of political culture that affirm democratic norms. Finally, given the precarious character of states in much of Africa (someone proposed that by the year 2000 there might be only six African countries, an idea that some seemed to take seriously, though most thought the crumbling of colonial-imposed borders unlikely) a careful balance should be struck by donors to, on the one hand, prevent a collapse of the center and the state itself, and, on the other hand, through a policy dialogue and allocation priorities punish tyrannical regimes and nurture democratic initiatives, especially ones that conform to longer term perspectives of building democratic governance institutions.

7. There was some discussion about the practical utility of the conventional attributes of democracy to Africa in particular. Elections, contested by multiple parties, with possible violence and globalization of deep cleavages inviting military takeovers was a concern. Thus, most Africanists stressed the deliberative component of democracy as a priority, including the establishment of due process rules to protect individual political and civil rights, particularly freedom of conscience, freedom of speech and freedom of association, and equality of rights for all, specially women. Participants generally felt that the role of outside agencies, such as the Agency for International Development, could expect to do little more than have marginal effect.

8. With respect to particular interventions or strategies of the outside world, it was noted that two major considerations might affect how approaches were made. First, projects could be seen as taking more scientifically uncertain and longer-term strategies, such the nurturance of a civil society. Although this society might be a central requirement for stable democratic governance it was contrasted with more specific short-term support for registration of citizens before an election, for instance. Relative allocation among AID options could stress more a bottom up or top down approach, the latter being closer to the Spanish and Latin American models with their corporatist elements, or could stress long-term "infrastructure" development. A particularly important point emerged in Charles Tilly's summary about the critical historical junctures which occur during changes in patterns of governance. The point is that a society may be relatively stable (or stagnant) for a period of time and then an "opening" will appear. During such openings, the range of choices and the impact of particular events on the subsequent patterns and pathways the country follows in its pattern of governance can have a lasting effect. During such "openings," actions by external actors can be, when undertaken in a non-imperial manner, have greater impact than during "normal" times. Crisis intervention offers special opportunities as compared to routine intervention, but being able to act during such critical moments requires an ongoing monitoring and understanding of the society upon which an intervention is to be targeted.

9. As typical at conferences with a number of scholars, particularly in a location like the National Academy of Sciences, there was some expected amount of self-advertisement and call for further study. Discussions regarding needed further study, however, were aired with less self-interest and hand-wringing than usual. The overall quality of the workshop was quite high, largely thanks to the frank and intelligent quality of comments and disagreements that were aired.

10. Major conclusions that I had in reaction to the conference were: 1) the research findings on transitions to democracy in eastern and southern Europe and Latin America offer some purchase on understanding issues of governance in Africa, but they are not easily transferable because of the different social, economic and political contexts of Africa; 2) high priority should be accorded, longer-term efforts to promote openness, due process and more highly populated set of institutions in civil society--these are worthy and sensible objectives for external actors to use funding; 3) substantial trade-offs that exist between different strategies to support civic and participatory forms of governance (and/or avoid repression and economic corruption) must be addressed but these are issues of relative allocation priorities which can vary over time and according to the context of individual countries, including the extent to which an "opening" may occur in a particular country; and finally 4) democracy-building programs of AID should be of interest to the World Bank but are more "hard target" activities and reflect a naivete in certain U.S. government circles with which the Bank should not be associated; and 5) the deliberative element in democratic institutions is congruent with the observations on governance in the LTPS.

cc: Mr. Pierre Landell-Mills, AFTDR
Mr. Dunstan Wai, AFREA
Mr. Paul Iserman, PRDDR
Mr. Michel Noel, AFTSD
Mr. Mamadou Dia, AFTPS
AFTFS Unit Staff

The World Bank/IFC/MIGA
O F F I C E M E M O R A N D U M

DATE: 25-Oct-1990 01:25pm

TO: Paul Isenman
TO: David R. Bock

(PAUL ISENMAN)
(DAVID BOCK)

FROM: Sven Sandstrom, EXC

(SVEN SANDSTROM)

EXT.: 81138

SUBJECT: Governance

I have talked to both Mr Conable and Ibrahim. It is agreed that we should aim for a policy paper and that the legal paper would feed into such a paper. The two papers, or a combined paper, would be discussed in the PC at a later stage. A legal paper would not be sent to the Board by itself.

Ibrahim told me that he is meeting with PRE this afternoon to help coordinate this. He has also been invited by Moeen to address the OPS senior managers on Nov 8.

Please keep me informed about developments.

Sven

CC: Anupam Khanna

(ANUPAM KHANNA)

The World Bank/IFC/MIGA
O F F I C E M E M O R A N D U M

DATE: 24-Oct-1990 09:08pm

TO: Sarwar Lateef (SARWAR LATEEF)

FROM: Paul Isenman, PRDDR (PAUL ISENMAN)

EXT.: 33957

SUBJECT: RE: Governance

I'm not sure I like the concept of a Late Lateef; it risks being misunderstood. In any event, Alex and I had already agreed that you would not spend more than 3/4 time on governance, leaving 1 1/4 to manage the Division. Presumably, the 3/4 would include much or most of the time spent on preparing for the DAC meeting.

As for the schedule, let's see what Shihata says tomorrow. His PC/Board paper may be done in a matter of days, thus disposing of the problem, or, more realistically, at least of its urgency.

CC: Alexander Shakow (ALEXANDER SHAKOW)

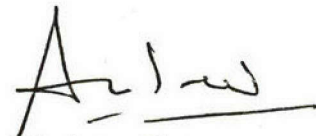
October 23, 1990

Messrs. Edwin Lim, Maqdi Iskander

Ghana SAC III

Attached are a few miscellaneous comments that I didn't mention at the O.C. yesterday -- but may be helpful.

The SAC is a very good one. But if you manage to do something substantial about the "intangibles" (attitudes of government officials, confidence, etc.) during appraisal, you will have earned our undying respect!


Andrew Steer

Attachments

cc: Messrs. J. Linn (o/r), P. Isenman, F. Earwaker
Ms. P. Jones

RECEIVED
90 OCT 24 AM 10:27
PRDDR

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: October 19, 1990

TO: Ms. Polly Jones, AF4CO

FROM: Samuel Paul, CECPS 

EXTENSION: 37489

SUBJECT: GHANA: IM FOR SAL III

To: Andrew Steer

From: Sam Paul

As desired.

I have reviewed the SAL III IM as desired, with special reference to the aspects and components I was involved with in previous operations. The new proposals for further deregulation of economic activities appear to be well argued.

My major comment pertains to an aspect of deregulation that may have been missed on your section on pages 7-8. The repeal or amendment of the acts mentioned therein may still leave certain laws governing some economic/sector ministries untouched. As a result, the latter may continue to delay and obstruct prospective investors. Fisheries, agriculture, trade, etc., have their own legislation which need to be reviewed to remove the requirements of approval inconsistent with the amendments being sought under SAL III. On earlier occasions, entrepreneurs had complained about the multiple clearances required from different ministries even though a single window clearance facility had been established.

SPaul:efm

The World Bank/IFC/MIGA
O F F I C E M E M O R A N D U M

DATE: 18-Oct-1990 02:34pm EST

TO: Johannes Linn (JOHANNES LINN)

FROM: Frank Earwaker, PRDRA (FRANK EARWAKER)

EXT.: 31266

SUBJECT: GHANA: Initiating Memorandum for a third SAC

The third SAC is following a well beaten track that was thoroughly reviewed at the time of the recent CSP. It advances further with the reforms in taxation, the civil service, cocoa pricing, exchange rate policies and public sector divestiture that were supported by two previous SACs. This ongoing program of reforms, together with measures to address the distressed financial system are expected to encourage private sector development which is the principal thrust of the country development strategy at this point. The third SAC will further strengthen that strategy by introducing a reform of the regulatory framework.

I have discussed the draft OC agenda with EAS and it seems to cover all issues of concern to PRE.

Ross Levine (CECMG) points out that the projections of private savings and investment seem very optimistic, given the still distressed state of the financial system, the continued need for restrictive monetary policies to combat inflation and the regarding the sustainability of the reform program in an uncertain world environment. He is right. Furthermore, if the private sector is to grow, there will have to be, in addition to the proposed "technical" reform of the regulatory system, a major change in the Government's attitude towards private business and a stop to the harassment experienced by businessmen when they confront the Government bureaucracy. That was a central theme of the CSP. It is not something that lends itself to the formal conditionality of a SAC but the Region should explain how it proposes to pursue these attitudinal changes in parallel to the more formal adjustment program.

I do not believe there are any outstanding policy issues of a contentious nature that PRE needs to raise at the OC meeting next Monday. If you wish to discuss the IM further with Ross Levine and myself we can meet with you at your convenience.

PS..... A hard version of this EM will be sent to you with a standard distribution list for the record.

The World Bank/IFC/MIGA
O F F I C E M E M O R A N D U M

DATE: 22-Oct-1990 09:42am

TO: Andrew Steer (ANDREW STEER)

FROM: Stephen Mink, DECVF (STEPHEN MINK)

EXT.: 33696

SUBJECT: OC Meeting on Ghana SAC III

I looked over the Initiating Memorandum for Ghana's SAC III and only have several comments.

First, despite identifying poverty as a main concern, the IM treats it almost entirely within the confines of public expenditure. At the very least, the IM should be able to encompass the poverty impact of public revenue objectives into the discussion. One could argue, for instance, that the objectives (para. 16) of lowering the corporate income tax by 15 percentage points, but the sales tax by only 2.5 percentage points (from 22.5 to 20%), while increasing the excise tax on petroleum products, is a strongly anti-poor set of tax policies.

Perhaps in the SOE area, the program is expecting progress out of balance with the rest of the public sector. For instance, para. 28 calls for "preparation and publication of timely audited financial accounts" for the priority SOEs that are to remain in the public sector. In comparison, little is said in the IM about the Central Bank, which has not published an annual report since the 1984 issue, nor about the Government itself, which has not presented audited financial accounts since 1978. Private sector scepticism has as much to do with the lack of accountability (in both narrow and broad terms) of the public sector as with the burden of public sector regulations.

The World Bank/IFC/MIGA
O F F I C E M E M O R A N D U M

RE: GHANA SAC

DATE: 18-Oct-1990 10:37pm EST

TO: Robert Liebenthal

(ROBERT LIEBENTHAL)

FROM: Paul Isenman, PRDDR

(PAUL ISENMAN)

EXT.: 33957

SUBJECT: RE: New-look briefings

I have sent Frank's em to Wilfried, cc. to you.

The issue Frank is raising is a classic example of a problem of governance, and should be identified as such. Beyond putting the right label on it, the question remains what we should do.

Shouldn't we be getting pretty tough with the government after all these years? And I don't see defining conditionality as all that big a problem if there is a will to do so. Satisfactory progress toward improving the business climate can be a condition of release of the second tranche, for example, even if LEG would prefer stuff more specific.

CC: Frank Earwaker

(FRANK EARWAKER)

CC: Keith Jay

(KEITH JAY)

The World Bank/IFC/MIGA
O F F I C E M E M O R A N D U M

DATE: 20-Oct-1990 12:46pm

TO: Robert Liebenthal
TO: Frank Earwaker

(ROBERT LIEBENTHAL)
(FRANK EARWAKER)

FROM: Paul Isenm, PRDDR

(PAUL ISENMAN)

EXT.: 33957

SUBJECT: Good Governance

Frank's em could form the basis of a good discussion at one of your staff meetings, or a Department meeting. He makes some good points, but I don't agree with him on a number of counts.

The ambiguity that bothers him didn't bother me when I was in Operations. There is always ambiguity, and it can help us to see that the spirit and not just the letter of a program is respected, assuming that we act responsibly. Also, I don't accept the idea of Ghana's commitment to a "particular view (or paradigm) of development." AS the Nordic delegation to the Development Committee put it, these days support of the private sector is not a question of ideology but of efficiency. Ghana decided to push for private sector growth years ago, but it is doing so inefficiently. Frank is right that the reasons are political in one sense. But the government is divided on this. And it is perfectly reasonable of us to have conditions relating to governance -- i.e. things like avoiding capriciousness, increasing predictability and transparency of government response. Not doing adjustment lending is one response. But keeping a high lending level and not having as a condition of that high level that they act more consistently re the private sector seems to be inconsistent on our side.

What seems to be happening is that the reform group gets basically good policies and the radical group extracts as its price a certain capriciousness and uncertainty. After all this international support, shouldn't we oblige the government to face up to this inconsistency, and cut lending from its current very high level if they don't move in that direction.

My experience indicates that these things are much better dealt with on specifics than on generalities. Reducing the capriciousness, or controls, imposed by given ministries is something that may be hard to define to suit lawyers, but it can be done. The next Madagascar credit will be focussing on questions of this type.

What I am asking you, Bob, and the reviewers, is to advise us on how we can make governance more operational. Let's not back off of this difficult but important question. We should also

involve the Region in this dialogue, including Pierre and Ismael as well as the CD. (Since I haven't read the CSP I don't know if my comments are really on target for this CPP, but the general point remains.)

CC: Coralie Bryant
CC: Sarwar Lateef

(CORALIE BRYANT)
(SARWAR LATEEF)

The World Bank/IFC/MIGA
O F F I C E M E M O R A N D U M

DATE: 19-Oct-1990 07:09pm

TO: Paul Isenman
TO: Robert Liebenthal

(PAUL ISENMAN)
(ROBERT LIEBENTHAL)

FROM: Frank Earwaker, PRDRA

(FRANK EARWAKER)

EXT.: 31266

SUBJECT: GHANA: Third SAC

Concerning Paul's question "why cannot improving the business climate be made a condition of tranche release?", I think he points to the answer himself when he says that the lawyers would prefer something more specific. It's not just the lawyers, either. We ourselves in PRE have been advocating that tranche release conditions should be few and clearly monitorable. In order for a condition to be monitorable it has to be reasonably specific and unambiguous. The "business climate" is neither. I could see us getting into endless swabbles with the client on that one -- and it would not be very productive.

I'm not sure that this is a question of governance, either. It seems more a question of the present Administration's commitment to a particular view (or paradigm) of development.

And, when it comes to such intangibles, we should not get too hung-up on formal loan conditionality. In the ultimate analysis our ability to assist the client's development effort is going to depend upon a convergence of views emerging from our overall country dialogue. There is no point in trying to bind the client with legal obligations that he is not yet really to accept -- especially on something like "improving the business climate". It simply won't work.

Disagreements on such broad policy issues are more appropriately handled in the overall country program context. If we perceive that the client is not really committed to reform, then we should stop lending for adjustment until such time as we have established a true convergence of views rather than trying to twist arms (though, I admit, the distinction between "stopping lending" and "twisting arms" may not be readily understood by everybody). The Ghana CSP itself embraces exactly that view, saying that we shall not continue to lend for adjustment unless the business climate improves and, indeed, unless the improvement is manifested in higher private savings and investment. It will be interesting to see if the Region abides by that or if the "urge to lend" will prove too strong to resist!

The World Bank/IFC/MIGA
O F F I C E M E M O R A N D U M

DATE: 20-Oct-1990 12:46pm EST

TO: Robert Liebenthal
TO: Frank Earwaker

(ROBERT LIEBENTHAL)
(FRANK EARWAKER)

FROM: Paul Isenman, PRDDR

(PAUL ISENMAN)

EXT.: 33957

SUBJECT: Conditonality on Governance

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CC: Coralie Bryant
CC: Sarwar Lateef

(CORALIE BRYANT)
(SARWAR LATEEF)

The World Bank/IFC/MIGA
O F F I C E M E M O R A N D U M

DATE: 19-Oct-1990 07:09pm EST

TO: Paul Isenman (PAUL ISENMAN)
TO: Robert Liebenthal (ROBERT LIEBENTHAL)

FROM: Frank Earwaker, PRDRA (FRANK EARWAKER)

EXT.: 31266

SUBJECT: GHANA: Third SAC

Concerning Paul's question "why cannot improving the business climate be made a condition of tranche release?", I think he points to the answer himself when he says that the lawyers would prefer something more specific. It's not just the lawyers, either. We ourselves in PRE have been advocating that tranche release conditions should be few and clearly monitorable. In order for a condition to be monitorable it has to be reasonably specific and unambiguous. The "business climate" is neither. I could see us getting into endless swabbles with the client on that one -- and it would not be very productive.

I'm not sure that this is a question of governance, either. It seems more a question of the present Administration's commitment to a particular view (or paradigm) of development.

And, when it comes to such intangibles, we should not get too hung-up on formal loan conditionality. In the ultimate analysis our ability to assist the client's development effort is going to depend upon a convergence of views emerging from our overall country dialogue. There is no point in trying to bind the client with legal obligations that he is not yet really to accept -- especially on something like "improving the business climate". It simply won't work.

Disagreements on such broad policy issues are more appropriately handled in the overall country program context. If we perceive that the client is not really committed to reform, then we should stop lending for adjustment until such time as we have established a true convergence of views rather than trying to twist arms (though, I admit, the distinction between "stopping lending" and "twisting arms" may not be readily understood by everybody). The Ghana CSP itself embraces exactly that view, saying that we shall not continue to lend for adjustment unless the business climate improves and, indeed, unless the improvement is manifested in higher private savings and investment. It will be interesting to see if the Region abides by that or if the "urge to lend" will prove too strong to resist!

The World Bank/IFC/MIGA
O F F I C E M E M O R A N D U M

DATE: 18-Oct-1990 04:49pm

TO: Sven Sandstrom

(SVEN SANDSTROM)

FROM: Paul Isenman, PRDDR

(PAUL ISENMAN)

EXT.: 33957

SUBJECT: Governance

Sven,

I'd like your advice on how we deal with Ibrahim Shihata's declaration that he was writing a paper for the PC himself on governance. We here have started some modest work on the topic, drawing heavily on what Pierre and Ismael had done. I see this work as growing out of what we are doing in adjustment and PSM/PSD. Legal aspects are clearly important, among others. Operations and Finance (because of resource mobilization) also will have something to say. How do we work this in a way that is collaborative rather than confrontational. I told Ibrahim after the meeting that I wanted to talk to him about collaboration, but I'd like your advice beforehand on this.

Paul

*Sven to
with
+ advice.
2/9*

Greeff,

10/9

This looks
very interesting
for our discussion
about Ray),

Paul

< Bryant
Ray Hopkins

OFFICE MEMORANDUM

File: Governance
Paul, As Promised
Ray

DATE:

TO: Mr. Ismail Serageldin, Director, Africa Technical Department

FROM: Elizabeth Morris-Hughes, Acting Chief, AFTFS

EXTENSION: 38508

SUBJECT: Comments on "Governance, Democracy and the World Bank in Africa"

1. The following observations and suggestions were developed together with Professor Raymond Hopkins, Consultant with AFTFS, whose teaching and writing have focussed on the areas of Food Policy, International Politics and African Politics.
2. The importance of this topic is unquestionable; so is its sensitivity. Food security issues provide an excellent instance of how government performance is a major concern in Africa. The comments that follow, therefore, arise from a desire to advance the initiative on "governance" as discussed in the LTPS. The question for us is how can it be related concretely and practically within the Bank's work on food security and development with women's active participation, (i.e. the operationalizing the draft's proposal iii, pp. 13-22). It is also suggested that modifications in the framing and language of the draft could reduce sensitivity problems re Bank involvement in governance.
3. Certainly the term "democracy" is popularly in vogue. It is used often interchangeably with political reform, particularly in Eastern Europe. However, "democracy" carries too much "luggage" to be a useful term. Considerable philosophical argument and empirical evidence supports a strong relation between responsible governance (i.e. a government that carries out its role faithfully and efficiently) and properties of democratic government. Some studies to further understanding on this connection may be of use to the Bank and appropriate for it to support. Beyond this, however, we would suggest that focus on responsible government, i.e. a government whose performance accentuates development rather than slows or retards it, is the best and sole operational concern of the Bank. The four constraints on Bank action described in the draft and the reference (top of page 6) to non-democratic governments' success in economic development, underline the incomplete and nonlinear relationship between governmental qualities that support economic development and the panoply of attributes associated with democracy. Might the term "democracy", not the issue itself, be more usefully handled in a footnote in a subsequent draft?
4. The legal mandate of the Bank to refrain from "political conditionality" or otherwise interfere in the internal political affairs of its client countries is appropriately construed to exclude the Bank ever taking a position on issues of personnel or pattern of

recruitment as well as on generic regime questions. Economic policy and political policy, however, are clearly inextricably linked. Therefore the Bank should be fundamentally concerned with formulation and execution of policy in a fashion to effect successful economic development results. The five properties of "good governance" discussed in pages 13-21 largely flow naturally and ineluctably from this mandate. The recognition of this linkage is clearly a shift in Bank thinking; the precedence set by comparable changes in 1973 and 1979 (pages 7-8) are elegant examples to legitimate this shift within existing Bank authority.

5. The five specific elements of "good governance" or perhaps of "responsible government" (good government may be too diffuse and persuasive a definition) deserve some careful consideration. They are obviously neither mutually exclusive nor as sustainable independently as together. This point is nicely made with respect to the relation between transparency and accountability.

6. Functioning markets being one of the key factors promotive of a country's food security, we would note that one term which is not used but is closely connected with or perhaps central to desiderata of functioning markets, is openness. Efficient markets require open information and opportunity for participation. Such economic fundamentals relate to the pattern of governance quite directly. They lead into a necessary transparency in governmental operations and the system of public information. These, in turn, provide for effective economic participation of the public with sufficient information to pursue rational choices. With respect to accountability some further clarification would be desirable, with respect to whom accountability is to be maintained and with a definition of "failure" (page 16). The following elements might be considered: a reward schedule that reduces rent-seeking behavior by government officials is essential; the nurturance of this is likely to occur in small, incremental steps rather than in a dramatic fashion. Leadership that models desired behavior is important. The nurturance of internal constraints within an elite culture that rewards the performance of civic functions, however, is central.

7. With respect to institutional pluralism, a concern must be noted. How far toward "pluralism" should the Bank's own research in Africa be directed? Do economic desiderata justify opposing in Zimbabwe or Kenya a one-party state or applauding movement in the opposite direction elsewhere? In pages 17-19 the case could be made that despotism not totalitarianism (page 18, end paragraph 2) is the threat to responsible governance in Africa. It may not be the "multiplicity" of institutions but their "gravity and voluntary capacity" that is crucial to an environment that nurtures economic development. The points on freedom of the press and media (page 18) are vital; they might be equally well conceptualized as requirements of transparency or openness as of pluralism.

8. It is important to recognize that work in the 1980s on political economy has often stressed the negative effect of politics on economic policy. The principal explanation in the political economy literature has been the distortive effects of special interest groups, reflecting either the power of society over the state, or the desire of rulers to maintain power by placating special interests. These distortive consequences of interest group participation in politics and the pluralist approach, suggest the need for a thoughtful approach in the Africa region to the encouragement of voluntary associations. One test may be to maintain principles of transparency (or openness) and predictability upheld by the rule of law, in voluntary organizations.

9. Finally with respect to the rule of law (pages 20-21), its importance for sustaining an environment for economic entrepreneurship seems unassailable. The key question seems to be what steps are appropriate for the Bank in its operational activities to support the rule of law. Predictable and reliable private ownership and risk-taking by entrepreneurs surely promise to move a society in the direction of otherwise lost economic opportunities.

10. A review of Bank success in selected operational interventions relevant to governance would be helpful. For example in a number of countries such as Ghana, Gambia and perhaps Guinea reform steps have been undertaken. Some internal thinking to look at the policy formation process by which successful adjustment steps occurred and the extent to which responsible government objectives have also been furthered could well advance and inform further Bank studies and action.

11. Food security and governance come together in a variety of ways. In subsequent studies and in Bank lending operations three issues are of particular importance.

- ◆ First, improvement of marketing is a key factor in enhancing food security. As noted earlier, This requires openness, diffusion of information in timely fashion among market participants and predictability of environment. Buyers and sellers, as well as traders, need to be assured that their transactions are not subject to capricious and rent-seeking activity by government officials.
- ◆ The second connection is the issue of accountability (or responsiveness) of government to broad needs of all the citizenry. Estimates of chronic malnutrition particularly in female adults and children, and the periodic vulnerability of larger groups to food insecurity in Africa suggest a considerable "appropriate" role of government in addressing this concern. Historically the problem has been that states' efforts have led to excessive policy intervention, often impractical or impossible to implement

effectively. Subsequent distortions, mistargeted subsidies, exacerbation of price swings and protection of the powerful rather than the poor have resulted. Steps to refashion governments' role have been underway for over a decade. Still not clear, however, is how to tailor adjustments in different contexts in a fashion that reduces rent-seeking behavior, guarantees efficient targeting on needy populations and allows "beneficiaries" to participate so that government action is adaptive rather than dogmatic in design and implementation.

- ◆ Third, especially with respect to women, landless peasants and the range of less powerful groups often in the informal sector, food production, marketing and opportunities for improved nutrition are lost because of restrictions on ownership, especially of land, and as a result of social/legal barriers to entrepreneurial, self-help activities.

RECEIVED

90 OCT -3 PM 3:53

P R D D R

ROUTING SLIP		DATE: 10/3	
NAME		ROOM NO.	
Mr. Isenman			
APPROPRIATE DISPOSITION		NOTE AND RETURN	
APPROVAL		NOTE AND SEND ON	
CLEARANCE		PER OUR CONVERSATION	
COMMENT		PER YOUR REQUEST	
FOR ACTION		PREPARE REPLY	
INFORMATION		RECOMMENDATION	
INITIAL		SIGNATURE	
NOTE AND FILE		URGENT	
REMARKS:			
Is this what you are looking for?			
FROM:		ROOM NO.:	
		EXTENSION:	

RE LANDELL-MILLS
A. STACY)

(PIERRE LANDELL-MILLS)

(ROY A. STACY)

SUBJECT: Governance and USAID Field Guidance

(ISMAIL SERAGELDIN)
(DUNSTAN WAI)
(PAUL ISENMAN)

~~Price
Ismail's
Paper.
Geoff
Vined
on
governance~~

OFFICE MEMORANDUM

82

DATE: September 14, 1990

TO: Mr. Pierre Landell-Mills, Senior Policy Advisor, AFTDR

FROM: Roy A. Stacy, Consultant, AFRVP

EXTENSION: 34686

SUBJECT: Democratization, Governance and Operations

1. Attached are a telegram and background paper on democratization and governance that is being sent to all of the USAID missions in Africa. As AID wrestles with the tasks of operationalizing these issues, there is the possibility that the US Executive Director's Office will begin to raise "democratization conditionality" in the Board. This paper is still draft and should be treated with some confidentiality, but I thought you would be interested in their preliminary thoughts. I'm sure that the working level people at AID would welcome the opportunity of a dialogue with the Africa region.

cc. Mr. P. Isenman
Mr. D. Wai

RECEIVED
90 SEP 17 PM 3:43
PRDDR

DRAFT

Cable to all Missions

SUBJECT: AFR Strategy on Democratization and Governance

1. Summary. Missions are requested to give their views and suggestions on how AFR should deal with the issues of democratization and governance in Africa. A response is requested by October 19; attention: AA/AFR Steve Brent.

2. AFR/W has been discussing the issues of democratization and governance in Africa and possible U.S. policy options for encouraging positive changes in these areas for several months. This concern has arisen because of new democratization pressures in Africa, a long-standing feeling that weakness in governance has been a serious constraint on progress in economic development, and growing emphasis on democratization in broader U.S. foreign policy.

3. In August you received some papers giving you a feel for the nature of the discussion in Washington. One of those papers was the presentation that AFR made on democratization and governance to the Administrator as part of our FY92 ABS review. At that time, as you may recall, we said we would do four things:

A] Coordinate closely with the State Department, especially on human rights and relations with other donors.

B] Modify the DFA Action Plan to incorporate democratization, and work with the Missions to make this real in our country programs.

C] Consider incorporating a measure of democratization progress into the formula by which the DFA is allocated across countries.

D] Consider new projects only if there's a clear need from the Mission perspective (because democratization projects are very manpower intensive).

4. Beyond these general points, the specifics of AFR strategy are yet to be worked out. It is the Bureau's intention to develop policy in this new and difficult area by a process of consultation and dialogue with Missions. This cable is a step in that process.

5. AFR/W is seeking the views of Mission Directors and staff on basic questions of strategy and tactics for how we should proceed in this area. Your views are solicited on whatever issues you wish to comment on, and need not follow any set form.

6. For your reference, AFR is forwarding a 15-page background paper that analyzes some of the issues and offers some policy proposals. This paper is not/repeat not an approved policy statement. It is only a set of ideas developed by Steve Brent (Special Assistant), who has been organizing the Bureau's deliberations in this area. We are not sending it you to try to direct the debate, but to provide some background on the issues and to give you some ideas to react to. The views which you offer need not be constrained by this paper. The paper will be sent under separate cover by pouch or hand-carried by Mission representatives returning from the upcoming Assessment of Program Impact conference in Washington.

7. The following list of questions is offered as a possible guideline for your responses [but not a mandatory one].

A] The DFA Action Plan already addresses some issues related to governance and participation. However, it doesn't single out democratization or governance as independent objectives. Should the Action Plan be modified to do this? If so, how should it be modified?

B] The Africa Bureau program includes various activities related to decentralization and participation of grass-roots organization. Should AFR undertake additional efforts to support democratization and improvements in governance in Africa? If so, what type?

C] What are your views on "political conditionality"--conditioning aid on political factors as well as economic?

D] The above-mentioned background paper distinguishes among four sub-categories of issues under the general heading of democratization: 1] political accountability [multiparty democracy is one way to achieve political accountability]; 2] human and political rights [human rights, freedom of speech and assembly, freedom of the press, etc]; 3] governance [control of corruption, rule of law, administrative efficiency, equity and effectiveness of public investment]; and 4] popular participation [including decentralization]. Of these categories, which do you think AFR should try to address?

E] The background paper also discusses the relationship between political liberalization and economic reform. It argues that the historical evidence on this relationship is mixed, with some cases suggesting that democratization helps economic reform, and others suggesting that it hurts. If your country were to move toward a more open political order, do you think it would help or hurt economic reform?

F] If the Bureau were to decide to support democratization and governance as a matter of policy, what kind of program would you recommend for your country?

G] What kind of financial and manpower resources would you need?

H] What kind of help would you want from AID/W?

I] What help would you need or want from other USG agencies?

8. If you need any further information, please contact the appropriate member of the AFR task group from the following list: AFR/CCWA - Myron Golden; AFR/EA - Harry Johnson; AFR/SA - Kim Finan; and AFR/SWA - Dana Fischer. Or contact Steve Brent (phone 647-9235).

4284A

DEMOCRACY AND GOVERNANCE IN AFRICA

Background Paper

Introduction. This paper offers an overview of the democracy and governance issues in Africa. It discusses why the Africa Bureau is considering new initiatives in this area, how democratization relates to long-term development, and what democratization in Africa might mean. It then offers some policy proposals for A.I.D. and for the U.S. government.

I. BACKGROUND.

A. Why Democratization Now?

Why is this an issue? Why is the Africa Bureau looking at this area now? This question is particularly important because the Bureau is facing major manpower constraints, which puts a heavy burden of proof on any new initiatives.

There are several reasons why the Bureau is considering new initiatives in this area. They involve new democratization pressures in Africa, shifting donor attitudes, statements by senior U.S. officials, and Congressional and public opinion.

1. New Trends in Africa. Probably the most important factor in putting the democratization issue on the map is the development in the last year of pressures for democratization in a significant number of African countries. This has often taken the form of calls for multiparty democracy. The list of countries that have felt such pressure includes Benin, Gabon, Guinea Bissau, Kenya, Ivory Coast, Zambia, Zaire, Nigeria, Mozambique, and Angola.

These internal pressures seem to be rooted in several factors. The first is long-standing anger at the repressiveness and injustice of one-party rule. The second is growing frustration with the social and economic consequences of stagnant or negative economic growth. Urban unemployment, in particular, has fueled public protests. This economic and political frustration seems to have been brought to a head by events in Eastern Europe, which has raised African consciousness about the possibility of political change.

Although protestors have called for multiparty democracy, some observers believe that the real issue is just political change. That is, the real desire is for fundamental change that will open and liberalize the political order. Multipartyism is just the banner that people are rallying around. (This view is espoused, for example, in the attached New Yorker article.)

2. Donor Views. Influenced by both the Eastern European analogy and the growing internal pressures for liberalization in Africa, the views of the donors on democratization have evolved dramatically in the last year. A year ago few talked about political liberalization in Africa. The World Bank had put a major emphasis on "governance" in its Long-Term Perspective Report, but this referred more to the effectiveness and competence of governments than to democracy. It was generally assumed that raising basic issues of democratization would be unrealistic, would create a backlash, and would be seen as an intrusion on African sovereignty.

In the last year this situation has changed. At the Bretton Woods conference in April, Assistant Secretary of State Hank Cohen publicly discussed the need for African countries to move toward Western-style democracy. (At this same conference, World Bank President Barber Conable focused most of his speech on the governance issue.) Subsequently, Secretary Cohen has said that the U.S. does not condition its aid on democratization now, but may do so in the future.

In June the French and British joined the chorus. In a speech to a Francophone African group, President Mitterand said that France would give increasing weight to democratic change in its relations with traditional African partners. In a speech to the Overseas Development Institute, British Foreign Secretary Douglas Hurd made a tough statement on the need for Western aid to encourage African countries who are moving towards pluralism, public accountability, rule of law, human rights, and market principles. He said that "governments which persist with repressive policies, corrupt management, wasteful discredited economic systems should not expect us to support their folly with scarce aid resources..."

3. U.S. Statements on Democracy. In the U.S. case, interest in democratization in Africa is reinforced by broader U.S. government emphasis on democracy as an emerging theme in U.S. foreign policy. At a major speech before the Houston summit, Secretary of State Baker said that support for democracy would be a central pillar of U.S. foreign policy in the post-Cold War era. A.I.D. Administrator Roskens has also said that he wants to put a major emphasis on democracy, and has called for a new Agency initiative in this area in the near future.

4. Congressional and Public Opinion. Finally, these new trends have been reflected in public and Congressional opinion. Although the issue of African democracy hasn't been extensively discussed by public commentators, the attached Washington Post op-ed article gives one commentator's view.

In Congress the small number of staffers concerned with African issues have begun to discuss the democracy question and its implications for U.S. policy. Congress is inclined to be quite activist on issues of democracy and human rights abroad. While we don't see any immediate prospect of legislative guidance or directives for Africa, if the Executive Branch is perceived to be dragging its feet in this area, it may be only a matter of time before they come.

B. African Government Attitudes.

Most African governments have reacted to internal liberalization pressures with a "damage limitation" response. In some cases, such as Kenya, leaders have explicitly rejected multipartyism. In other cases, such as Zaire and Ivory Coast, leaders have taken a public stance of compromise with the apparent goal of containing pressures. In a few cases, such as Gabon, Benin, Nigeria, and Sao Tome and Principe, leaders have accepted multiparty competition, believing that the dominant party will prevail.

In their public statements a growing number of African governments have claimed to recognize the need to address political liberalization. This appears to be influenced, not just by internal pressures, but also by changing perceptions of the external environment. There is widespread concern in Africa that African aid will be cut because of the needs of Eastern Europe. This seems to be influencing many governments to take a more forthcoming and less confrontational stance in their relations with donors. For example, at the Maastricht conference on African development in July, most African governments were quite muted in their criticisms of structural adjustment, and a large number spoke positively about the need for improvements in governance and democratization (as did virtually all the donors). This may reflect a feeling on the part of governments that, since aid is going to be limited, they have to do more to compete for scarce aid dollars--both on a continent-wide basis and among themselves.

Thus, the issue of foreign aid's role in promoting democratization may be even more important because of changes in the African/donor relationship. The donors may have more influence because of African perceptions that they are in a vulnerable position regarding future aid.

C. Content of Donor Policy is Uncertain.

In spite of the strong position taken by donor officials, the actual content of donor policies on democratization is yet to be decided. In Africa it is widely assumed that "political conditionality"--the conditioning of foreign aid on progress in democratization, much like aid is now conditioned on economic reform--is already in place, or will be very soon. But, in reality, the donors are still thinking through how to approach the democratization issue, and actual actions to date have lagged far behind the rhetoric.

For example, as the New Yorker article points out, the U.S. has stood virtually alone in Kenya. In spite of Hurd's strong statement on Africa as a whole, the British have been quite soft-spoken in their response to Kenya's recent human rights problems. For France too it is not clear how broad policy statements will affect French policy toward specific African countries.

The World Bank is also uncertain about policy specifics. As a multilateral institution, the Bank has formal restrictions on its ability to address political issues. So it is likely to leave democratization issues to the bilateral donors, and restrict itself to narrower, development-related issues of governance. This might include financial accountability (hopefully aimed at attacking corruption), improving the equity and effectiveness of public investment, and improving administrative efficiency. However, the Bank does not appear to have a developed strategy for how to approach the governance problem.

U.S. policy too is in the midst of formulation. The State Department has been studying the democracy problem for several months, and has recommended creation of an ESF-funded democracy support fund (described on p. 12). In A.I.D. we have been working on the democracy issue in the Africa Bureau and PPC and S&T. PPC and S&T are trying to develop an Agency-wide strategy on democratization. AA/LAC Jim Michel chairs an inter-Bureau task force that is supposed to develop, by early October, a proposal for a democratic initiative for the Administrator's consideration.

In AFR we have been discussing democratization and the A.I.D. response for several months. We have tried to do two things in this discussion: 1) make it an open consultative process in AFR/W and now with the field; and 2) consider A.I.D. policy in the context of overall U.S. government policy. Since the latter is very much in the formulative stage, we have done our own thinking about the broader issues in U.S. policy, and attempted to look at AFR policy issues in relation to the whole.

II. DEMOCRATIZATION ISSUES.

This section will describe some of the thinking that has been done in AFR/W on the broad issues of democratization, relationship with economic reform, and modes of donor influence.

A. Four Categories.

We have found it useful to break the broad topic of democratization down into four sub-categories. These are: 1) political accountability, 2) political and human rights, 3) governance, and 4) political participation.

1. Political Accountability. Political accountability is one of the main goals of democratization. It means that the government is not a power unto itself, but is accountable to the will of the people--not just in some theoretical or historical sense, but in the sense of the near-term viability of government policies.

Multiparty democracy with free elections is one way to achieve political accountability, and it is this form of democracy that most critics of African one-party rule have called for. However, political accountability can also come in degrees, and can exist in more limited forms even in a one-party state--if citizens are free to express their will and if there is competition within the party (e.g., as there was to some extent in Kenya prior to 1988).

It is useful to distinguish between the objective of political accountability and the means of multiparty democracy because questions can be raised about the wisdom of focusing on multipartyism as the be-all and end-all in Africa. First, there is a history to multipartyism in Africa, and it is not a particularly salutary one. Many African countries started out with multiparty systems, which then evolved into one-party systems by some mix of coercion and co-optation. Countries that have multiparty systems today, such as Botswana and Senegal, still have dominant ruling parties which have never been turned out by elections. In the past some multiparty systems have been associated with gross malfeasance and corruption (e.g., Ghana and Nigeria).

Second, there is a danger of the appearance of multipartyism being used as a cover for continued dominance by a ruling party. Even if a country enacts a new constitution that mandates separation of party and state and allows multiple parties to operate, it's still possible that the old ruling party will continue to dominate, because it has the wealth and power. For example, this may be the case in Guinea-Bissau.

Third, one cannot discount the arguments of critics of multipartyism that it could compound problems of tribalism and political instability. There is historical bases for this concern.

Fourth, the form of multiparty democracy may be less important than the concommitants of democracy and the content of democratic pluralism, such as centers of power outside the government, freedom of expression and assembly, freedom of the press, judicial protections and due process, and human rights safeguards. The history of democracy shows that it doesn't survive without at least minimal pluralism conditions being met. Yet some approach multipartyism in Africa as if it can just be grafted on top of current repressive and closed social orders.

2. Political and Human Rights. The second category of issues under democratization, political and human rights, includes the above concommitants of democracy: freedom of speech and assembly, freedom of the press, basic legal protections, and human rights. These freedoms can allow opinions to be formed and expressed even though the check of government accountability through elections is weak or non-existent.

This is relevant to donor policy because it means that there are some areas that the donors might be able to work on incrementally short of the major transition to free elections. This is particularly important in Africa, where elections seem far away in most countries. Without ruling out elections as a long-term objective, the State Department seems to see the most potential for progress in these areas of the concomitants of democracy.

3. Governance. The third category under democratization is governance. In general, governance refers to the quality or effectiveness of government. However, its exact meaning is open to interpretation. A recent HIID study for the ANE bureau defined it in terms of administrative efficiency, political effectiveness (the ability to pursue sound economic policies "in the face of significant opposition from societal groups"), and policy analytic capability. Others define governance in terms of issues such as corruption, rule of law, administrative capacity, share of public investment going to development (as opposed to, say, the military), and the share of government resources going to rural areas.

Many aid agencies are more comfortable with governance issues than democratization, because the former are an extension of development variables that aid agencies already address. Early discussion in AFR shied away from democratization (seen as a State Department issue) and favored governance as the focus for any AFR effort.

However, improving governance may not directly contribute to broader democratization. As the HIID study referred to above notes, there is no inherent link between improved governance and democracy. Democratic governments can perform quite poorly on dimensions of governmental effectiveness and administrative efficiency. Governance improvements may be worthwhile from a development perspective, but they don't depend on, or necessarily lead to, democracy.

4. Popular Participation. The last category under democratization is popular participation. It is not a new issue to A.I.D., or to the development community. NGOs, in particular, have been calling for more responsive government policies, more participation of the people in decision-making, and more local autonomy for sometime. This participation theme pre-dates the new interest in democratization. It is also strongly supported by key elements in the U.S. Congress, who have written requirements to "consult with the local people" into A.I.D. legislation.

The participation issue is interesting because there are some trends underway in Africa that could support it. These are the tentative moves toward decentralization that are being pursued in countries such as Ghana, Uganda, and several Sahelian countries. While there is some question about the goals of these decentralization efforts, it does appear that some of these countries are genuinely looking for ways to spread decision-making out from the central ministries, mobilize communities, and make the system more bottom-up.

B. Democratization and Economic Reform.

An important policy issue, especially for development agencies, is the relationship between democratic change and market-oriented economic reform. The assumption is frequently made that political and economic liberalization go together, and reinforce each other. In the long term, this may be so. But in the short term, most political scientists believe that there is little positive correlation, and may even be a negative correlation, between how democratic a government is and its willingness and ability to pursue market-oriented reforms.

This lack of positive correlation has been found world-wide and in the particular conditions of Africa. The dominant explanation is that far-reaching economic reform hurts powerful interest groups, and is easier to accomplish if government policy-makers have a degree of insulation from these groups. For example, that is one explanation for why Ghana was able to move so aggressively on reform--the government had the power to ignore key urban groups opposed to the changes.

The relationship may be particularly perverse for a society that is trying to move toward political and economic liberalization at the same time. The new political competition may result in parties vying with each other for who can promise the most to influential interest groups, which can be exactly the opposite of what is needed for economic reform. The Nigerian government seems to fear just this problem. In its plans for elections in 1992, it has restricted political debate on adjustment issues out of fear that political competition could derail the country's reform program.

This is another reason why the participation theme is particularly important, and may be more attractive than multipartyism. Multiparty competition could hurt reform by compounding pressures to appease powerful interest groups. However, broadening participation and making government more accountable, particularly if it incorporates previously excluded rural people, could help reform. Farmers and rural populations usually benefit from adjustment's reversal of the urban bias, but their lack of political influence in most African societies means that this benefit has had little effect on government attitudes. If rural people were empowered by participation changes, it could alter the internal politics of reform. Elections are one way to do this. For example, farmers have more political clout in Botswana than elsewhere, and in Senegal rural support for reform measures was a factor in President Diouf's narrow electoral victory. But elections are not the only way to increase participation. As noted earlier, decentralization can also do this.

In a broader sense, there is a case for democratization supporting economic change, based on a view that democratic transitions can transform the economic environment and open up development possibilities that would not exist otherwise. The classic example is Eastern Europe. All the aid in the world wouldn't have done much for Eastern Europe before political change opened the way for fundamental economic change. With political and economic change, however, the potential is great, which the West has recognized with its high levels of assistance.

Two other examples also support the view that democratization can help reform. Perhaps the most surprising case is the Soviet Union, where the new political openness has given rise to internal pressures for more radical economic change than the central government has proposed. Another case is Latin America, where many newly elected governments seem to be taking the initiative on painful stabilization measures. Neither of these cases is consistent with the view, favored by political scientists, that democracy works against economic reform--because existing interest groups lose, because current groups feel costs before new groups feel benefits, and because reform requires sacrifice now for the sake of the long term.

Thus it appears that the near-term relationship between democratization and economic reform is ambiguous, with cases supporting both a positive and negative correlation. In the longer term, there may be a stronger case for the two are more positively correlated. But even here, the examples of Taiwan, Korea, and other Asian countries suggests that market-oriented economic policies can co-exist with authoritarian governments for a long time before they give rise to pressures for democratization.

C. Modes of Donor Influence.

As noted above, there is growing momentum behind the idea of some kind of donor support for democratization in Africa. However, there is uncertainty about what methods should be used, and what mode of influence should be attempted.

1. Political Conditionality. The most common prescription is for political conditionality akin to economic reform conditionality--i.e., setting explicit political conditions for aid. However, there are a number of problems with this approach. Critics argue that: 1) the donors shouldn't dictate political norms in Africa (they have to arise from an internal process); 2) imposing political conditions on top of economic reform conditions will overload the system (particularly if no new money is involved); 3) assessments of democratic performance will get mixed up with, and be compromised by, individual donor country political interests in Africa; and 4) the donors will never be able to coordinate effectively on political conditionality.

These criticisms are compelling. They raise basic questions about the direct conditionality approach. However, they don't necessarily apply to other, more indirect, approaches. More indirect methods of influence are conceivable, which build on an already existing pattern of indirect influence that some people believe is already operating in Africa.

2. Indirect Influence. The view that current perceptions are already exerting indirect influence in Africa is based on the following propositions:

- 1) As noted earlier, a large number of African countries are experiencing internal pressures for political liberalization. Also as noted, many governments fear aid reductions because of Eastern Europe, and feel that they have to do more to compete for scarce resources.
- 2) Also as noted earlier, African governments assume that political conditionality is coming or is already in place. In fact, their perceptions are out front of the actual actions of the donors in terms of political conditionality.
- 3) This exerts a form of indirect influence that is quite powerful. African governments feel they are going to be watched on how they respond to internal dissent, evaluated in terms of human rights, and ultimately judged for how far they go on political liberalization. They believe that a bad report card will have tangible costs. Thus they have strong incentives to figure out for themselves political initiatives that will address internal democratic demands, in order to make their countries more attractive in the competition for scarce aid dollars.

Such an influence pattern may only be in its early stages today. For example, it appears to be affecting the policies of Zaire and the Ivory Coast, but not Kenya. However, the level of influence may grow as the democratization issue gains momentum.

The question for donor policy is whether anything can be done to enhance this indirect influence that encourages political liberalization. This question will be addressed below.

III. AFR STRATEGY.

What does all this imply for the Africa Bureau? What new initiatives should the Bureau consider to support democratization? AFR/W has been examining these questions for several months. The idea was to develop some policy proposals which could be discussed with the Missions.

This paper is part of that process. Some proposals have been developed that we would like to share with the Missions and get reactions to. These ideas are not locked in concrete, and have not been approved as Bureau policy. We are trying to avoid policy commitments until we can benefit from field opinion (in spite of Washington pressures to converge on policy directions quickly).

A. What Has Been Said.

The only statement that AFR has made formally on this subject was a brief presentation to the Administrator as part of our FY92 ABS review. You received a copy of that statement last month. As you may recall, we said we would do four things:

- 1) Coordinate closely with the State Department, especially on human rights and relations with other donors.
- 2) Modify the DFA Action Plan to incorporate democratization, and work with the Missions to make this real in our country programs.
- 3) Consider incorporating a measure of democratization progress into the formula by which the DFA is allocated across countries.
- 4) Consider new projects only if there's a clear need from the Mission perspective (because democratization projects are very manpower intensive).

B. Outstanding Issues.

Beyond these points, Bureau strategy remains to be worked out. Salient outstanding issues are:

- 1) How should the DFA Action Plan be modified to reflect democratization and/or governance concerns?
- 2) Of the four sub-categories of issues mentioned above--public accountability, human and political rights, governance, and popular participation--which should AFR focus on? How should AFR address them?

Mission views on these issues are welcome. Some tentative proposals on the second question follow.

C. Participation.

The area where there has been clearest support for new AFR activity is popular participation/decentralization. The following arguments have been made for working in this area:

- 1) AFR has experience with programs and projects to enhance participation (especially in the Sahel), which it can build on.

2) As noted earlier, there are trends toward decentralization and public pressures for increased participation in some African countries, which could be capitalized on.

3) Expanded AFR focus on participation would help meet Congressional concerns. The Hill has long favored greater popular participation and consultation in decision-making. This has usually taken the form of pressure for A.I.D. to consult with NGOs and grass-roots organizations. However, the real problem is lack of popular participation in decision-making by African governments. An A.I.D. emphasis on the latter might help defuse pressures for the former.

The basic proposal is that AFR would give increased emphasis to participation in all DFA programs. This could involve:

- 1) Adding to planned projects a requirement for the government to consult with affected people (funded by A.I.D).
- 2) Asking missions to propose AEPRP-like programs in the areas of democratization, governance, and participation (e.g., a Ghana AEPRP-like program focusing on decentralization).
- 3) Encouraging governments to hold public hearings, consult with local groups, and increase the transparency of decision-making.

D. Governance.

Governance is the area where there has been the next most support for AFR involvement. This could include efforts to improve: 1) the equity and effectiveness of public investment; 2) control of corruption; 3) control of military spending; 4) efficient administration; and 5) the rule of law.

There is much less consensus on how to go about encouraging improvements in governance than participation. Non-project aid conditionality could be used to attack some areas, such as shifting more investment to rural areas or reducing corruption. Project aid and non-project conditionality might be used to improve the rule of law. But in many of these areas, the World Bank seems to have more leverage than the bilateral donors, because of the size of its balance-of-payments support and its influence over budget processes and decisions.

This leads some to suggest that the World Bank should take the lead in governance, encouraging and coordinating bilateral donor initiatives, and using its own leverage. However, others doubt that the Bank will be willing to take a pro-active role in this area, and believe that initiatives will have to come from the bilateral donors. Some who hold this view argue that the United States should take the lead in meeting with other donors, to try to spur coordinated bilateral efforts. //

E. Accountability and Political and Human Rights.

The areas where there is the least consensus for AFR involvement is in the purer democracy areas of accountability and political and human rights. Many feel that AFR has little to contribute in areas such as supporting elections, encouraging freedom of speech, and promoting human rights, and that these areas are properly the concern of the State Department.

State AF argues that support for democracy requires the flexibility and quick response of ESF. To take advantage of this, it proposes an ESF democracy support fund. This fund would have three purposes: 1) to reward countries that make a major democratic breakthrough (such as Benin) with balance-of-payments support; 2) to support democratic institution-building (e.g., Ambassador Walker's proposals for projects to support democratic institutions in Nigeria), and 3) to preserve the flexibility to respond to political settlements of conflict situations with balance-of-payments support.

The projects for institution-building in Nigeria are to be managed by USIA. The question arises whether, in other countries, AFR should get into this business. In the Latin American region, A.I.D. does fund major projects to develop democratic institutions (in areas such as administration of justice, development of legislatures, and training of journalists). However, LAC only operates this type of project in countries where a democratic transition has occurred (of which there are few in Africa). LAC has also found these projects to be very manpower intensive. For these reasons, many feel that AFR should not start down the road of institution-building projects unless the Missions feel there is overwhelming need for them.

IV. PROPOSAL FOR AN AFRICAN COMMISSION ON DEMOCRATIZATION.

Another proposal has been put forward on democratization that would require a broad USG commitment as well as the cooperation of other donors and the World Bank. It is for an African Commission on Democratization. The purpose of the Commission would be to set an international, non-Western standard for judging African progress on democratization, which would influence Western aid allocations. The aim would be to exert indirect influence for democratization. It was argued above that an indirect influence pattern is already at work, based on African concern about competing for scarce aid. The aim of the Commission would be to enhance this indirect influence, by coordinating Western aid around a common standard.

Such a Commission might be formed under the auspices of the Global Coalition for Africa. This Coalition was endorsed by the recent Maastricht conference on African development, and subsequently by the OAU. A secretariat has been set up to get it going, composed of Robert McNamara, President Masire of Botswana, and Dutch Minister of Development Jan Pronk. The purpose of the Global Coalition is to build consensus and support for African development. //✓

The Coalition might be an appropriate framework for forming an African Commission on Democratization, funded by the donors and endorsed by African leaders. The Commission would be composed of respected, senior African figures. Its job would be to prepare periodic assessments of how all African countries are doing in terms of: 1) progress toward a more open and participative political system; 2) progress on concomitants of democracy such as judicial protections, free speech, freedom of assembly, and freedom of the press; and 3) human rights.

The Commission's function would be reporting and monitoring. (The Commission could also try to encourage democratization through offering advice and expertise to African governments.) Whether and how donor aid allocations would be affected by the Commission's reports would be left up to the donors. Of course, in practice, there would be pressure on donors to reduce aid to countries that looked bad on democratization issues, and increase it to those making progress.

This kind of indirect approach to political influence would have several advantages over direct political conditionality. First, it would address the politically sensitive issue of outsiders dictating political norms for Africa by "Africanizing" the standard-setting. Second, it would enhance pressures for positive proposals to come from within, which is where one wants them to come from. Third, it might help reduce donor tendencies to play political favorites by establishing an international standard (without asking donors to give up sovereignty over aid decisions). This might allow more consistency among the donors in aid allocations. Fourth, hopefully the Commission would help distinguish between sincere and sham multiparty initiatives.

Unresolved questions about an African Commission are: 1) Would Africans be willing to serve on a Commission that reports on individual African countries?; 2) Would African leaders agree to the formation of such a Commission?; and 3) How long would it take for such a Commission to be established?

U.S. support for an Africa Commission would obviously require approval by State, the lead agency on democracy and human rights, and probably by the NSC.

V. IMPLEMENTATION.

Several suggestions on implementation are offered.

1. Interagency Task Force. The issues of democratization and governance in Africa clearly extend beyond A.I.D.'s areas of responsibility. To implement the above proposals, actions would be required not only by A.I.D., but also by State (Africa Commission, democracy support fund), Treasury (the U.S. channel to the World Bank), and USIA (institution-building projects).

Whether these specific proposals are adopted or not, the USG needs an interagency mechanism to coordinate agency actions in this area, and to tap the diversity of agency capabilities that are relevant to democratization/governance. To that end, it is recommended that an interagency task force be formed consisting of the above agencies.

2. Schedule. The following schedule for AFR/W and field activities is suggested:

Late Sept. to mid Oct. - Field responds to cable.

Late Oct. - AFR task group reviews field responses and formulates recommended strategy. (A task group has been formed within AFR/W to oversee policy development in this area. It has representatives from all the major geographic and substantive offices.)

Nov. - New AA Scott Spangler reviews proposed strategy.

Late Nov. to early Dec. - Spangler may visit with other donor officials and discuss democratization and governance (among other things).

Jan. - Possible Mission Director's conference, in which democratization would be one of the areas discussed.

3. Contractor Assistance. AFR/W should compete a contract for a consulting firm or consortium to provide on-going IQC-type support to the Bureau on democratization and governance. The Bureau needs significant help with manpower and expertise, in light of present AFR limitations in both areas.

The contractor would provide support to AFR/W and to Missions. In Washington, it would help with policy development and oversight of field operations. In the field, it would provide experts on call to respond to mission needs, and it would send TDY teams to missions that request them to help them develop country-level strategies on democratization and governance.

4. Poverty Alleviation Measure in the DFA. Although not directly related to democratization/governance, a final suggestion is to incorporate a measure of poverty alleviation effort into the allocation formula for the DFA. Language in the House Appropriations bill directs A.I.D. to include, as one of the factors considered in allocating the DFA, how much attention different African governments are giving to poverty alleviation. AFR should consider taking this step voluntarily, because: 1) it may be legislated eventually anyway; 2) it makes some sense substantively; and 3) it takes the emphasis off how much foreign aid is poverty-focused and puts the emphasis where it should be--on how much attention African governments pay to poverty alleviation.

Attachments:

1. "African Democracy" by Raymond Bonner, The New Yorker, September 3, 1990.
2. "Facing Realities," New African, August 1990.
3. "Democracy and Dollars," by Jim Hoagland, The Washington Post, August 9, 1990.

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FACING REALITIES

The West is making aid increasingly conditional on African countries adopting political pluralism, public accountability, respect for the rule of law, human rights and market principles. Baffour Ankomah argues that Africa should take note, face reality and benefit accordingly.



Douglas Hurd, the British Foreign Secretary, is not the most admirable of foreign ministers, but his pragmatism is something to be admired. On 6 June, Hurd addressed a one day conference in London on the "Prospects for Africa in the 1990s", and what he said was a victory for those of us who had always called for, at least, some modicum of morality in the relationship between the West and Africa (see NA, *Beefs*, June p26).

If you make democracy or political pluralism conditional for aid to Eastern Europe, natural justice demands that you ask the same of Africa before supporting the structural adjustment programmes. Sadly, that has not been the case for over three decades. But thank God, the wheels of morality are turning and Western leaders are now seeing through the mask of hypocrisy that has characterised their relationship with Africa for over 30 years.

To many Africans, what Douglas Hurd said on 6 June is what should have been practised by the West 30 years ago. For the benefit of our readers who might not have read Hurd's speech already, I am going to quote him liberally in this piece.

According to him, the main responsibility for tackling Africa's problems in the 1990s will fall to Africans themselves, but aid from outside will also help to make or mar.

"And I want to suggest that there is also a connection in the opposite direction: what Africa does itself has a material influence on the scope and emphasis of aid policy. (African) policymakers cannot afford to ignore, in these days of competing priorities and limited resources, the relative effectiveness of aid. Aid must go where it can clearly do good."

Hurd, perhaps, came to the conference prepared to put down the guilt mentality the Western world has carried ever since the first European colonialist/missionaries brought us the first Bibles and whisky and shipped Africa's gold out to Europe.

He even quoted a "former president of Nigeria" who had described the Africa of the 1980s as "a continent of dereliction and decay; a continent moving backwards as the rest of the world forges ahead; as the Third World of the Third World."

Strong words those, but the Foreign Secretary was not finished yet. He compared Africa's economic performance with the newly industrialising countries of

South-East Asia and the Pacific – some of whom were also formerly governed by foreign powers.

"For the most part, they are less well endowed with natural resources than many African countries. Yet they have advanced further and faster in the last decades, and the gap widened significantly in the 1980s."

Why the gap? Hurd had an answer. "I make no apology for bringing in the recent dramatic events in Eastern Europe here," he said. "Of course, the two regions are vastly different. But they share one experience in common. Centralised political, economic and social structures have failed to deliver the goods – in Eastern Europe, and in those African countries where similar models have been attempted.

"Governments who persist with repressive policies, should not expect us to support their folly with scarce aid resources."

"Now the failed systems of Eastern Europe are undergoing wholesale reform. In Africa too, I believe there is a growing awareness of the need to move away from the inefficient and authoritarian models of the past.

"Nobody believes that good government alone can perform miracles in countries whose natural resources are inadequate. But too many of Africa's resources have been dissipated by war, bad management and, in some countries, by corruption.

"Economic success depends to a large degree on effective and honest government, political pluralism and observance of the rule of law, as well as freer, more open economies."

Then Hurd threw in the bombshell: "(African) countries tending towards pluralism, public accountability, respect for the rule of law, human rights and market principles should be encouraged.

"(But) governments who persist with repressive policies, with corrupt management, or with wasteful and discredited economic systems should not expect us to support their folly with scarce aid resources which could be used better elsewhere."

Hurd's thinking is increasingly becoming the official position of many Western governments. Herman Cohen, the US

Assistant Secretary of State has expressed similar sentiments.

As usual, the African response has been classic. Dr Kwesi Botchwey, Ghana's finance minister, says while he agrees that economic reforms be fully anchored in stable democratic institutions that ensure popular participation, this should not be made a condition of external assistance and in "the form of a checklist of standard institutional arrangements rooted in the alien experiences of other countries."

The "democracy" that all must strive for, he says, must be "distinguished by whether it enables the people to control the use of state power, and to appoint and remove office holders through free elections." Botchwey has since been supported publicly by Head of State, Jerry Rawlings and by the *Ghanaian Times*.

The *Times* went even further to say in a series of editorials that "the European powers know very well that political pluralism is alien to the African traditions of social organisation." Is it really true?

President Arap Moi (of Kenya) and Kenneth Kaunda (of Zambia) have expressed even stronger sentiments about "alien" democratic institutions, "importation of colonialism", and "Kenya not (bowing) to pressure of foreign powers" to go multiparty.

One may ask: is there any difference between Hurd's "democracy?" and Botchwey's "democracy". The only difference there is, to me, lies in practising what one preaches. Botchwey has been a vital pillar of a government which, though claims to be giving power to the people, has refused for nine years to allow the "people to control the use of state power and to appoint and remove office holders through free elections." The distance, therefore, between the rhetoric and reality in Africa is what Douglas Hurd and his colleagues are trying to address.

It is not very healthy to see respectable African leaders always hiding behind the evils of colonialism, only to give them the chance to deny the people the right to self-determination.

The world is changing, and Africa must change with it. We cannot operate a successful Africa in the 1990s with archaic dictatorial practices. Nations grow out of the mess of inexperience and, sometimes, authoritarianism. It is our turn to grow. ■

The World Bank/IFC/MIGA
O F F I C E M E M O R A N D U M

DATE: 03-Oct-1990 10:21pm

TO: Ismail Serageldin (ISMAIL SERAGELDIN)

FROM: Paul Isenman, PRDDR (PAUL ISENMAN)

EXT.: 33957

SUBJECT: Governance

Ismail,

Sorry to take so long in commenting on the August 31 draft of your paper. You undoubtedly are at least a draft ahead and have probably taken account of the problems I will raise.

Overall, I liked the paper very much -- even more than that, in fact. It's wonderful you have the energy, intellect, and commitment to keep up on this sort of thing while carrying out your other responsibilities and travelling a lot.

I have few comments up to p. 14. I agree strongly with almost all of it. One useful things to do would be to have a spectrum of aspects of governance where you would distinguish: the hard core of political factors clearly affecting efficiency of reform and growth programs -- accountability, transparency, predictability...-- from other things related to governance but not part of the hard core. This would include such things as: the rights of indigenous people -- where objectives figure more than efficiency; an enabling environment that interacts with good governance; and technocratic aspects of "traditional" public sector management.

On p. 14 you commit the sin of saying almost everything we do is good for, and a part of governance. We have pushed much more (within and across CDs) for transparency and public accountability in some programs than others. And transparency means much more than consolidated public accounts.

On p. 15 you commit the sin of making governance a technocratic affair, which it is only in part. Strengthening core ministries will help only if there is a political willingness to address such things as accountability, transparency and predictability. And governments will usually not see this as "more effectively implementing their strategy" until they have redefined their strategy to focus more on making the pie grow than on maximizing their economic/political share of it.

Similarly, on p. 16 performance contracts are technocratic instruments that are a part of PSM rather than governance -- which would relate to how seriously responsibilities in

performance contracts are taken. From p. 17 on I like it a lot.

Why not be bolder about just what you mean about taking account of the five areas in ESW and lending? On lending, TA is desirable and often necessary, but rarely sufficient. Our money would have to be linked in some way to improvements in governance. We as staff may be in wide agreement tht we know good/better governance when we see it, but how can it be made sufficiently precise to be linked one way or another to disbursements?

In fact in some countries we have been pushing governance fairly hard. Among my former countries Madagascar was the only one where we did so (unless you want to count the move to a core program in Zaire as a reaction to bad governance.) We pushed in Madagascar on essentially all our five elements, including a strong push by Mr. Conable during his visit on freedom of the press (as an aspect of transparency and accountability of the reform program, particularly re public enterprises, not as a civil liberties issue.) And such issues as reducing favoritism and increasing transparency in the handling of investment opportunities have been a key element in the recent dialogue. This is not so much to say we could not have done much better on this in Madagascar, but it does say that these issues can indeed be operationalized and that it is not just a relabeling of most of what we were doing under adjustment.

Keep it up. What you and Pierre and Dunstan have done on this issue has been a great help for Africa. Now, with your help, we can make it a great help Bank-wide. There is too much woolly thinking and speechifying on governance. We have to rescue it as an important and operational concept before it gets thoroughly and wrongly discredited.

CC: Geoffrey B. Lamb
CC: Coralie Bryant

(GEOFFREY B. LAMB)
(CORALIE BRYANT)

August 31, 1990

Mr. Paul Isenman

Paul,

Ref: Governance, Democracy and the World Bank

I was delighted to learn from Pierre Landell-Mills about your and Wilfried Thalwitz's interest in pursuing this topic. I attach the first draft of a paper that I am preparing for discussion within the Africa region. As you can see, the paper's content is 95% non-specific to Africa. Please let me have your comments on the draft, and let me know how I can be of assistance in whatever you decide to do in PRE.

VS

Ismail Serageldin

cc: Mr. Wilfried Thalwitz

→ point of view Isenman
p15 - main technical
16 - parallel - ref. context

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Governance, Democracy and
the World Bank in Africa

Ismail Serageldin

August 31, 1990

I. An Issue for the 1990s

Introduction:

The world is stirring as never before. The East/West polarity that has dominated international relations for over forty years is over. The populations of the member states of the community of nations are voicing their demands for more representative and participatory government. Pro-Democracy movements are active from Korea to Chile and are scoring victories from Poland to Benin. In that heady atmosphere, there is a tendency among some to argue that Democracy -- as understood and practiced in the west -- should be adopted everywhere.

Independently of these world-wide political and ideological currents, the World Bank, along with other members of the development community, have been gradually paying increasing attention to issues of "governance", as distinct from economic management issues. Already in the 1970s the Bank explored the applicability of community participation efforts in project specific contexts. 1/ In the 1980s the Bank assessed the evidence on corruption 2/ and gingerly declared itself opposed on economic, not moral or ethical, grounds although more recent work has been more nuanced. 3/ The rights of indigenous peoples were recognized as a bona-fide concern 4/ and beneficiary assessments became legitimated. 5/

On fringes of permanent

But the single most decisive step forward came with the Bank's Long Term Perspective Study (LTPS) entitled Sub-Saharan Africa: From Crisis to Sustainable Growth which placed "governance" at the center of

the African agenda. The LTPS was released in November 1989 to exceptionally favorable reviews. Having been three years in the making, the LTPS was not in any way a quick response to remain "in step" with the changing international political climate. It represented the culmination of the gradual evolution of Bank thinking about development generally 6/ and Sub-Saharan Africa specifically. 7/

Yet in the present international climate, words such as "Governance" and "Democracy" tend to be used interchangeably, with the latter used as shorthand for the political structures and practices found in the west. This has led to the insistence of some authorities on the introduction of a form of political conditionality [multi-party structure, guarantees for human and civil rights] in international financial assistance. The new European Bank for Reconstruction and Development has such language in its articles 8/ and bilaterals are increasingly talking openly of such conditions in their assistance (to Africa). 9/

Should the Bank's concern for "governance" be translated into the adoption of an institutional commitment to promote, through conditionality, "Democracy"?

A Debate on Form and Substance:

First, it is important to recognize that while there are large overlaps between "Governance" and "Democracy", they are not the same.

"Democracy" 10/ connotes a representative form of government with participatory decision-making and accountability and the guarantees for human and civil rights without whose exercise the political system of democracy could not function. It does not connote "good government" or efficiency or lack of corruption, except to the extent that having the possibility to "vote the rascals out" acts as a rectifier of ineptitude or malice in government behavior. Democracy emphasizes universal suffrage and periodic elections as key features. It can be argued that it deals primarily with the "form" not the "substance" of governing, although advocates of Democracy quickly point out that we know of no other "form" that has successfully delivered the substance, and that this is one area where "function follows form".

Link of 2 sentences unclear
"Governance", 11/ on the other hand, does not pre-suppose a particular form of government but connotes "good government", efficiency and rationality in resources allocation, an enabling environment and a lack of corruption. It emphasizes as its key features transparency, accountability, participation and the rule of law and implicitly the guarantees of the civil and human rights needed for effective participation. Many of us consider these to be the "substance" as opposed to the "form" implied in discussions of "democracy".
Not Governance

Both of these general, "journalistic" descriptions fall short due to lack of clarity on such key areas as the nature of the relationship between state and society, and its constellation of

interlinked concepts and issues of Agency, instrumentality, legitimacy, power, authority, etc. 12/

This note is not a political science treatise. Rather it is intended as a contribution to the thinking about the operationalization of the LTPS in Africa. Clearly, much of what will be said is not Africa-specific, but the issue is framed with special urgency in Africa because of the likely impact of donor attitudes on Sub-Saharan African countries, and the special prominence of the World Bank's role in the dialogue between Africa and the international community. For this reason, let us, for the moment, set aside some of these conceptual complexities and nuances, and discuss briefly whether the World Bank should actively seek to promote "Democracy" (western-style) in Africa -- as some donors would wish -- or whether we should stay out of this domain -- as some of our borrowers would wish.

II. Four Constraints on World Bank Action

There are four levels of problems associated with the Bank's involvement with the issues of governance in Africa. Each of which would have to be successfully cleared before the Bank could effectively tackle governance in a direct fashion. These can be broadly classified as philosophical, conceptual, statutory and operational in nature.

Philosophical constraints:

The first set of problems relate to philosophical issues. 13/
Two alternative hypotheses, posited as questions, help frame the issues.

- (i) Are characteristics of democratic institutions inherently linked to the process of economic development as a means? If they demonstrably are, then the justification for the Bank's involvement with such issues rests in their being an instrument of, or a factor in, the economic development process.
- (ii) or are these characteristics (such as liberty) matters that are desirable to promote as ends in and of themselves regardless of whether or not they contribute to, or impact upon, the development process? If so, then the direct link to the Bank's present mandate of promoting economic development is lost, and at most, the argument would revolve upon designing Bank action so as to avoid impacting negatively on these desirable attributes, but not much more.

It is not inconceivable that we could find some evidence that freedom of expression and movement, institutional pluralism, transparency, accountability, participatory approaches, etc. (all key ingredients in the process of democracy) would be found to be inseparable elements from a rapidly growing and developing economy based on free market principles. Yet the evidence is not overwhelming, at least not

for western style democracy (embodying all these attributes simultaneously) being a necessary ingredient of economic performance. The cases of Korea, Taiwan, and Hong Kong stand out in the sixties and seventies and more recently the performance of Chile stands out in the eighties.

There are, of course, numerous examples of dictatorships thoroughly ruining economies, but these are equally matched by examples of inept and corrupt democratic regimes (e.g. The Mahdi government in Sudan, Shagari in Nigeria and others in various parts of Africa). There are of course likewise, successful, clean and well-run democracies (e.g. Botswana and Mauritius). The best that one can objectively say is that the evidence is mixed. If the Bank were to advocate specific forms of political institutions based on a position that they are necessary for economic performance, we would be hard pressed to demonstrate the validity of such a thesis in terms of the available evidence.

Yet, even if the first hypothesis cannot be proven, it does not automatically follow that one would fall back to the passive position implied by the second hypothesis. An intermediate position (closer to the second hypothesis) deserves attention.

It is possible to argue that welfare and well-being of individuals must include elements of what is generally subsumed under the catch all characteristic of democracy. Freedom from fear, from arbitrary arrest, the ability to practice free speech, free association, as well

as, to run for and obtain political office, are all elements of living a fuller and a more meaningful life. 14/ It is, therefore, arguable that actions along that domain can and should be subsumed under a broadened heading of developmental well-being. 15/ Indeed one could point to the Chilean performance of the Pinochet regime. Not only was it an economic success, but it was also a social success. Spending on education and health massively out performed other countries (see graphs from WDR data) 16/ and beyond the aggregate spending levels, the poor benefitted to an increasing degree at the expense of the rich (see graph from WDR). 17/ Yet the Pinochet regime was voted out of office because of its repressive character and its systematic transgressions against human rights. The people have therefore spoken about their "utility function" and their perception of well-being.

If the Bank were to accept a broadened definition of that kind, then, philosophically, one would be in a position of making a decision similar to the major step forward that the institution took in 1973 at the time of the "redistribution with growth" debate. 18/ In 1973 the argument was that economic growth, in and of itself was not sufficient anymore; that one had to include the welfare of the poor (income distribution) as an additional criterion, not only because it may be helpful to sustain policies conducive to economic growth, but because it was intrinsically defensible as an end in itself. Hence, poverty reduction 19/ along with economic growth, were set up as the twin objectives that were to guide the Bank's action for the next 15 years.

In other words, there is a precedent for broadening the definition of the Bank's mission to include new elements without having to justify the inclusion of the new elements on the basis that they are necessary to properly execute the old mandate.

The 1973 precedent is important because the other major innovation in policy - the 1979/80 introduction of Structural Adjustment Lending (SAL) 20/ was justified as being necessary to bring about the successful execution of the basic mandate, namely: productive investments leading to economic development.

I have not in this discussion chosen to include the introduction of new sectors. These did not involve a philosophical departure from previous practice.

Conceptual concerns:

The second set of obstacles relates to conceptual issues. While intuitively one can grasp the notion of requiring some elements of participation, freedom, transparency, accountability, etc. as key ingredients for the presence of some level of effective democracy in a particular country, it is equally true that situations are never the same, that they are not easily definable into yes/no categories (equivalent to a 10% rate of return threshold), and that indeed significant improvements in some areas may not be accompanied by

improvements in others, and that the "acceptable" level of deviance from an ideal still remains highly subjective. 21/

What this leads to is to a situation where even if one could construct a composite index, far greater articulation of the components of such an index would be required. Conceptually, it is almost impossible to reduce the complex institutional, social, cultural, 22/ political, economic, legal, and other realities of the web of interactions that makes up a modern society and polity to a single measurement or even to a number of such indicators. The interpretability of whatever indicator is selected poses problems, except if measured linearly against itself, i.e. whether the country is improving or deteriorating -- but only by that particular yardstick.

Individual country circumstances are such that judgemental approaches are inescapable. Is a Government actively repressing its citizens by the use of force or is it defending itself against insidious destabilization efforts launched from the outside? In practically every instance, there is a little of both, and judgements as to the legitimacy of the government, the representativeness that it enjoys, the adequacy of its policies, and the appropriateness of its actions, are all inescapable.

Further complicating the conceptual domain, is the notion that one can frequently run into situations where governments perform well in one set of indicators and perform poorly in others (Chile's Pinochet for

example), and since there is limited ability, at least at present, in bringing together the various elements of this complex social, cultural, political, legal and economic reality, the possibility of moving from this, at the best murky conceptual situation to an operational one, is doubtful.

What this highlights is the urgent need to come to grips with these complex conceptual issues. Some efforts are already underway in academic and international fora (e.g. the Carter Center in Atlanta, Ga, the UNDP's follow-up on the Human Development Report). The Bank should be at the forefront of thinking about these problems. In the context of such thinking, the complex matters set aside at the beginning of this note (the state-society link, the ideas of Agency, legitimacy, power, authority, representativeness and participation, as well as Human and Civil rights, the rule of law, political processes and patronage, corruption, etc.) should all be brought back into the realm of inquiry, and their multi-faceted nuances explored to arrive at a more lucid understanding of the issues surrounding such code words as "Governance" and "Democracy".

Statutory constraints:

The third set of obstacles tend to be statutory in nature. The World Bank in accordance with its Articles of Agreement is not allowed to interfere in the political affairs of its member states, nor can it take into account non-economic factors in arriving at a decision for granting

or not granting a loan. 23/ Transcending this limitation is not feasible without an explicit mandate from our member states, none of which has yet been given to the Bank by either Part I or Part II members.

The Bank, I believe, should not seek such an explicit mandate unless it can satisfactorily answer the preceding philosophical and conceptual questions in a convincing fashion.

Operational constraints:

Fourth, there are operational obstacles. Even if philosophically and conceptually one could define the terms of human rights, democracy, participation, freedom, accountability, and devise measurements that would be generally satisfactory and intellectually convincing and even if the statutory obstacles were overcome by a broad-based mandate from both the part I and part II membership, there would remain considerable operational issues of application in a day-to-day sense. One would still be confronted with the difficulty of devising effective data collection techniques and analytical methodologies, applicable systematically on a cross-country basis to arrive at the possibility of decision-making related to these issues. 24/ It is essential to recognize that comparability across countries would be an inherently inescapable part of constructing such indices if reasonable equity of treatment between countries is to be achieved. Thus, despite much conceptual criticism, we remain largely dependent on GDP/GNP per

capita measurements at least partly because of their availability on a comparable basis across all member countries.

III. An Agenda for the Bank

To promote good governance, widely held to be an essential condition for effective development in Africa, 25/ the Bank should have a three-pronged strategy:

(i) International dialogue:

promoting discussion of the issues involved in a constructive, non-confrontational manner between all interested parties including African intellectuals as well as government officials. The emphasis should be on dialogue, on the willingness to learn from others as well as to explain Bank thinking. The Global Coalition for Africa (GCA) will be an important forum to explore such issues. 26/

(ii) Research/thinking:

The issues mentioned in the preceding parts of this paper are but the tip of the iceberg in terms of scope and complexity of the subject to be covered. Individual country specificities, including politicized ethnicity, 27/ the cultural dimensions that permeate notions of legitimacy and authority in periods of

rapid social change, 28/ etc. -- all have to enter into our thinking about these issues lest we end up over-simplifying complex realities to the detriment of effective interaction with an essential element of the African developmental process. The Bank should launch an extensive research/thinking effort on these topics. 29/

(iii) Operational interventions:

Without fanfare, many of the things already being done by the Bank in its present lending operations promote good governance in terms of transparency, accountability, institutional pluralism, participation, and the rule of law. True, these worthwhile objectives are pursued under different labels, but a non-negligible start is already being done in each of these five categories.

These operational interventions deserve further elaboration.

Transparency

Transparency is absolutely essential for any form of accountability, and for understanding the factors that underpinned any public decisions. The information should be available to the public in a sufficiently transparent fashion so that both the costs of particular

decisions and their benefits and who such benefits accrue to, would be known.

The Bank, through its structural adjustment lending, has contributed much to the promotion of transparency by insisting on a consolidation of national budgets, by combining expenditures of parastatals along with central government expenditures and by spelling out the nature of subsidies. More needs to be done to bring in military expenditures 30/ and to consolidate central with local government expenditures; the latter being particularly important in certain areas such as health and education. Only thus will a true picture of the overall expenditures evolve, and will see the sources and all the uses of funds be clearly visible and made available to whatever decision-making apparatus is in place.

Must be
The Bank's involvement with important institutional issues is in practically all aspects of our ESW and lending work. From SALs to sector lending to parastatal reform projects, all our interventions tend to lead in the same direction of ever increasing transparency. The results, however, are inadequate. One is therefore confronted with two related arguments: (i) that we need to do more of what we have already been doing; and (ii) that we need to do additional and different things.

Not just that
On the first, there is no doubt that there is still a long way to go before we can claim that the fiscal affairs of African governments are adequately transparent (and accurate) to enable a reliable judgement

as to where all the financing will come from, where all the expenditures are going. Thus, doing more of the same is eminently justified.

On the second, it is equally clear that we also need to think differently about what can be done and how to do it. Primarily, it seems to me, the drive for transparency should be internalized. The Bank could help that process with efforts:

Technocrats must come from top

(i) to encourage and strengthen core ministries in the government (Finance, Planning) and the central decision-making individuals and structures (Presidency, Prime Minister's office) to promote this transparency (through accurate and consolidated accounts of all transactions). They should see this as a necessary first step in more efficiently deploying their resources and more effectively implementing their strategy (whatever it is). They should be the prime advocates because they will also be the prime beneficiaries (at least in a first instance).

(ii) to convince them that if their strategy is well-articulated, such transparency shared with donors and creditors will, in all probability, improve the possibilities of successfully eliciting support and understanding from the international community. 31/

(iii) to point out to these key decision-makers that credible transparency of this sort may also provide the basis for a

national dialogue to build consensus around necessary sacrifices and burden sharing in times of crisis. 32/

If such transparency is also extended to include military expenditures in terms of debt and capital flows as well as recurrent expenditures, as I think it should (see The Bank's World, June '90), it is likely to spark some serious debates in the international community as a whole, and the Bank should expect its endeavors in these areas to meet with less than enthusiastic support from some OECD members as well as the borrowing countries concerned.

Accountability:

For transparency to be truly useful, it must be linked with accountability. Accountability requires the appropriate political processes to enable the sanctions for failure to take place. We often think of this in terms of governments voted out of office for failures in macro-management of the economy, and this is undoubtedly true and needed. But accountability is also a frame of mind that should permeate all facets of socio-economic life. In parastatal reform programs, the Bank's work is promoting performance contracts. 33/ Performance has to be measured against some agreed targets subject to some contextual assumptions. This is, of course, somewhat being done also at the macro-level in the areas of debt service, IMF programs and the like, but these are peripheral aspects monitored by the outside world. The key to real progress is accountability that is internal within the country;

accountability that is both systemic and systematic. Much of what the Bank now does, moves, in small steps, in that direction.

Institutional pluralism:

Nurturing good governance is inconceivable without nurturing institutional pluralism. By that we mean the nurturing of independent unions, Chambers of Commerce, 34/ professional associations, academic institutions, research centers, trade associations, NGOs, etc., all of which would have their own views to express as well as access to instruments for mobilizing support for their views.

SALs generally promote liberalization and demonopolization which diminishes the state as overwhelming, almost sole, presence in the socio-economic landscape. This is frequently accompanied by decentralization and deconcentration policies which are inherently helpful in giving voice to the provincial councils, and in limiting the power of bureaucrats for control of economic activity as well as their opportunities for corruption.

Bank sectoral and project lending frequently also deals with areas of institutional development which can become an instrument of nurturing such pluralism. Decentralization measures do help municipal development. Funding of private enterprises through on-lending arrangements can strengthen pluralism and can give a real voice to the Chamber of Commerce. Frequently, sector and project lending can give

credibility and voice to other forms of trade associations serving particular groups by promoting sectoral development in the country, e.g. Herders Associations in the context of livestock operations, 35/ or small farmers in the context of rural credit operations. 36/

The question of adopting a multi-party structure within the political domain will be seen by many as the ultimate manifestation of institutional pluralism. This transition has to be made with care. The US has only two real political parties, but countless institutions. Ultimately, in any society, it is the multiplicity of such institutions that is the saving grace against the evolution of a unitary structure that is essential for totalitarianism.

It is difficult within this realm not to address the issue of freedom of the press and the media. They are perhaps the institutions where pluralism is most important. Perhaps the presence of numerous legitimated institutions and fora would involve endowing them with appropriate means of expressing their views. This in turn is likely to be a direct challenge to the existing state monopolies of the media and would place to the forefront of the agenda the issues of freedom of expression that inevitably accompany the birth and expansion of institutional pluralism.

The present weakness of central governments and the poor record of state intervention as a tool for economic progress 37/ are assets which enable the promotion of institutional pluralism as a means of

sharing the burden of development and of dealing with the assurance of necessary services that government structures are increasingly unable to cope with and government budgets are increasingly unable to sustain. The times offer an opportunity for forging a new pluralistic socio-economic landscape.

Participation:

Community participation has been defined as "an active process whereby beneficiaries influence the direction and execution of development projects rather than merely receive a share of the project benefits" (Paul, 1987). At least until 1985, the major thrust of the Bank's concern regarding participation was a utilitarian one, of attempting to assure project effectiveness, cost recovery and efficiency. It was the 1985 OED report, Sustainability of Bank Projects: First Review of Experience, that moved the perception of beneficiaries from passive instruments to active agents who must identify with the projects and carry them forward long after final disbursements have been made. Subsequent work in different parts of the Bank has moved towards a greater recognition of the importance of the beneficiaries and their surrounding community as potential active agents of change that need to be understood, organized and provided opportunities for lasting development to occur. This move has been particularly pronounced in certain subsectors, such as population 38/ and rural water supply, 39/ where the appreciation of peoples own values and behavior and involvement of their energies and resources has been particularly critical to project

success. The legitimation of "beneficiary assessment", a largely qualitative method of "listening to the people", was another manifestation of this attention to people as actors, rather than passive recipients, in development. 40/ In short, "participation" is no longer a fringe concern, but is a widely-practiced activity. 41/

As the Bank enters the 1990s, it is moving towards a more holistic development vision in which the people in borrowing countries, at the various levels of the beneficiary, the service providers and the policy makers, all have to be understood on their own terms, within their own cultural parameters and, in the case of the poor, given increased power to act on their own behalf. It is towards the reinforcement of indigenous institutions which will provide for the increasing empowerment of the poor within their own cultural reality that the next stage of the Bank's work on participation must move. 42/

The Rule of Law:

The rule of law is essential for order and predictability, and requires an independent effective judiciary. Neither transparency nor accountability could be enforced without an independent judiciary to enforce the rule of law. The Bank is on strong grounds to insist vis-a-vis its member states that the systematic enhancement of an independent and effective judiciary is just as important as having clear sets of laws and statutory regulations and an open, reassuring and accessible litigation procedure. These are all essential parts of economic as

distinct from political management even though they are also essential for the protection of human and civil rights. 43/ Indeed, it is inconceivable that sound investments would be forthcoming or that economic activity would flourish without such prerequisites. Economic transactions are likely to be severely curtailed or forced into an underground economy if they are absent. It is less clear, however, what instruments the Bank could bring to bear on this problem since present Bank lending instruments are not directly suited to affect systemic institutional change of that type. But since we now fully recognize that good investment codes in and of themselves are insufficient, and that creating the enabling environment 44/ for private sector activity goes beyond drafting statutes, it follows that expanding the scope of institutional reform to the judiciary is as significant as expanding it to parastatals in different sectors. Before doing so, however, considerably more thinking in collaboration with the Bank's Legal Department is needed to effectively combine an in-depth understanding of the systemic issues and in-depth understanding of the country conditions.

IV. Concluding Remarks

The time has come for the Bank to take on the issues of Governance head-on. I would recommend that the three-pronged Agenda described in the preceding section should be adopted within the framework of the four constraints described in section II. This means that while avoiding involvement with the call for particular forms of political organization, we should:

- (i) engage in a major international dialogue on the issues of governance. This implies budgetary commitments and the release of staff time for such an effort.
- (ii) launch a major research/thinking effort focussed on (a) philosophical/conceptual under-pinnings; and (b) specific country case studies. Again adequate budgetary and staff resources must be made available.
- (iii) systematically promote the five areas of transparency, accountability, institutional pluralism, participation and the rule of law in the context of ESW and lending operations.

NOTES

- 1/ See inter alia William J. Nagle and Sanjoy Ghose. Community Participation In World Bank Supported Projects. World Bank, Washington, D.C., June 1990.
- 2/ See Staff Working Paper (SWP) # 580. D.J. Gould and J.A. Amaro-Reyes, The Effects of Corruption on Administrative Performance, Washington, D.C., 1983.
- 3/ More recently, the discussion has been less technically blinkered, but remains very pragmatic: see Robert Klitgaard. "Corruption and the World Bank," The World Bank (mimeo), 1989.
- 4/ Reference to be obtained.
- 5/ Lawrence Salmen. Listen to the People. Oxford University Press, New York, 1987 and Lawrence Salmen, Beneficiary Assessment: Improving the Design and Implementation of Development Projects. Evaluation Review, Vol. 13 No. 3, World Bank, Washington, D.C., June 1989.
- 6/ The usual vehicles for expressing Bank thinking on development are the World Development Reports (WDRs) and speeches of key officials, especially the President's annual meeting or other major speeches. Among these one should cite the following milestones:
 - Chenery, H. et. al. Redistribution with Growth. Oxford University Press, 1974.
 - R.S. McNamara. Speech to the Board of Governors. Nairobi, 1973 (Rural poverty focus).
 - R.S. McNamara. Speech at MIT, 1975 (Demography and population issues).
 - Paul Streeten with Shahid Burki, Mahbub Ul-Haq, Norman Hicks and Frances Stewart First Things First. Meeting Human Basic Needs in Developing Countries Oxford, Oxford University Press, 1981.
 - WDR 1983 (Management in development).
 - B.B. Conable speech (environment), May 1987.
 - Peter Nicholas The World Bank's Lending for Adjustment. An Interim Report World Bank Discussion Papers, no 34, 1988.
 - The Social Dimensions of Adjustment: A Policy Agenda, 1990.
 - WDR 1990 (poverty).

7/ The evolution of Bank thinking on the problems of Sub-Saharan Africa has been punctuated by the production of a series of major reports issued every 2-3 years:

- World Bank, 1981. Accelerated Development in Sub-Saharan Africa: An Agenda for Action, Washington, D.C.
- World Bank, 1983. Sub-Saharan Africa: Progress Report on Development Prospects and Programs, Washington, D.C.
- World Bank, 1984. Toward Sustained Development in Sub-Saharan Africa: A Joint Program of Action, Washington, D.C.
- World Bank, 1986. Financing Adjustment with Growth in Sub-Saharan Africa, 1986-90, Washington, D.C.
- World Bank, 1989. Sub-Saharan Africa: From Crisis to Sustainable Growth: A Long-Term Perspective Study, Washington, D.C.

8/ Reference (to be obtained).

9/ The Danish government has apparently already introduced such conditionality (requiring recipients of Danish Aid to have a multi-party political system -- [Reference to be obtained] -- for a general review of the issues, see: Carol Lancaster. "Governance in Africa: Should Foreign Aid be Linked to Political Reform?" presented at Governance in Africa Program: African Governance in the 1990s: What can be done?, March 22-25, 1990, The Carter Center, Atlanta.

For a thoughtful exposé of the reasons why the road of "political conditionality" is in fact dangerous, see: Roy Culpeper. "The International Financial Institutions and Human Rights," The North-South Institute: Remarks to the Parliamentary Sub-committee on Human Rights, May 8, 1990.

This topic has been at the forefront of the concerns of some thoughtful Bank staff for many years: see for example: Mark Blackden, "Human Rights and Foreign Aid; A Study in Self-Interest" May 1980, World Bank (mimeo).

10/ There is a monumental literature on Democracy, but in terms of the applicability of the system in the African context, see: Richard Joseph. "Africa in the Nineties: A Workshop of Democracy?," and "The Challenge of Democratization in Africa: Some Reflections," both presented at Governance in Africa Program: African Governance in the 1990s: What can be done?, March 22-25, 1990, The Carter Center, Atlanta and for a statement of the view from the African Government's perspective, see: Salim Ahmed Salim, Secretary-General of the OAU. "Prospects for Economic Recovery and Political Democracy in Africa in the 1990s," presented at a Conference on the Prospects for Africa in the 1990s, organized by the Overseas Development Institute, All Party Parliamentary Group on Overseas Development and the UN Program of Action for African Economic Recovery and Development at House of Commons, London, June 6, 1990.

- 11/ Governance in this context is more focussed on creating the framework for effective economic decision-making.
- 12/ See inter alia C.S. Whitaker and G. Bergen. "Doctrines of Development and Precepts of the state: The World Bank and the fifth iteration of the African Case" presented to the World Bank's seminar on African Governance held in May 1990.
- 13/ These are complex issues. See inter alia Paul Seabright, ...
- 14/ These issues have been at the heart of the concerns of distinguished researchers, see especially A.K. Sen on Freedom and Famines in New York Review of Books, -----, June ----, 1990, pp. ---.
- 15/ The issue of welfare and well-being is treated by many but see especially A.K. Sen, Ethics and Economics, Basil Blackwell, Oxford 1987 and Resources, Values and Development, Harvard University Press, Cambridge, Mass., pp. 277-369.
- 16/ WDR 1990 (Poverty). Chile is the topmost outlier at the \$1,500/capita range on both health and education expenditure graphs on pp. 76-77.
- 17/ See WDR 1990, p. 117.
- 18/ The importance of that debate should not be underestimated. The intellectual foundation for the decision was given in H. Chenery, M. Ahluwela, Redistribution with Growth. Oxford University Press, London and New York, 1974.
- 19/. Beyond the introduction of Rural Development projects and Urban projects as a response to what R.S. McNamara called "beneath any conception of human dignity", the Bank's major poverty work in the 1970s was focussed on "Basic Needs", see Streeten et. al. (op. cit.) and Frances Stewart Planning to Meet Basic Needs The Macmillan Press Ltd., London, 1985.
- Bank lending to the social sectors was on the whole quite successful, notwithstanding the poor record of the African Rural Development projects. See Sheldon Annis "The Shifting Grounds of Poverty Lending at the World Bank" in R. E. Feinberg (ed.) Between two Worlds: The World Bank's Next Decade The Overseas Development Council, 1986.
- 20/ Reference to be obtained.
- 21/ See inter alia Herbert F. Spirer. "Violations of Human Rights - How Many? The Statistical Problems of Measuring Such Infractions are Tough, but Statistical Science is Equal to it.", American Journal of Economics and Sociology, Vol. 48, 1989, pp. 199-210; and more generally Leigh E. Grosenick. "Research in Democratic Governance", Public Admin. Quarterly, Fall, 1984, pp. 266-287.

22/ The Cultural Dimensions of Development are receiving increasing attention. See inter alia: Ismail Serageldin, Culture, Empowerment and the Development Paradigm. World Bank, Washington, D.C., March 1990 (Mimeo) and L'Afrique a-t-elle besoin du Programme d'Ajustement Culturel [check title from].

23/ Article IV, Section 10 of the Articles of Agreement states
" The Bank and its officers shall not interfere in the political affairs of any member; nor shall they be influenced in their decisions by the political character of the member or members concerned. Only economic considerations shall be relevant to their decisions, and these considerations shall be weighed impartially in order to achieve the [Bank's] purpose.."
(quoted in June 90 Bank's World).

24/ The UNDP's recent effort at formulating a Human Development index has raised considerable technical debate. See: UNDP Human Development Report. Oxford University Press, New York, 1990, pp.13-16 and pp.128-129

For a constructive critique, see Marco Ferroni and Ravi Kanbur, "Poverty Conscious Restructuring of Public Expenditure" Paper presented at the Africa Economic Issues Conference Nairobi, Kenya, June 4-7, 1990, pp. 28-31.

Of course, issues of measurement of welfare are not new in the literature, see inter alia, A.K. Sen, Choice, Welfare and Measurement Basil Blackwell, Oxford, 1982.

25/ A consensus is rapidly developing around this issue, including the African leaders themselves. See "Resolution on International Cooperation for African Economic Development and Social Recovery and Development" AHG/RES. 8 (XXVI) adopted by the Heads of State and Government of their 26th Assembly of the OAU, held in Addis Ababa, 9-11 July 1990.

26/ The OAU Summit in its formal resolution called upon "The World Bank and other development partners in the international community to provide all possible support to the resolutions and the conclusions of the [Maastricht Conference] with a view to creating a global coalition for Africa". The resolution also requested the Bank to take the lead, along with the African Development Bank, in a world-wide effort to mobilize additional concessional resource flows for Africa".

27/ The history of civil strife in Africa shows how powerful ethnic cleavages can be. Most recently, the Liberian conflict has degenerated into a tribal conflict. In politics, tribal allegiances still seem to be more powerful than adherence to pragmatic positions.

28/ See Edgar Morin, L'esprit du Temps, Grasset, Paris 1962, for the classic statement on the link between cultural factors, change and modernity. The classic work of Clifford Geertz on culture and society remains relevant here: see C. Geertz The interpretation of cultures. Basic Books, New York, 1973.

29/ Some work has already started. Dunstan Wai has organized a major seminar with distinguished intellectuals on the issue of Governance in Africa. The papers presented in May 1990 are presently being finalized for an edited work. Follow-up action on this initiative is being prepared.

30/ See I. Serageldin "Military Spending in Developing Countries" in The Bank's World, June 1990, pp. 10-11.

31/ Contrary to widely held views, the international community is more than willing to respond to a forcefully presented case. Tanzania is a case in point, where in spite of the absence of convincing evidence of the success of the government's strategy (or of transparency for that matter), it continued to receive the benefit of the doubt and very considerable assistance (see WDR 1990, pp.129-130).

32/ Cote d'Ivoire's recent riots are at least partly explainable by the lack of credible transparency. The success of Botswana in the drought years of the early 1980s was partly due to its credible transparency (and democratic politics) which made burden-sharing possible.

33/ Although "contract-plans" are famous in the Francophone world, it is also prevalent in the Anglo-saxon context: see inter alia: Francis J. Leazes, Jr. Accountability and the Business State: The Structure of Federal Corporations, Praeger, New York, 1987.

34/ This will inevitably open up the issues of relative power and the functioning of the markets. See: E.A. Brett, "States, Markets and Private Power in the Developing World: Problems and Possibilities," IDS Bulletin, Vol. 18, No. 3, 1987, pp. 31-37.

35/ See for example the Mauritania Livestock (1986) and the CAR Livestock (1985) projects.

36/ See for example the Benin Rural Credit project (1990).

37/ See E.A. Brett, "State Power and Economic Inefficiency: Explaining Political Failure in Africa," IDS Bulletin, Vol. 17, 1986, pp. 22-29.

38/ See John Brisco and David de Ferranti. Water for Rural Communities: Helping People to Help Themselves. The World Bank, 1988.

39/ See Richard Heaver. "Reaching People at the Periphery: Can the World Bank's Population, Health & Nutrition Operations Do Better?" Mimeo. [ask L. Salmen for exact date].

But the cultural dimensions of population issues will inevitably impose more participatory approaches in the formulation of population policies. For an overview of some of these issues, see inter alia: John C. Caldwell "Cultural and Social Factors Influencing Mortality Levels in Developing Countries" in The Annals, July 1990, pp. 44-59 and Caroline Bledsoe "Transformations in Sub-Saharan African Marriage and Fertility" also in The

Annals, July 1990, pp. 115-125. See also J.C. Caldwell and Pat Caldwell "Fertility in Sub-Saharan Africa" [check exact title] in Scientific American, May 1990.

40/ See Lawrence Salmen, Institutional Dimensions of Poverty. Working Paper Series No. 411, World Bank, Washington, D.C., May 1990.

41/ See D. Beckmann, Strengthening the Bank's Work on Popular Participation. International Economic Relations Division. Strategic Planning and Review Department. May 1990.

42/ See I. Serageldin, "Culture, Empowerment and the Development Paradigm" March 1990 (Mimeo). There is mounting evidence that these questions are now finding widespread receptivity in Africa, see for example, The African Charter for Popular Participation in Development and Transformation, presented at the International Conference on Popular participation in the Recovery and Development Process in Africa, held in Tanzania during February 12-16, 1990.

43/ See Hans S. Park. "Correlates of Human Rights: Global Tendencies," Human Rights Quarterly, Vol. 9, 1987, pp. 405-13.

44/ See Goran Hyden. "Creating an Enabling Environment," in the World Bank. Background Papers for the Long-Term Perspective Study, Vol. 3, Washington, D.C., 1990, pp. 73-80.

GOVERNANCE AND DEVELOPMENT

THE ROLE OF GOVERNANCE IN ECONOMIC DEVELOPMENT

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I. INTRODUCTION: LINKAGES

"No taxation without representation" was a popular motto expressing public dissatisfaction prior to the American Revolution. Popular government has long been associated with economic health, while governments that appear oppressive, exploitive or unresponsive are frequently linked to economic turbulence or failure. From the observations of political philosophers since Aristotle to the evidence from events in East Europe, the Soviet Union and Africa, this point seems well grounded.¹

Indeed, the rapid changes in Eastern Europe and Africa since 1988 raise anew the more specific question about how the character and performance of a country's state organization affects the process of economic development. "Democratization" has been seen by many East European leaders, for example, as a prerequisite for ending the economic stagnation experienced under a communist, command-style rule. Somewhat analogously, in Africa in the 1980s, the negative impact of state policies that stifled initiative and extracted resources without providing public goods has become a central issue. The World Bank, for example, in a recent report, From Crisis to Sustainable Growth: A Long-Term Perspective Study (1989) has summarized considerable literature pinpointing aspects of state behavior in SubSaharan Africa believed to have been counterproductive to the efforts of African peoples and external donors to stimulate economic growth.

States and markets are not simply alternative or competing methods for allocating scarce resources. They also represent fundamental elements of human activity, each requiring the other and each able to stimulate or undermine the ability of the other to achieve collective human benefits. It is in the organization and interrelationship of these that welfare,

development and equity emerge (Lindblom, 1977).

Thus the key issue for understanding the role of governance in economic development is the recognition that the state plays an indispensable and potentially creative role in creating, sustaining and correcting markets as these work to defuse technology, reward initiative, and distribute goods and services produced more abundantly under deeper and widening international divisions of labor. The purpose of this paper will be to propose and discuss a set of characteristics of governance that may promote successful economic development. These qualities are especially germane in the context of foreign assistance, since donor countries and multilateral agencies concerned with promoting economic development have begun to consider more explicitly and empirically the extent to which aid allocations to promote economic development can and should take into account and even shape the political environment of a recipient.

Many citizens of democratic states understandably wish to attach "political conditionality" upon aid given to others in order to foster similar values in other states. This practice, hardly new, has been largely manifest in more overt diplomatic uses of foreign assistance designed to cement alliances and build support for, among other things, the maintenance of foreign military bases and defense arrangements. In contrast, multilateral institutions such as the World Bank are prohibited by their mandate from interfering in the internal affairs and politics of member governments to whom they provide development loans. A basic condition of the system of nation states is respect for the sovereignty of states. It contains a central norm against intervention in the domestic affairs of recognized legitimate states (Krasner, 1987). Nevertheless, increasingly the bilateral and multilateral

agencies that provide aid to less developed countries -- often countries with large impoverished populations -- are now considering what features of governmental performance assist or vitiate project and program assistance. They care because they recognize a value in better knowing the importance of such characteristics as they make allocations of foreign assistance.

II. FOUR GENERAL QUALITIES OF GOVERNMENT

Four general qualities of government promote economic development. These are: (1) openness, (2) institutionalized, legitimate rule of law, (3) respect for human dignity and (4) civic-mindedness. These four capture, I believe, a number of attributes that have been proposed as important as conditions for economic growth. They are often associated with "democratic" government. Those concerned with "development," however, appropriately focus more on the quality of governance than the character of the regime. Multi-party politics and political pluralism, which may encourage interest groups based on narrow economic advantage, are not ruled out as negative to development. These qualities, however, should not explicitly be included in governance attributes directly supportive of development. They may be dangerous to development, at least in certain contexts. Rational choice political economists and critics of the impact of special interests on American politics have long identified the danger of factions. These may well reside in a political formula that tolerates a strong connection between the use of economic power to perpetuate and sustain special economic advantages or lead to unproductive stalemates.²

Openness refers to the quality of transparency in public life. Thus expenditures by government, the decisions and workings of government

officials, except for highly sensitive judicial and military areas, are open to public scrutiny. In addition openness suggests that freedom of press and expression along with the right to assemble and discuss either the elements of religion or political belief must be tolerated. Tolerance for dissent, for debate, and for non-violent expression of opposition is an important value enabling institutions to foster creativity, self-generative reform, and corrective feedback from mistaken policies and outdated ideas. "Speaking truth to power" is essential if a state is to perform its function in society such as guarding the common welfare, defending the borders of the country and correcting market failures. Moreover, openness can be a self-sustaining trait in the sense that it provides an avenue for frustration to be ventilated and dissipated. Hence, it promotes legitimacy and the encouragement of voice rather than the more economically costly alternatives for a population, namely loyal foot-dragging, exit or revolution. Its dangers occur principally in deeply divided societies -- ones perhaps inevitably headed for separation as in the case of India, Pakistan and Bangladesh.³ Interestingly enough, this quality has also been recognized as important in superior performance among economic institutions, e.g. corporations. Thus studies at business schools have suggested that organizations that were more open and had less heirarchical structures were more adaptive and able to innovate and succeed in rapidly changing in response to the heightened technological environment of today's world (Slater and Bennis, 1990).

A rule of law, the second governance quality, is universally mentioned as a condition for economic development. Laws are needed to guarantee contractual rights among parties, and to ensure predictability and the protection of the individual against larger, potentially predatory,

institutions including the state. Often, however, rule of law is narrowly associated with the establishment of a court system and its utilization in a way that is systematic and regular. Totalitarian societies, of course, can achieve a perverted version of this governance quality. Edicts of a tyrant, even in states too weak to achieve totalitarian control, have been set forth as being lawful.

Clearly rule of law must mean somewhat more than the mere presence of appropriate officials following some due process in arriving at decisions which are then authoritatively executed. Two qualities are crucial for the rule of law to achieve its positive benefits for economic development. First, it must be institutionalized. That is, people must believe that the laws are to be respected and that the promulgation of law, that is its "rule," arises from and is subject to scrutiny and criticism. Openness guarantees this, coupled with an inculcation of respect for the law. An institutionalized rule of law is one that reaches down to various economic stratas of society and encompasses various ethnic and racial groups that may exist within a pluralistic state. An institutionalized rule of law is one that is consistent in its application and anchored in the common and deeply shared expectations of both those who are specialized in law enforcement -- police, courts and administrators -- as well as the population over whom the rule of law is applied.

Finally the rule of law must be legitimate. Often institutionalized and legitimate rules of law reinforce each other. Nevertheless, legitimate rule of law refers to its non-exploitive and non-coercive character with respect to the opinions and culture over which it is exercised. In colonial states, for example, the rule of law imposed by the British, French and others was

effective and sufficiently institutionalized to guarantee reasonably high probabilities of enforcement, at least among those sectors of the society over which day-to-day control was exercised -- generally the "modern" sector -- but was surely not accepted as legitimate by many in the population. Indeed just as "taxation without representation" was an instance of a rule of law that was not perceived as legitimate, so also, throughout many developing countries, rules carried out by an overtly due process of justice do not create an atmosphere of voluntary compliance nor confidence and predictability among a populace with respect to economic risk-taking and the nurturance of economic institutions and enhanced productivity.

On the one hand, therefore, an institutionalized but illegitimate rule of law might characterize strongly authoritarian states in which capriciousness by rulers and exploitation would stifle economic productivity, while, on the other hand, the extreme of a legitimate but uninstitutionalized rule of law creates conditions of "the wild west." In the latter case each individual would take care of her needs of security and enforce upon others her own understanding of justice, often justice meted out swiftly. Such conditions suggest that law is neither institutionalized nor legitimate (except for the individual enforcers' preferences) and the adornment of a state structure over such a situation a mere subterfuge to allow particular individuals to use their putative positions and uniforms to extract resources in the form of rents from other citizens.

Indeed, the rent-seeking state has a deformed form of justice and its rule of law becomes more a rule for extortion. Interestingly enough, this mafia-like quality of government, found in the petty but systematic corruption of states such as Zaire, Mexico, and even the Soviet Union, indicates that

both weak and strong states are prone to systems of justice in which the rule of law fails to achieve an institutionalized and legitimate role in meting out fair and predictable outcomes for society. Under such conditions officials are seldom held accountable for their actions and graft, corruption and rent-seeking are encouraged.

Respect for human dignity is not mutually exclusive from the first two qualities mentioned. If anything, it is an extension. Where government fosters respect of each citizen, toleration increases and the assuredness with which one may obtain or practice openness is increased. Furthermore, rule of law is likely to demand certain "due processes" in which each individual's human dignity is respected. In societies where one ethnic group sees another without such human dignity, even sometimes as "less than human" or, more typically, where racial lines lead to invidious stereotyping, prospects for violence increase and respect for rule of law and toleration of dissent are threatened. Opposition is often seen as threatening because mutually exclusive identity structures fail to incorporate other portions of the society as being equally deserving and equally dignified. In a society where peasants, for example, are regarded as backward or mindless, it is unlikely that the agricultural economy will flourish. Allocations in these conditions often favor less productive rural landowners or industrial sectors (de Janvry, 1979, and Justand Faaland, 1991).

A view that human dignity is respected among the populace of the state, or indeed the entire world, expands the protections of individuals, one against the other, and at the same time enhances their empowerment to pursue wealth and other values as a right. Governance can foster this through its basic constitutional orientation and by implementing policies in a fashion

that indicate implicitly as well as explicitly such a recognition. Invidious distinctions between races or members and non-members of the ruling party are examples of governance which has failed to nurture the capabilities and productive energies of its populace. Racial and ethnic intolerance frequently vitiates economic strategies. In the more mundane cases, economic resources become allocated on a basis of regional or tribal preferences, where exploitation by a "new ruling class," whether under apartheid or Marxism, acts as a drag on the spirit and respect of a citizenry. As the extreme, such intolerance leads to ethnic violence and the fragmentation of the state.

The failure to nurture tolerance, mutual identity, and respect of others, both in public policy and in educational institutions, can bear fruit decades later as racial and ethnic conflicts destroy public resources and erode the framework within which markets can operate. The deterioration of conditions in Sudan, Ethiopia and most recently Liberia are examples of this. The conflict in Mynnar (Burma) between the Burmese and Hill People similarly are part of an erosion that is closely associated with economic deterioration. Ethnic unrest in the Sri Lanka, Soviet Union and Eastern European countries, including Yugoslavia, suggest similar threats to economic progress as energies are vitiated on misplaced on unproductive targets of frustration. Of course, exploitation is real. Witness South Africa.

A government that nurtures respect for its fellow citizens and a common identity among them, and that demands each person be accorded human dignity, is not created artificially or in a short period. It is, nevertheless, a role the state needs to undertake in its very constitutive element and to carry out in a way that is effective, i.e. encourages the learning and inculcation of this value. Its achievement requires that people be treated equally before

systems of justice, that they be given equal access to services of the state, whether the post office, health clinic or educational facility, that they be referred to not artificially, in terms created by the state, e.g. as "comrade," but rather as they invite others to refer to themselves and that they be free to form voluntary affiliations in civic society.⁴

Finally civic-mindedness, my fourth governance criteria, is a demand upon the self to obey the state, and to voluntarily participate in civic activities. A classic study thirty years ago found that the "civic" attitudes among citizens was a strong indicator of loyalty to the state and of the institutionalization of demands for tolerance and fair play among other members of the population (Almond and Verba, 1963). Civic-mindedness may be fostered by democratic formulae, which exalt participation and competition, but they exist in a slightly different framework. Among a people long exposed to authoritarian structures in educational and workplace situations, a sense of participation and obligation to speak out or provide correction to failures of rule of law is unlikely to occur. Building pride in a national self-referent expands the capacity of the state to operate effectively. Doing so without checks on the state's policies, however, as often occurs in the heady days following a revolution or the successful end of colonial rule, may lead to distortive and excessive interventions by the state. In such times states operate as if they were hospitals -- designed to provide intensive care to their patients -- and not as institutions nurturing collective pride and voluntary self-reliant civic associations.

Foreign investment may also be eschewed uncritically when national self-confidence is low. The dangers of excessive government fostered by nationalism and national pride are clear. Nevertheless, civic-mindedness is

necessary, indeed critical, for a state to expand its capacity to tax effectively and to redistribute for reasons of legitimating its presence and to make appropriate investments in public works and other collective goods such as research, education, health systems and the apparatus to insure a reliable domestic rule of law and an adequate external military defense (however modest). Such state contributions are much more easily sustained when people respect the state and take pride in it. Civic-mindedness can be helped by external donors, but only as long as foreign aid is not seen as illegitimate or contaminating.

Among the World Bank's basic data on countries, Switzerland ranks highest in gross national product per capita (WDR, 1990). With two national languages, and a third native language widely used in southern cantons (Italian), one could imagine this small country would be rife with strife among language and regional groupings. The fact that women received the right to vote only in 1973 might further suggest a lack of participation and failure to extend the definition of citizen to the entire population. An examination of the intervention of the state in agriculture, perhaps the most highly subsidized system in the world, might further lead an observer to expect this country to fail to meet some of the criteria for positive elements of governance promoting economic development.

Clearly this is not the case. Voting participation in Switzerland is low often because consensus is high. Habits of participation among women, while recent in formal terms, show progressive trends. They are by and large highest among the younger generation who have acquired a heightened sense of civic identity and internalize more a demand upon themselves to participate in elections. Furthermore, continuing for a long and emotionally deep period the

Swiss have had a sense of common national pride. Such pride has overridden other potentially divisive elements of the society. Aside from business and banking affairs, the work of the government has been manifestly transparent, as have the public elements of social and economic life. Rule of law has been an exemplary feature of the society. It has been a symbol of fairness and respect for all. Indeed it serves as a nurturing ground for meeting the needs of the world's state system. The headquarters of the League of Nations was located here and currently its buildings, the Palace of Nations, houses much of the United Nations. With Switzerland's long service to international causes, including the League of Red Cross Societies, the notion of respect for human dignity is an honored tradition. Finally, civic-mindedness, that is pride in the physical appearance of one's country and in the responsibility of each citizen to look after the laws and to maintain their private and public places, is well established. Swiss civic-mindedness reflects the pride of the individual in the state and the dedication to its success as a corporate body, while at the same time demanding a strong role for the private sector and for regulation rather than exploitation of markets.

III. AGRICULTURE, ECONOMIC DEVELOPMENT AND GOVERNANCE CAPACITY OF STATES⁵

Thanks to the large role played by agriculture in developing countries, its performance is crucial to economic development. It is appropriate, therefore, to give special attention to ways in which governance affects the performance of national food and agricultural systems. State policy intervention in agriculture has a long tradition.

Economic historian Peter Lindert presents evidence to show a changing role for agricultural policies in the course of economic growth (Lindert,

1991). In early modern European and contemporary developing countries, states most often taxed agriculture; in modern industrial states, in contrast, the government generally subsidizes agriculture. This pattern does not arise, Lindert finds, from economic rationality (usually) but from political and economic forces ascendent at a particular time in a nation's history.

In fact, I would suggest, a traditional political economy analysis readily explains this evolution of agricultural policy from exploitation to subsidization. The dynamics are more complex, however, than those theories elaborated by some economists, i.e. rational choice pursuit by the strongest, most organized social groups (e.g. Olson, 1983). Over time, for example, we can see how the purposes and consequences of state action have often been divergent (Tilly, 1975; Coulson, 1982). Often the regrettable consequences of state action for agriculture are unintended; they are nonetheless at times perverse. Moreover, the very evolution of the state itself is closely linked to the development of agriculture and the effects that agricultural policies have upon it. Hence, there is a dynamic. State's governance actions and agricultural performance act over historical periods as endogenous but independent variables in a country's history, operating in a non-recursive fashion -- a point largely implicit in the analysis of economic historians and social analysts (Barrington Moore, 1967, and Alex Gerschenkron, 1958).

Anthropologists, furthermore, have closely linked the expansion of governing institutions -- from those of minimalist governments to complex, modern state systems -- with changes in agricultural production. The need to regulate market activity and resolve land disputes for settled agriculturalists, for instance, is postulated as the basis for the rise of African feudal-type systems (see Fortes and Evans-Pritchard, 1940, and Mair,

1962, pp. 29-31). Likewise, the centralization of state power and national policies in the modern era is linked to changes in agriculture (see Barraclough, 1976, and Cochran, 1979). Indeed, state financing for agricultural modernization and the expansion of markets, some argue, played the critical role in the modernization of Europe and the expansion of the European state System (see Wallerstein, 1974; Tilly, 1975; and Tracy, 1982). Agricultural transformation is also seen as essential for successful economic development in late-developing countries, such as Turkey, and very late developers, such as SubSaharan African countries (see Akay, 1988; Mellor, Delgado and Blackie, 1987). Thus agriculture may be regarded as central to economic development and to enhancing or undermining state authority (Johnston and Kilby, 1975; Hopkins, 1986 and 1988). Given this centrality, a key question arises. What has shaped state intervention in agriculture in the particular ways it has occurred over time?

Purposes and Consequences

In different historical situations, states formulate different agricultural policies. They differ because they seek particular goals and choose varying instruments of policy. It is difficult, of course, to be certain about the real purposes of states, as opposed to the merely stated ones. Furthermore, while formal, stated policies are generally accessible to historic or economic interpretation drawing upon explicit legal actions and recorded state expenditures, the actual implementation of policies and the utilization of state funds may vary considerably from those formally stated. This is particularly true in societies in which state capacity is *weak*, that

is a "soft" state exists, to use Myrdal's term (Myrdal, 1968). Throughout contemporary SubSaharan Africa, for instance, where countries have a dismal record in agricultural performance in the 1970s and 1980s, policies for regulating markets, subsidizing agricultural inputs, fixing prices, and even creating nutritional safety nets expose a wide gap between official policy and actual performance. Effective policy instruments may thus be highly limited in periods of nascent state formation. Although rural populations often lack organization and appear vulnerable to the interests of the powerful, they nonetheless may pose a formidable obstacle to state manipulation. These seem equally true in Africa in the late twentieth century or in Europe in the eighteenth and nineteenth centuries (see Faaland and Parkinson, 1991; Scott, 1985; Hyden, 1980; and Glickman, 1988).

These distinctions allow us to consider the historically dynamic *process* of the role of the state in agriculture. First, purposes for state action are conceived. Second, policy choices are made. A third stage is implementation, when the tools chosen are used. Finally, consequences occur that in turn affect initial purposes. This dynamic is pervasive in the history of relations between the state and producers, merchants, and consumers. On the one hand, cases exist in which the state has used its resources to promote efficient agriculture, for example, through provision of collective goods, with results that are positive for both economic and non-economic values.⁶ Several Asian states are such cases. On the other hand, states can exploit agriculture, thus undermining growth opportunities and alienating segments of society (Valdes, 1991).

An institutionalized, legitimate rule of law is especially important for agricultural development (Johnston and Kilby, 1975). However, the emergence of higher economic productivity, thanks to industrialization, has further led to a broader, welfare role for states. Human dignity values require that governments cannot regulate markets solely in the interest of efficiency and social profitability (if they ever could); they also must redistribute social values to insure some degree of equity or justice (see Okun, 1975). In the last several centuries, responsibility for administering to the needs of weak and vulnerable people has shifted from the private to the public sector. Thus, the welfare state, with its plethora of programs that provide citizens minimum guarantees of goods and services, has emerged as a manifest result of this shift. Further it is a concrete expression of material justice that respects individual human dignity (a "liberal" value to be sure). Thus in the modern, "well-governed" state, economic development naturally provides citizens with minimum guarantees of goods and services. The expansion of the state to do this is a manifest result of natural shift in the size and capacity of the state, but not necessarily a change in the desiderata of responsible governance.

Food price policy has been a particularly important instrument in developing countries affected by this shift for more material protection as in public demands. To guarantee access to basic foodstuffs and augment the household income of the extreme poor, many states have adopted such measures as fixed prices or subsidy policies. Ethical considerations, arising from the very fabric of society itself, lead to this redistribution on behalf of the poor (Chambers, 1983; Dreze and Sen, 1989). Most recently, governmental concern for dignity of all, including the poor, has manifested itself (even in

very poor states) in such initiatives as the UNICEF proposal for "adjustment with a human face" and the World Bank's effort to achieve "food security" in Africa. Such policies are not without economic costs, however; the frequent trade-offs between equity and efficiency, between short- and long-term consequences, and between economic and non-economic values, become especially poignant in cases where government capacity is already constrained by slow rates of economic development.

Political Economy Considerations in the Evolution of Agricultural Policy

Economists frequently criticize government policy that distorts markets. They argue that such interventions lead to non-Pareto optimal outcomes, reduce efficiency, slow the expansion of the production frontier, promote disincentives, and protect the unduly privileged. Such criticisms arise not only from neoclassical assumptions from which most economists approach social analysis but also from a genuine concern to seek better mixes of purposes and outcomes from government intervention. Market failures, exploitative government behavior, and policies encouraging stagnation rather than economic growth seem pathological from this perspective. To account for such policy failures, economists frequently blame "politics."

Recently, analyses of "political economy" have sought to interpret the development and change of policy in various historical contexts (e.g. Staniland, 1985, and Bates, 1989). I find three alternative "ideal types" have been used in political economy writings. Let me outline these to suggest how different roles for the state can affect the pattern of governance and economic development especially in the agriculture sector.

State as Arena. In the first ideal type, political economy sees the

state as an arena for competing interest groups. Call this Model I. It is the most prevalent political model for describing the basis of government action, particularly among economists. Powerful interests, often urban based, as in a white collar salariat class, or grounded in powerful landowners have partial or complete control over the instruments of the state and use them to advance their own interests.⁷ For these powerful groups, the only trade-off is between short- and long-term gain; they otherwise promote their group's rational choice strategies for state action, which will only coincidentally promote the interests of the society as a whole.

State as Actor. A second vision of the state used by political economists is a model of the state as an actor in its own right. The clan of tribal societies, the royal families of the feudal ages, and the modern bureaucratic state with its cadres of officials are examples of the state as a rational calculator of costs and benefits for maximizing state power and the income of its officials. Such calculations are, of course, constrained by the pliability of the state's subjects and the technology the state can use to enforce its will as well as to foster economic efficiency. The basic calculus, however, derives from the interests of those running the state itself, whether royalty, a privileged class, or an entrenched bureaucracy.

Examples of the state as self-interested actor range from the reign of France's Louis XIV with his diffidence towards those outside his state (*"Etat c'est moi!"*) to the kleptocracy of Zaire. Activities of rent-seeking states have been caustically described by citizenries of countries ranging across the ideological spectrum. The Soviet Union, under Glasnost, has printed numerous complaints about management both in agriculture and in officialdom generally.

Such popular complaints about state-controlled exploitation are widely reported in the literature on dependency in Latin America and Africa; attitudes with the same valence are voiced more gently in criticisms of the "heavy hand" of government expressed by the American farm population (Cochran, 1979).

State as Builder. In the third "ideal" model of a state's role in society described by political economists, the state is focused on building social capacity. Weak states in this model seek power but not as an end in itself, as in the case of Model II. Rather, here the state attempts to build support and discover policies that will best serve purposes required for survival of national sovereignty (Krasner, 1988). According to this ideal-type model, the key distinction among states and their policies arises from the state's capacity -- as ranked on a continuum from a weak (or soft) state to a strong (or hard) one. In this respect the state is an agent of development (and other human goals) that is either ephemeral and elusive or tough and effective. The writ of state authority itself is the issue in question (see Huntington, 1968). Often the state's capacity extends no further than the capital city or the personal friendships of top leaders. A distinction between formal, "de jure" but ineffective states and stronger "de facto" states is particularly apt in modern conditions in Africa. Since 1980 a number of writers have alluded to the inability of the state to adopt policies that genuinely regulate the economy -- that demonstrate capacity beyond control over imports and exports. Even in the trade control realm, smuggling can be a major element allowing agriculture to escape state regulation (see Hyden, 1980; Bratton, 1989). It is important to recognize that even in countries where states represent powerfully forces of society,

such as the United States, or of a powerful organization in society, such as the Communist Party in the Soviet Union, state policy is not solely in control. Other factors, particularly implementation problems and reactions of individual producers or consumers, frequently lead to policy outcomes quite different from the consequences expected or predicted by sophisticated analysis. In these conditions, actions by the state to intervene in agriculture, whether to support producers or consumers, or to stimulate and to redistribute wealth, may also represent a series of trials and errors in policy formation. Figure 1 summarizes these three ideal type models of the role of the state in policy making.

A second set of distinctions, relevant not only to how agriculture is treated, can be made among states. Three broad continuums, related to the earlier distinctions, help us place states analytically into different quadrants of opportunities and limitations that they face regarding their ability to foster development. These same situational attributes relate to the states' success in fostering or stunting the four criteria of governance initially proposed.

Figure 2 depicts three dimensions: capacity (weak versus strong state bureaucracies), hierarchy (single, even individual rule versus pluralist, broad based state institutions) and openness (this referring specifically to the state, although it relates to the governance/societal quality closely). Locating states in a crude fashion different with respect to each other in the three dimensional space depicted in Figure 2 gives an observer a more realistic appraisal of the prospects for a state to be more or less successful in meeting the goals of governance for development and helps predict the relative mix of ideal types a state will proximate as described in Figure 1.

FIGURE I: Three "Ideal Types" of State/Society Relations

Model I: State as Arena

Groups form outside government, based on rational interest calculations, and seek to influence policy.

Variant A:

Competitive, pluralist system: multiple groups, changing alliances, failure of public interest arising from divisible benefits providing incentives to some groups (farm organizations) to pressure for policy preference, while more diffuse, larger groups (consumers) are less active due to the problems that collective benefits offer no selective incentives to mobilize.

Variant B:

Non-competitive, class-dominated situation in which a group, largely external to state officials (e.g., bourgeoisie, salariat, ethnic groups, etc.), dictate policy.

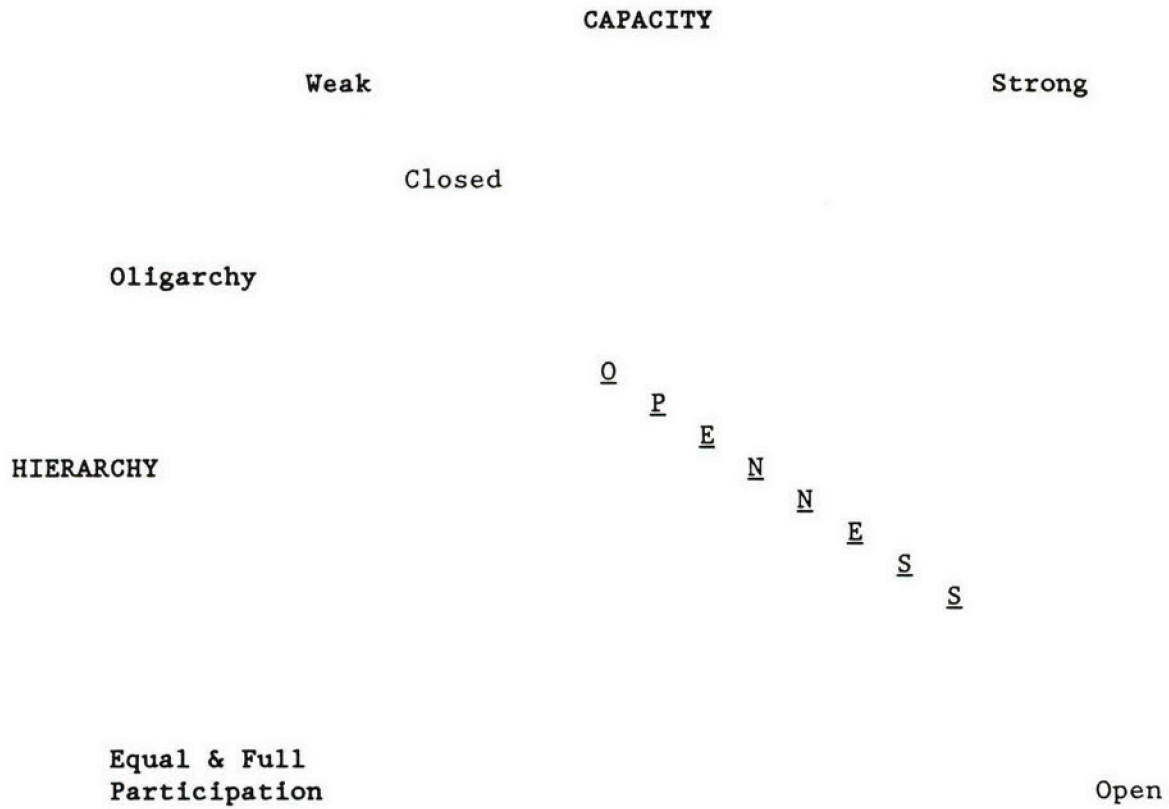
Model II: State as Actor

State officials and title-holders act to maximize their values (wealth, power, safety, affection, etc.). If the state has a high discount value, its leadership usually self-destructs. Its features are rent-seeking, bureaucratic self-protection and accumulation, and extortion by individuals. The state is seen by itself and others as competing with society to maintain the privileges of the state office holders. If the state has a low discount rate, leaders may move toward a broader incorporation of popular interests with state interest -- a possible transformation, especially in "weak" states, toward a Model III type.

Model III: State as Developer

Goals are hierarchical to meet major sovereign nation-state desiderata: security, growth, and welfare. Weak states, typical among LDCs, give high priority to inculcating habits of compliance and improving the probability of enforcement. Security, particularly domestic, is a central issue. As the state as agent becomes stronger, its capacity and interest in serving national goals moves it to allocate more resources or allow more risk in policies aimed at economic growth and, eventually, welfare. Weak states that prematurely give high priority to economic growth and welfare frequently fail.

FIGURE II: Three Dimensions of a State



In general, states in the lower left area (of the three dimensional space inadequately depicted by the two dimensional chart of Figure 2) will exhibit the most responsible forms of governance and be most effective in discovering and pursuing policies that promote economic development.

IV. State Intervention in Agriculture and Opportunities to Enhance Governance

In analyzing the history of agricultural policy in various countries, it may be useful to identify how the analytical distinctions above help us account for the evolution of policies, either over all cases or at particular times. Further, we can examine the purposes served by state intervention and how different ideal approximations and locations on capacity, hierarchy and openness may affect agriculture policy. States as actors for themselves (Model II), for example, are aggrandizing in character but frequently have short-term successes and long-term failures. Perhaps the Philippines under Marcos fits this pattern. A state acting as an arena for competing groups (Ideal Model I) may become captured by narrow interests, whether of powerful landlords or military officers, which may lead to important policy distortions and to lost opportunities for the economy as well as disaffection of the population (Huntington, 1968). The third vision, the state as would-be entrepreneur, may best account for states that intervene in society primarily to bring order and some semblance of control over agriculture; unfortunately this purpose in weak states may be highly transient and hard to implement; Tanzania is such a case. Since the state is not deeply institutionalized -- its leadership and/or circumstances change fairly quickly -- such a state might also be opportunistic.

Consider further that the state's search for optimizing behavior takes

place under high uncertainty. Ironically, because weak states are not anchored in tradition or legal formalities, they may be more erratic in the policies they follow, but they are also more influenced by policy advice given by economists. Policies of developing countries, especially those in Africa, frequently fit this model. The advice of agricultural policy analysts to advance development might be most critical in weak states; it has the greatest opportunities to restructure agriculture, particularly after a revolution or foreign conquest -- for example, consider the effects of land reforms in Japan, Taiwan, or China.

Six purposes specific to agriculture seem to explain historical evolution in agricultural policy and relate to openings during which shifts toward enhanced governance can occur. Government intervention has nearly always involved some mixture of these purposes (outlined as broad goals). The six purposes of the state in asserting governance in agriculture are outlined below. Consequences of policy to achieve such purposes have also shaped the future capacity of the state for undertaking policies more broadly (i.e. in all sectors of the society). Short-sighted, unsuccessful interventions can harm both the state and agriculture. The success of the economic transformation of agriculture, and the economy more generally, and the development of national loyalties and institutionalization of desirable features of governance, ones conducive to economic development, are all deeply interrelated as multiple consequences of evolving policy, in this instance in the agricultural sector.

Extract Resources from Agriculture. The first purpose, classic for self-serving or rent-seeking states (Model II), is to extract resources from the agricultural sector for the purpose of state maintenance, including

guaranteeing a high standard of living among official or royal classes. Since such extraction from the production or exchange of agricultural products serves only the purpose of redistributing wealth to office holders and central state authorities, it represents the purest case of exploitation. Such action is the functional equivalent of mafioso-style extortion in the private sector. The government's treatment of French peasants prior to the 1789 revolution is a classic instance of such a purpose dominating state policy. Zaire in the 1970s is another instance (Scott, 1985; Callaghy, 1984). In Models I or III, extracting resources from agriculture may be linked by expenditure policies to more altruistic intentions and even consequences.

Expansion of the State. The state intervenes to expand its connections throughout society. The expansion of the state, for good or ill, requires replacing local fiefdoms and baronies with the imprint of central authority. States thus devise policies that require low investment in personnel and seek to represent central authority as a positive force in the life of the peasantry (Laski, 1938; Moore, 1967; Bratton, 1989). Capitalist agriculture, for example, required centralized authority over local manor systems or tribal economies; the substitution of state regulations for such systems made possible the encouragement of capitalist practices. The state acted to assert its authority, however, rather than to base its policies on a theory of economic development. This assertion of authority itself was most often the core purpose for such action (Tilly, 1975).

Protect Agriculture as a Resource. At times the state has intervened to put agriculture on a competitive basis with other economic sectors. By nature, agriculture is a risky business. Climatic forces make crop yields uncertain. Protection of land tenure rights and fair marketing arrangements

for the often poor and disorganized farmers depends on laws and government. Producers who provide the physical labor in agriculture, as distinguished from large landowners and managers, frequently have little power over the affairs of state. Such numerous but disorganized elements of society lack the free time or direct rewards to organize and pay the cost of collective bargaining with the state (Dahl, 1962, pp. 55-71; Olson, 1965; Lindblom, 1977). The state can serve to secure socially efficient collective benefits for such important productive groups, which the "free rider" problem in politics would otherwise cause to be neglected.

Promote Economic Development. The state undertakes various measures to stimulate economic development, such as investment in agricultural research, encouragement of new technology, or greater guarantees of profitability to producers taking risks or investing more of their own labor. This role of the state is the classic one assumed by most economists (given the normative assumptions within which most of their work is cast). With this purpose in mind, analysts carefully try to assess the optimal benefit-cost ratios of various government investments to maximize efficiency among producers, lower marketing costs, and alleviate *uneconomical* fluctuations in demand and unemployment among the poor.

Improve Welfare of the Poor. Often cited as a goal of government policy is the promotion of equity and the meeting of human needs. Subsidies targeted to the hungry poor, absorption of the adjustment costs for those moving out of agriculture, and other state-funded compensatory actions may not have positive rates of return on investment, but are justified by basic ethical considerations and, secondarily, perhaps by the goal of state survival as a

national, social instrument (see the purpose of political stability below). Such interventions to assist the poor might be a drag rather than a spur to general economic development. Egypt and Sri Lanka, for example, have been cited as cases where the burden of food subsidies, equaling 10 to 20 percent of total government revenues in the 1970s, was, in terms of economic growth, a long-term negative factor. While industrialized states, such as the United States, Europe, and other OECD countries may well afford "welfare state" policies that include targeted food guarantees through programs such as food stamps, institutional feeding, and direct distribution, their costs as a pattern of the government's budget are modest. Such redistribution, however, weighs heavily on states with lower incomes, less efficient economies, and with a large portion of the population employed in agriculture (Pinstrup-Andersen, 1988). Some effort, however modest, may be important to signal a respect for human dignity and maintain respect or legitimacy for the state. Hence, the next point.

Promote Political Stability. Even from a quite strict economic perspective, political stability, however difficult to estimate, is worth some economic benefit. Maintenance of political authority reflects, in part, the political ties, both personal and ideological, between state leadership and the rural sector of the economy. Thomas Jefferson regarded the agricultural ethic as the basis of American democracy -- an argument that has been supported two centuries later (Hadwiger and Talbot, 1979; McConnell, 1952). Analogously, agriculture as an embodiment of state virtue has flourished under Felix Houphoet-Boigny, of Cote d'Ivoire. Houphoet proclaims himself the country's "number one peasant." Emotional and affective ties, therefore, can bind agriculture and the state in ways that sustain national character,

project cultural values, and bolster political stability. These cultural forces can emotionally distort the "rational choice" template often placed upon government intervention (see Merilee Grindle and John Thomas, 1989; and Potter, 1954).

In summary, the state intervenes in agriculture usually to accomplish one or several of these six purposes. Its success or failure frequently depends on political economic factors. In Model I the state is an arena for powerful "private" forces to fix public policy. In Model II the state is a maximizer on behalf of itself as an actor -- that is, it maximizes the private interests of officialdom. In Model III the state is also an actor, but one motivated by sovereignty goals and highly limited by missing information, uncertain popular loyalties, and ineffectual instruments. The three models are not mutually exclusive; they do, however, organize distinctive analytical elements to explain the actions of a state. In any actual case, some mixture of all three models and some position of the state relative to these dimensions of state properties is likely. In most cases, however, one or another model will prove more illuminating and predictive of state action than others, especially with respect to the state's purpose and effect in interventions in agriculture.

V. Strategies that Support Economic-Promoting Governance

The sections focusing on the state in agriculture laid out some specific ways that governance factors affect performance. Let us return, in conclusion, to the qualities of the state outlined in section II, i.e. openness, rule of law, human dignity and civic-mindedness. These qualities, while not unrelated to democracy, are not simply the equivalent of democracy.

In most cases these qualities will be enhanced by democratic features such as participatory institutions, decentralization, and certain democratic techniques (e.g. elections, multi-party system, and checks and balances between the different branches of government), but the qualities I proposed also emerge at least somewhat independently of national democratic institutions and they reside as part of and in relation to a broader fabric of society. The three ideal-type models proposed in section III, for example, and the three dimensions of Figure 2 reflect this point. Short-term mechanical fixes, such as new "constitutions," or elections, are less salient for sustaining stable governance, therefore. At independence, for example, African states almost universally adopted democratic forms of government, only to see these institutions transformed into one-party states or military dictatorships within a decade. Latin American countries are famous for the number of constitutions which they have adopted over the years, few of which represented the underlying or real constitutions, that is the authoritative expectations of the population with respect to order and justice. A similar disjuncture has existed in the Soviet Union and East Europe.

In examining the role of governance in economic development, therefore, it is important not to look at the formal institutions which one might recommend to a country as a part of an economic assistance package. Democracy may be good, but it is not a panacea. Furthermore, its artificial insertion may only lead to cynicism and an inoculation against the virtues that democracy can bring.

The second facet of the four qualities outlined in section II is their enabling capacity for the state. They often promise to move states from weaker to stronger positions (see Figure 2). Weak states are incapable of

regulating and sustaining markets. They frequently fail to resolve inequities and distortions that markets can allow. Monopolistic trading may be outlawed by the state, but state monopolies often behave as badly or worse than private monopolies (especially regulated ones) while state controls to protect parastatal monopolies encourage illegal parallel markets that bring risk premium income to the least deserving. Hence weak states that attempt strong policy intervention frequently inculcate contempt not respect for human dignity and nourish a culture of personal-mindedness not civic-mindedness. Furthermore, autocratic states exacerbate these tendencies and undermine respect for human dignity as coercive force becomes the increasingly used method of law enforcement. Yet these four underlying, more cultural qualities are keys to good governance, I argue.

A key factor in determining what state action is likely to advance best these described qualities of governance is the size, strength and territorial extension of the government. We can see the expansion of governance institutions, from those of minimalist governing institutions to complex modern state systems -- have occurred in strong correlation with changes in the economy. The shift from an agricultural to an industrial society, from rural to urban life, have all allowed state apparati to expand in scope. Indeed such state expansion was necessary and inevitable, I argued earlier, in order to govern the more complex, industrial and world-wide economic activities that have ensued. State financing for economic development, particularly for agricultural modernization in developing countries, and the expansion of markets which requires transportation infrastructure, rules of marketing and the enforcement of transparency or openness in exchange, played a critical role in the modernization of Europe (Tilly, 1975; Tracy, 1982).

Economic development, therefore, cannot do without the state nor the important functions that government plays. However, a state in which governance is dominated by special interests, which interferes and disrupts markets and which nurtures incivility and eventually violence among its population, leads a country towards economic ruin rather than productivity. The economic crises of Africa in the 1970s and 80s, many of which are clearly associated with the failures of governance, provide the most poignant and empirical evidence of this proposition (Sandbrook, 1985; World Bank, 1989). To be effective, governments must be supported by the attitudes and cultural attributes described in section II above and must, in response to them, do more than regulate markets in the interest of efficiency and social profitability. Governments must redistribute social values to assure some degree of equity and justice in the society. Such government action is crucial to the outward appearance of recognizing the human dignity of all citizens and for promoting the legitimacy and institutionalization of a rule of law.

Assessments of economic development and evaluation of aid projects frequently fail to take into account the externalities of a project or program upon such qualities of governance. Normal rates of return calculation cannot capture the kind of benefits to good governance or responsible government which attending to the principles of openness, rule of law, respect for human dignity and civic-mindedness require. Moreover, these qualities which have a less "western" aspect to them are, I submit, more likely to be adaptable to a variety of societies, including those in which formal institutions of elections, competitive political parties and narrow pluralist interests (often lobbying or pressuring government) are not accepted as part of the definition

of civic virtue. If authoritarian structures such as the Catholic Church can find themselves promoting in Latin America a doctrine of human dignity that demands rules of law and alternative distributions that previous authoritarian governments have not provided in such countries, then there is a strong argument that pressing for these deeper cultural elements in governance, ones which pervade all social institutions --the family, the school, the workplace and the religious bodies -- provides a framework within which responsible government and good governance can evolve in countries worldwide and in which the functions of the state will be channeled by these qualities of good governance.

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NOTES

1. Aristotle, for example, noted the enhanced industriousness of a society whose state followed democratic principles (see Aristotle, Politics) and Samuel Huntington (1968) argues in chapter 1 that strong political institutions, able to absorb -- thus not coercially regressing -- a population's urge to participate, are needed to shape political life as a solution to the turbulence and instability which otherwise accompanies economic transformation. Karl Deutsch (1963) argues that legitimacy and efficiency are improved by the responsiveness of a government based on correction feedback that occurs when a government's nerves are open to criticism.
2. This danger has been noted by James Madison in his familiar Federalist Paper No. 10 (1787). In more recent times the danger of the minority powerfully distorting economic growth (and for Africa, the most cited work) is argued by Robert Bates, Politics and Markets in Tropical Africa (1981); Mancur Olsen, The Rise and Decline of States (1982); and Theodore Lowy, Interest Group Liberalism (Norton: 1967). The rational choice perspective and limit are discussed in Grindle (1989).
3. See Albert Hirshman's classic work on Voice, Exit and Loyalty (1973) and James Scott's work Weapons of the Weak (New Haven: Yale University Press, 1986) that suggests how peasants may be unable to exit physically, as refugees from Eastern Europe frequently have, as have the educated who leap from Africa and other parts of the third world. Peasants, nevertheless, "exit" psychologically and economically, he argues, by foot-dragging and noncompliance that undermines objectives of the state and protects themselves from economically exploitative regulation.
4. Robert Putnam (1983), for example, offers persuasive evidence that people who come together voluntarily to pursue mutual interests, as in Italians joining choral societies, provide a basis for expectations among the populace of an Italian state that is an impressively accurate predictor of good governmental performance, often decades later, even more a force apparently than economic performance in promoting effective governance.
5. *I want to acknowledge the influence and help of Peter Timmer, Walter Falcon, and others who attended the Marbach Conference on "The Role of Agriculture in Economic Development," September 1989. In section III I draw heavily on ideas that I presented as a discussant at that conference in Oeningen, Germany.*
6. For purposes here, the outcomes of state agricultural transactions are referred to both in terms of benefirs that are directly economic -- in the sense that they yield monetized effects whose net benefits and costs can theoretically be assessed using standard economic accounting methodologies -- and in terms of non-economic benefits, which include important aspects of human behavior, such as loyalty to the government, voluntary compliance with policy, national self-esteem and rectitude, and other values. These are not monetized directly. Even shadow prices for such values would be hard to calculate since their manifestations in society often occur in step-level events. Changes in such values, however, are conceptually discrete movements. For example, government legitimacy can vary by degrees, but changes in

government legitimacy outside revolutionary situations are not readily measurable.

7. For a discussion of urban bias, see Lipton (1977).

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ACCOUNTABILITY IN PUBLIC SERVICES

EXIT, VOICE AND CAPTURE

Samuel Paul
CECPS

August 1990

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ACCOUNTABILITY IN PUBLIC SERVICES

EXIT, VOICE AND CAPTURE

I. Introduction

Recent years have witnessed a growing dissatisfaction with the performance of public sector services in many developing countries. Several factors have contributed to this phenomenon. The unprecedented expansion of the public sector to provide services which are regarded as essential to the public (public and quasi-public goods), growing interventions by the state to regulate economic activities for externality and equity reasons, and the overstretching of governmental administrative capacity and resources in the process, are the most important and frequently cited among these factors. Developed countries have also faced similar problems with public services, though unlike most developing countries, more of them have addressed these problems and in several cases have found interesting and innovative solutions to improve public service accountability.¹ The economic and financial crisis that gripped the developing world in the 1980s, on the other hand, shifted the focus of governments and donors to the containment of this crisis. While this shift has led to concerted efforts to reduce public sector size, improvement of the efficiency and effectiveness of public services has remained a

¹ See J. G. Jabbara and O. P. Dwivedi (eds.), Public Service Accountability: A Comparative Perspective, Kumarian Press, Hartford, CT, 1989 for examples; OECD, Administration as Service, The Public as Client, Paris, 1987; D. Heald, "Performance Measurements in Public Enterprises," in M. Neuman and K. Roskamp (eds.), Public Finance and Performance of Enterprises, Detroit, 1989; Paige Eaves, Accountability in Public Services: A Review of the Literature, mimeo, CECPS, 1990.

neglected area. Refocussing attention on this task is long overdue.

Government's output can be divided into two categories of goods and services: (1) intermediate goods and services, which though of some interest to the public, are essentially inputs for the production of other goods and services to be delivered to the public; (2) final goods and services which the public or segments of the public receive. Examples of the first are public sector recruitment, investment plans, accounting and budgetary services, etc., that entail inter-agency transactions within governments. Examples of the second are self evident and numerous. They include a wide range of goods and services, economic, social, and regulatory, that public agencies deliver to citizens free or at a price. The primary concern of this paper is with government's final goods and services.

Public accountability refers to the spectrum of approaches, mechanisms and practices used by the stakeholders concerned with public services to ensure a desired level and type of performance. It thus covers not only the policies underlying accountability, but also the institutional system that operates in a country to motivate service providers (agents) to deliver the desired level of performance. This definition highlights three important dimensions of accountability. First of all, accountability as a system is meant to facilitate good public service performance. It is an instrument or a means for efficient service delivery, broadly defined, and not an end in itself. Second, the system must serve the ends of multiple stakeholders interested in a service. Thus political leaders (elected or otherwise) have a clear interest in the question of accountability. Access to services is an aspect that they generally tend to emphasize. The public and

its subgroups for whom political leaders often act as a proxy have a direct stake in service performance and accountability. Apart from access, quality attributes of services are a high priority for them. Service providers and their supervisors (as producers) are also concerned about accountability. Their focus, in general, will be on technical efficiency, inputs and costs and returns. Needless to say, the objective functions of these stakeholders tend to vary for obvious reasons. A public accountability system reflects the relative bargaining power of these parties and the balance they strike between competing demands. Taken together, these multiple stakeholders are bound to pursue accountability across the full spectrum of dimensions mentioned above, namely, inputs, access and quality. Third, for accountability to be effective, the stakeholders' influence must be reflected in the monitoring and incentive systems of service providers. When the latter are seen to monitor performance measures of concern to the stakeholders and are motivated to act consistently with the latter's preferences, a true public accountability system can be expected to exist.

A government's performance in respect of public services can be unsatisfactory for a variety of reasons: (1) Governments often have a monopoly of certain services, leaving little incentive for public officials to be efficient. Compensation of public servants typically does not depend on their efficiency or responsiveness to the public. (2) In many developing countries, the public/beneficiaries do not have the ability or incentive to demand efficient services or to insist on greater public accountability. It is also possible that some segments of the public (special interest groups)

may capture an undue share of the benefits at the expense of weaker sections.² Lack of political power, information gaps and a variety of institutional factors have facilitated this tendency. (3) The nature of some public services is such that measurement and quantification of their benefits are not easy.³ This further complicates public accountability which has traditionally focused on the internal means of control (hierarchical control) in public agencies. Since public services tend to vary in all these respects, there is no simple or unique answer to the complex issue of public sector accountability. The three sources of complexity referred to above clearly show that any solution to the accountability problem must take into account the nature of the services involved as well as the characteristics of the relevant publics.

The purpose of this paper is to develop a conceptual framework to analyze the problem of public service accountability and to identify alternative ways to strengthen it. The central argument of the paper is that public service accountability can be sustained only when "hierarchical control" over service providers or agents is reinforced by the public's willingness and ability to "exit" (alternative sources of supply) or to exert pressure on agents to perform ("voice"). An important finding is, however,

² Much work has been done on this subject. See W. Niskanen, Bureaucracy and Representative Government, Aldine, 1971; G. Tullock, The Politics of Bureaucracy, Public Affairs Press, Washington, D. C. 1965; G. Becker, "Competition Among Pressure Groups for Political Influence," Quarterly Journal of Economics, August 1983.

³ This is not to deny that measurement and quantification cannot or should not be improved. The term "specificity" has been used to describe this feature and also to link it to the nature of technology involved. See Arturo Israel, Institutional Development, Johns Hopkins Press, Baltimore, 1987.

that the phenomenon of "capture", described in a later section, is likely to be a binding constraint on public accountability in many developing countries, and a challenge to the conventional wisdom about the factors that limit accountability as summarized in the preceding paragraph. As a backdrop to the analysis, the practice of public accountability is examined from a historical prospective in Section II. A conceptual framework for analyzing the determinants of accountability is presented in Section III. Drawing upon this framework, a menu of options for improving accountability is then proposed in Section IV. Section V examines the phenomenon of "capture" as a barrier to change, and its implications for public service accountability. The conclusions of the paper are summarized in Section VI.

II. Accountability: A Historical Perspective

Governments have, in general, considered public accountability as an essential prerequisite for the efficient production and delivery of public services. Public service performance is, however, a complex phenomenon that depends on a variety of factors. Improving the efficiency of a given public service such as education or a regulatory service usually calls for actions on many fronts. Nevertheless, the central issue that is common to all such services is the question of how governments and their service providers can be made more accountable to the public for their services.⁴ As implied in the

⁴ Both public choice theory and the new institutional economics have also addressed this problem. Public choice theory does not consider the state and its agents as neutral bystanders in group interaction. This has given rise to the positive theory of rent seeking which is concerned with the means used by interest groups in getting what they want. Given the bureaucracy's rent seeking tendency, the theory advocates a minimalist state and reduction in the size of

following definition, accountability is the driving force that generates the pressure for the key actors involved to be responsible for and to ensure good public service performance.

"At its most elementary, public accountability simply requires that public bodies give an account of their activities to other people and provide a justification for what has been done in terms of other people's values, in a way that private bodies do not."⁵

The concept and practice of accountability have evolved in the more developed, western countries in parallel with their socio-political evolution. (1) Democratic accountability was the starting point for many countries in the course of the last century.⁶ This represents a mix of political and administrative accountability. The government (ministries, the bureaucracy and its constituent parts) in this system is accountable to the political leadership (elected or otherwise) of the country for its actions and

the bureaucracy. See J. Buchanan, R. D. Tollison and G. Tullock (eds.), Towards a Theory of Rent Seeking Society, A&M University Press, Texas, 1980; G. Bruenan and J. Buchanan, The Reasons for Rules, University of Chicago Press, Chicago, Illinois, 1985; R. Hardin, Collection Action, Resources for the Future, Washington, D. C., 1982; M. Olson, The Growth and Decline of Nations, Yale University Press, Hartford, Conn., 1985; D. C. Colander (ed.), Neoclassical Political Economy: An Analysis of Rent Seeking and DUP Activity, Ballinger, Cambridge, MA, 1984.

The new institutional economics, on the other hand, takes a different route. The approach here is to enhance accountability by solving the principal-agent problem. Implicit here is the assumption that incentives can be designed to make hierarchical control work. See O. Williamson, The Economic Institutions of Capitalism, Free Press, New York, 1985; R. N. Langlois (ed.), Economics As a Process: Essays in the New Institutional Economics, Cambridge University Press, New York, 1986; S. Grossman & O. Hart, "An Analysis of the Principal-Agent Problem," Econometrica, 7, 1983; M. Nabli and J. Nugent, "The new institutional economics and its applicability to development," World Development, Vol. 17, No. 9, 9189.

⁵ J. Stanyer and B. C. Smith, Administering Britain, Fontana, London, pp. 30-16.

⁶ Jabbra and Dwivedi, op. cit., pp. 5-7.

performance. Ministers, for example, are accountable to the parliament/legislature in democratic countries. Civil servants in turn are accountable to their ministers. Accountability here is seen as a macro level concept as it is difficult for a minister or legislature to supervise or control the individual acts of all civil servants and their departments.⁷ Furthermore, it does not distinguish between government's intermediate and final goods and services. The instruments of macro level accountability include legislative reviews of ministry activities, periodic audit reports on public expenditure, and the practice of questioning ministers in parliament on ongoing government activities. Political leaders/legislatures act as surrogates for the public in the system of democratic accountability.

(2) The expansion of public services which required technical expertise in their production and delivery subsequently led to the practice of professional accountability in the public sector. The experts (doctors, engineers and other specialists) involved in these tasks are guided by their professional norms in being accountable for the services they provide. They exert considerable autonomy in defining, on the basis of professional norms, the public interest and in deciding on the nature and content of the services. The criteria of accountability here are heavily influenced by the norms internally (from the supply side) agreed upon by professionals acting on behalf of the public. This type of accountability has much broader application in the context of specific services than is true of the concept of democratic accountability discussed above. It did not supplant democratic

⁷ The term "macro level" is being used here only to distinguish it from "micro level" accountability which pertains to specific public services. Democratic accountability is applicable not only at the national level, but also at the local level. The focus is on the totality of a political unit.

accountability, but acted additively and as a response to the increasing complexity of public services.

(3) In recent years, judicial systems and specially devised laws in some countries have been used to augment the accountability of individual civil servants and units within government who are responsible for the production and delivery of public services. The growing interactions of the public with the bureaucracy, and the dysfunctional impacts of secrecy and anonymity within government on the efficiency and effectiveness of services have contributed much to the emergence of the legal accountability concept.⁸ By and large, its practice is confined to the more developed countries with an educated public and a democratic political system. Its evolution is associated with the public's right to seek information from government, the right to sue individual civil servants and public agencies in law courts and the power of courts to make the latter financially liable for violations of the public interest.

This pattern of the historical evolution of public accountability reveals three interesting features. (1) The original thrust of government accountability to the public rested with the political leadership at the macro level. Attention to accountability as a means of controlling the behavior of individual civil servants for public services is a relatively recent development. (2) As a result, the focus of the key instruments and measures used to effect public accountability is on inputs and not on outputs. The latter tend to be diverse and too complex to measure and to aggregate in most

⁸ Helene Smookler, "Accountability of Public Officials in the United States," in Jabbra and Dwivedi, op. cit., Chapter 2.

cases. On the other hand, public expenditure which is an input and a common denominator can be easily measured and audited. Internal processes can be assessed as there are generally uniform norms about their use within government (e.g., the sequences and procedures to be followed for decisionmaking and implementation of decisions). (3) Except for legal accountability, a recent development, the primary concern of the concept of accountability has been on internal means of control. Political leaders, agencies and bureaucrats act as proxies for the public and hold those reporting to them accountable through control systems within the relevant organizations. Legal accountability introduces, however, the concept of the public intervening directly to ensure accountability. The dominant pattern has thus been one of vertical or "upward" accountability and not of "outward" accountability.⁹

III. Determinants of Accountability: A Conceptual Framework

Accountability for public services has traditionally been viewed from the supply side (the standpoint of the suppliers of services) as is clear from the following quote:

"Accountable management means holding individuals and units responsible for performance measured as objectively as possible. Its achievement depends upon identifying or establishing accountable units within government departments-units where output can be measured against costs or other criteria, and where individuals can be held personally responsible for their performance."¹⁰

⁹ "Upward" refers to the hierarchical approach to control and "outward" to the accountability towards the public, a horizontal relationship.

¹⁰ U. K., Report of the Fulton Committee, Vol. I. London, 1968, p. 51.

This is a view of public accountability through "hierarchical control" (HC) . There are two supply side factors which have received considerable attention in the literature, namely, the design of services and the incentive structure governing suppliers. The supply side argument is that accountability can be augmented by improving the design of the service and by ensuring adequate incentives for the supplier both to design and to deliver the service. If actions are taken on these fronts, it is assumed that public services will improve and that accountability to the public will be enhanced.

This approach is valid, however, only when the problem of principal-agent relations within public agencies can be readily solved. When multiple principals with conflicting objectives exist (political actors, the public, and bureaucratic supervisors in this case), and opportunism and market imperfections prevail (information asymmetries, monopoly conditions), the scope for collusion increases, and the agency problem remains unresolved.¹¹ Under these conditions, it cannot be assumed that an accountability system based on HC will serve the interests of the relevant stakeholders. Alternatively, HC might approximate true public accountability for some time (eg., when good leaders are in charge or soon after a public revolt), but might not be sustained. This is consistent with the finding of other observers that the

¹¹ J. Tirole, "Hierarchies and Bureaucracies: On the Role of Collusion in Organizations", Journal of Law, Economics and Organization, Vol.2, Fall 1986. London, 1982; Brian Levy, "A Theory of Public Enterprise Behavior," Journal of Economic Behavior and Organization, 1987, pp. 75-96; E. F. Fama and M. C. Jensen, "Separation of Ownership and Control," Journal of Law and Economics, June 1983. Ahmed Galal, "Institutional Framework for Efficient and Sustainable Restructuring of State-Owned Enterprises," Public Enterprise, No. 2, 1989.

neglected element in public accountability is the public's viewpoint.¹² The directional change required in the reform of accountability systems for public services lies in integrating this element into the HC approach.

Determinants of Accountability

Viewed from the standpoint of the public, there are two basic determinants of accountability. One is the extent to which the public has access to alternative suppliers of a given public service. The question here is whether there is potential or scope for the public to exit. The second is the degree to which they can influence the final outcome of a service through some form of participation or articulation of protest irrespective of whether the exit option exists. In other words, can they exert their voice in order to ensure accountability? Exit and voice are terms that Albert Hirschman made popular in his excellent discussion of the ways in which consumers cope with the problem of performance deterioration in the production of goods and services.¹³ He treats exit as an economic response mechanism and voice as a political response mechanism. The former is ubiquitous in the competitive

¹² See "Symposium on Administration Without Bureaucratization" in International Review of Administrative Services, Vol. 55, No. 2, 1989; P. R. Dubashi, "Administration and the Citizen," Indian Express, May 10, 1990.

¹³ A. Hirschman, Exit, Voice and Loyalty, Harvard University Press, Cambridge, MA, 1970. Exit and voice options can be both substitutes and complements to each other depending on certain underlying conditions which Hirschman develops in his book. He further notes that the cost of voice could be higher than that of exit in view of the need for collective action and the risk of the less certain outcomes of voice. While Hirschman recognizes the relevance of these options to both private and public sectors, he focusses almost exclusively on the world of private goods where both options are readily available. Furthermore, he does not examine the issue of the relevance and design of institutional devices or arrangements for facilitating the use of exit and voice in varying contexts and the conditions under which they will be optimal.

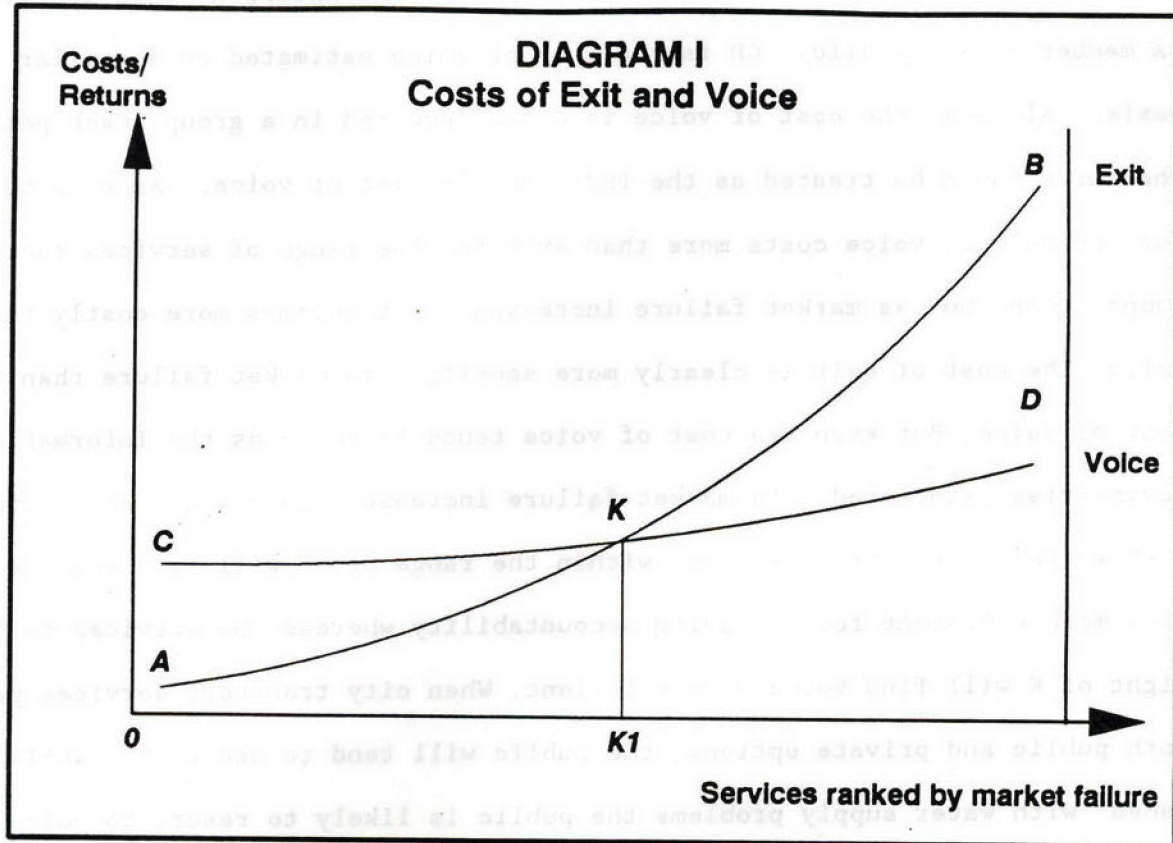
market place whereas the latter is found more often in organizations such as political parties and voluntary agencies.¹⁴

The analytical framework presented below builds on Hirschman's concept of exit and voice, but with an exclusive focus on public services. Two interrelated questions will be explored here. Under what conditions are the exit and voice options likely to be efficient in enhancing accountability in public services? How and why do public services differ in their amenability to the use of exit and voice as a means to improve their performance? Answers to these questions are essential for designing better approaches to public service accountability.

Diagram I below provides a simple, but generalized answer to the first question. The public's decision to use exit, voice or a combination of both will depend on two factors, namely, the expected returns resulting from improved accountability (e.g., better quality, reduction in delays and responsiveness or other attributes that the public value), and the costs associated with the use of exit and voice. Exit costs, for example, may consist largely of transactions costs whereas the costs of voice may not only include transactions costs, but also the costs of organization and collective action. The relative costs of exit and voice and their levels may vary depending on the degree of market failure affecting the services.¹⁵ Market

¹⁴ This generalization must be qualified in part. In politics, forms of exit do exist (leaving a party). While in the market, the use of voice is not unknown (a public demonstration).

¹⁵ Voice costs will be affected also by the prevailing socio-political environment. For example, a free press, dissemination of information, legal rights, etc. will reduce costs for the individual.

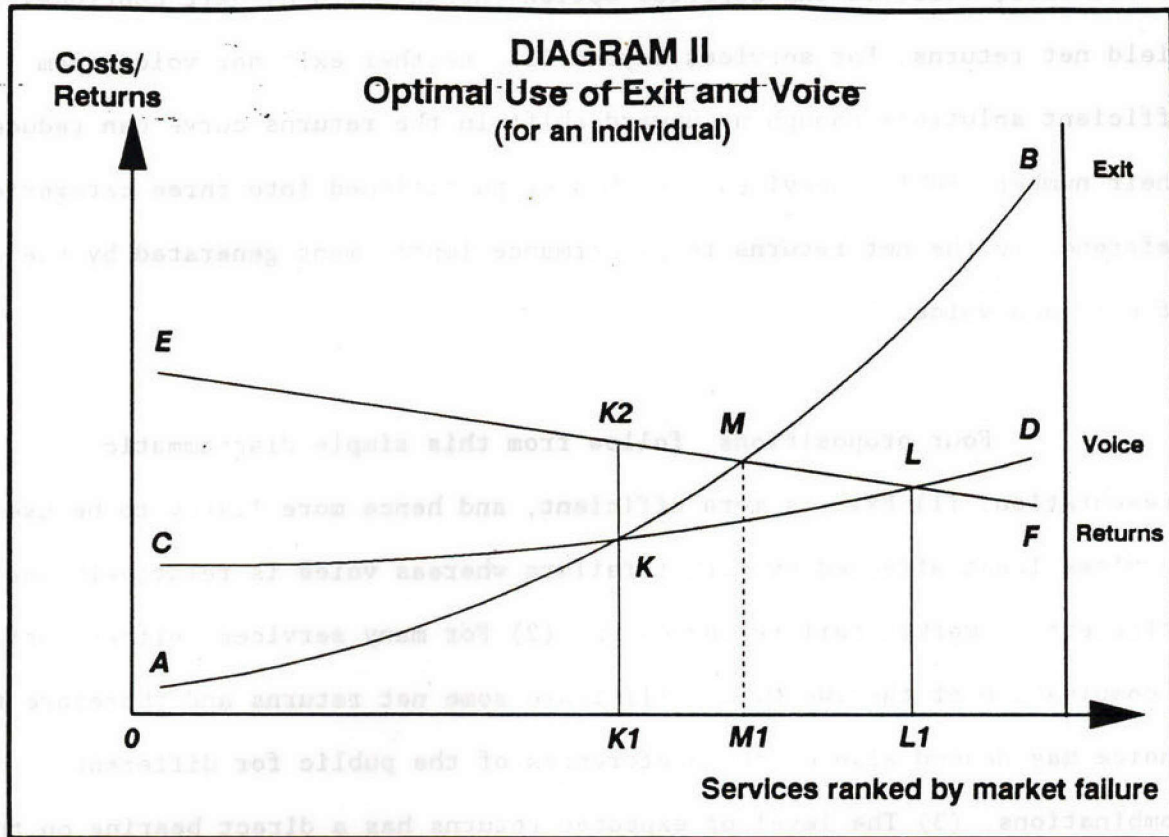


failure here is treated as external to the service provider and is caused by externalities, decreasing costs (e.g., natural monopoly) and informational asymmetries. In Diagram I, costs and returns are measured vertically while public services are ranked horizontally according to the increasing intensity of market failure.¹⁶

¹⁶ Note that services here differ only in respect of the degree of market failure. Strictly speaking, only one type of market failure should be considered at a time along the Y axis (e.g., natural monopoly). Needless to say, these are highly restrictive assumptions.

Assume that the public is willing to use exit and voice in order to improve public accountability. AB represents the cost of exit associated with each of the services on the horizontal axis and incurred by an individual (a member of the public). CD is the cost of voice estimated on a similar basis. Although the cost of voice is often incurred in a group, each point on the curve could be treated as the individual's cost of voice. As expected, for the public, voice costs more than exit for the range of services facing competition, but as market failure increases, exit becomes more costly than voice. The cost of exit is clearly more sensitive to market failure than the cost of voice. But even the cost of voice tends to go up as the information asymmetries associated with market failure increases along the Y axis. Diagram I shows that the public services within the range of OK will find the use of exit more efficient for improving accountability whereas the services to the right of K will find voice more efficient. When city transport services permit both public and private options, the public will tend to use exit, while faced with water supply problems the public is likely to resort to voice.

Diagram II introduces the concept of the expected value or returns from performance improvement to the public that improved accountability can bring about. EF represents the expected returns to the individual of such performance improvement. Its declining slope signifies the increasing difficulty in improving accountability as market failure increases. A monopoly, for example, is expected to be less responsive to public pressure. An upward shift in the expected returns curve can occur, however, when



supervision or incentives are strengthened to make the service provider more responsive.¹⁷

Given the exit and voice cost curves, Diagram II shows that the combinations of exit and voice that are efficient for different goods will vary depending on the level and slope of the expected return curves. Thus when

¹⁷ Returns are the monetary equivalent of the gains from improved accountability that the individual receives as a result of the use of exit or voice. The upward shift is shown here as an autonomous step, but need not always be so.

EF applies, both exit and voice yield net returns along the range of OK1. Nevertheless, exit is clearly the more efficient option. Within the K1M1 range of services, voice is the superior option though up to M, exit continues to yield net returns. For services beyond OL1, neither exit nor voice seem efficient solutions though an upward shift in the returns curve can reduce their number. Public services can thus be partitioned into three categories by reference to the net returns to performance improvement generated by the use of exit and voice.

Four propositions follow from this simple diagrammatic presentation. (1) Exit is more efficient, and hence more likely to be used in services least affected by market failure whereas voice is relatively more efficient as market failure increases. (2) For many services, either option or a combination of the two will still leave some net returns and therefore the choice may depend also on the preferences of the public for different combinations. (3) The level of expected returns has a direct bearing on the extent to which voice will be deployed especially in the range of services most affected by market failure. In other words, the public is likely to use voice only when there is a high probability that the public sector will be responsive and make this investment worthwhile. (4) There are some public services for which the use of neither exit nor voice mechanisms will be efficient. If an upward shift in the returns curve occurs, a decline in their number will follow. These are the services most affected by market failure.

We shall now move on to the second question and explore the variables that influence the scope for exit and voice in the context of different types of public services. This will take us beyond the aggregative

approach of Diagram II which considered services solely as a function of market failure and the public as an undifferentiated lot. Further disaggregation will provide a useful basis for designing improved approaches to accountability.

Exit Determinants

(1) Economies of scale are important in the production of many public and quasi-public goods. Natural monopolies with increasing returns to scale are well known examples. In a country or a geographical area where there is scope for only one enterprise or agency to produce and deliver a service, the public's potential for exit is limited or non-existent, and hence exit cost is high.

(2) Legal barriers to entry may exist in a country which limits the public's scope for exit. Registration of vehicles and trade controls can be viewed as legal barriers which the public cannot escape unless illegal action is resorted to. This is because the state prohibits by law other suppliers from delivering a given public service though there is technically no reason why others cannot supply the same service. In many countries, barriers to entry in sectors such road and air transport and education illustrate this point.

(3) Spatial barriers may limit the potential for exit for some segments of the public. Here the problem lies not in the nature of the good or service but in the characteristics of the public. Thus there may be scope for only one small school or health clinic in an isolated village. The constraint is

not the existence of scale economies, but rather that certain features of the public (e.g., location) limit their potential exit. However, the effect on the service (as when scale economies exist) is that it operates like a local monopoly. Migration by people facing poor performance, of course, is a form of exit, but a costly one under these circumstances.

(4) Where the nature of a good or service is such that no member of the public can be excluded from access to it, then exit by definition is ruled out. Pure public goods such as defense or environmental protection are classic examples.

Voice Determinants

(1) Legal and institutional barriers to voice may exist in a country thus making it difficult for segments of the public to use their voice. In some cases, this could be traced to the nature of the larger political system or ideology. Even where an open or democratic political system exists in a country, its laws and legal and institutional devices may not permit or may constrain the use of voice (e.g., legal barriers to the recognition of user groups, lack of public hearings and denial of the right to sue public service suppliers). It is possible that nothing is wrong with the laws, but the procedures and practices used in their implementation stifle or delay the use of voice (e.g., procedures used by courts, access made difficult through the location of facilities).

(2) Informational asymmetries can be a severe constraint on the public's use of voice. Service providers often possess information that is not

available to the public. Governments may restrict the public's access to information or limit the scope for the media to challenge or publicize the poor quality and other attributes of services. Dissemination of information may also be limited by the poor technologies available in the country. Inadequate telecommunications and TV facilities illustrates this problem. Those who have privileged access to the relevant information on services such as elite groups may take advantage of it at the expense of other segments of the public. The net result is that for ordinary people, the transaction costs of voice will be very high.

(3) Non-differentiation of public services can aid the use of voice.¹⁸

A quasi public good such as drinking water and public parks are non-differentiable products. Since all segments of the public have an interest in their supply and quality, those with a weak voice also gain from the voice of the stronger segments of the public. Non-differentiation of services thus creates an "externality" effect on voice. In the case of education, for example, it is possible to differentiate services (schools with varying quality), and hence the externality effect does not obtain.

(4) Income, education and related attributes of the public increase their ability to use voice. Even when information is available, lack of education may limit its proper analysis and use by the people. The cost of voice can be too burdensome for low income people. Lack of knowledge and skills constrains them in their assessment of options and in demanding better service or access. The poor and illiterate, therefore, are usually the

¹⁸ This term refers to the concept of "product differentiation" frequently used in studies of industrial organization and marketing.

weakest in respect of voice, though their numbers may be large.

(5) The relative importance of a service to the public also influences voice. Thus if a person spends a significant proportion of his income or time on a service, or develops a continuing relationship ("product involvement"), his incentive to use voice is greater than when the service is of little consequence or is not durable in terms of future relationships or benefits.¹⁹ This is true even when the individual has an exit option. Examples are housing and health services(doctor-client relations).

The foregoing discussion of the factors underlying exit and voice shows that both the nature of the good or service and the characteristics of the public exert an important influence on these options. Natural or artificial (policy induced) monopoly turns out to be an important attribute of many public services(eg., electricity, regulatory services) that tends to limit the public's scope for exit. The ability and willingness of the public to respond to this condition through voice can in part be policy induced, but are also a function of certain attributes of the public(eg., income, education.location, etc). In the final analysis, the factors identified above influence the costs facing the public and thus their choices between the two options. For example, if spatial barriers are high for a person, the cost of taking the exit route is likely to be considerable for him. Hence he is likely to explore the voice option first before resorting to exit. On the other hand, where spatial barriers are low or when a service is relatively unimportant to an individual, he may find the cost of voice to be higher

¹⁹ Product involvement is a term used in the field of marketing, and is a proxy for the relative importance of goods to consumers.

relative to that of exit. Thus the public may face high or low natural or policy induced barriers with respect to exit or voice or both. Public services can be categorized by the severity of these barriers and characteristics.

Combinations of Exit and Voice

Public services can be categorized into different groups according to the criteria of exit and voice. First, services can be classified according to whether there is scope for the public to exit if dissatisfied with what they get. This is a proxy measure for the feasibility of competition in the production and delivery of services. Second, public services differ in the degree to which their beneficiaries can make their voices heard if dissatisfied with the outcomes. For analytical purposes, Diagram III depicts four different combinations of exit and voice that provide a useful basis for the classification of public services. These should not, however, be treated as watertight divisions. As the vertical and horizontal arrows imply, they reflect degrees of actual or potential possibilities for exit and voice. Examples of public services that fit the different combinations of exit and voice are given in Diagram IV.

DIAGRAM III

Voice

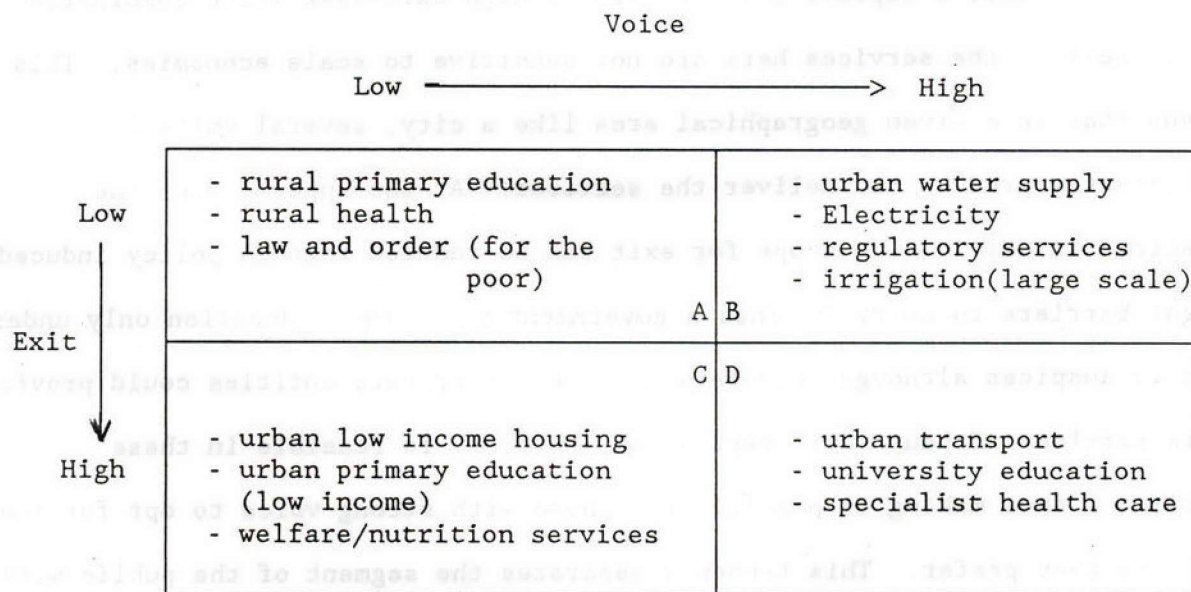
Weak -----> Strong

Exit	Low	<u>Exit</u> - spatial barriers - local monopoly <u>Voice</u> - low differentiability of services - high income barriers - legal/institutional barriers - information barriers	1	<u>Exit</u> - large economies of scale - legal barriers to entry <u>Voice</u> - low differentiability of services - low income barriers - information barriers	2
	High	<u>Exit</u> - legal barriers to entry - low economies of scale <u>Voice</u> - high differentiability of services - high income barriers - legal/institutional barriers - information barriers	3	<u>Exit</u> - low to moderate economies of scale <u>Voice</u> - high differentiability of services - low income barriers - high product involvement	4

Cell 1 above represents public services that fit the low exit-weak voice combination. The nature of the services in this category is such that exit will be extremely difficult or costly for the public. At the same time, the beneficiaries involved are disadvantaged in the sense of being either poor or illiterate or both. Hence their weak voice. They have limited capacity to use voice if dissatisfied with the services. This can be

exacerbated by legal, informational and institutional barriers. The public services in this cell can be produced efficiently on a small scale (e.g., to meet the needs of a small town or village). While economies of scale are thus not a barrier, spatial barriers to exit tend to operate. To illustrate, a village needs only a single primary school which can be operated efficiently. If, however, some villagers are dissatisfied with the school's services, the exit option may not be open to them as the next school may be located in a far away place. Distance and not scale economies is the source of the monopoly condition present in this case. Furthermore, the public in this cell do not offer any scope for product differentiation. Health services, agricultural extension, rural water supply and regulatory services affecting the poor(eg.,licensing of vendors) are other examples of services which belong to Cell 1.

DIAGRAM IV



A combination of low exit and strong voice characterize Cell 2.

Here again, exit for those dissatisfied with a service is impossible or

expensive, but the scope for voice is considerable. Scale economies matter a great deal in the production and delivery of services in this cell. Natural monopolies owned or regulated by government illustrate the problem. Voice can be strong here for two reasons. Given the nature of the services, product differentiation is not possible or is extremely difficult in their design with the result that the entire public gets more or less the same quality and type of service. Even if only a segment of the concerned public is capable of exerting voice, everyone stands to benefit from such action due to the externality effect explained above. Utilities such as electricity, telecommunications, urban water supply, and irrigation are examples of services in this cell. Regulatory services affecting publics with a strong voice also belong to Cell 2 (e.g., industrial licensing, foreign trade regulation, etc.).

Cell 3 depicts services with a high exit-weak voice combination. As in Cell 1, the services here are not sensitive to scale economies. This means that in a given geographical area like a city, several units can efficiently produce and deliver the services. At the upper end of the spectrum in Cell 3, the scope for exit can be reduced through policy induced legal barriers to entry.²⁰ Thus a government may permit education only under public auspices although voluntary agencies or private entities could provide this service. Product differentiation, however, is feasible in these services, thus making it possible for those with strong voice to opt for the quality they prefer. This tendency separates the segment of the public with weak voice from the former. Even if product differentiation is not present,

²⁰ Note that scope for exit increases as one moves down vertically from Cell 1 to Cell 3.

policy induced legal, informational and institutional barriers to voice can also weaken the public's voice. Urban services which lend themselves to differentiation will fall into this cell, e.g., low income housing, and health clinics in poor areas.

Finally, Cell 4 refers to some of the quasi public and private services which governments might provide under public auspices for a variety of reasons. Here, services are characterized by low to moderate economies of scale so that potentially several units could produce them in a given geographical area. As a result, the potential for the public to exit is high when faced with performance deterioration. Voice potential is high in this case as services can be differentiated for the benefit of the public with high income, education, etc. The relative importance of these services to the public is high thus causing their "product involvement" to be high. These services may often be the same as those in Cell 3, but differentiated for the higher income groups who normally can exert a strong voice. High quality schools, hospitals, and air transport are examples.

The mix of barriers and characteristics in the four cells of Diagram III can be used to predict the degree of exit and voice potential that different public services can have. What is required is an analysis of the services in terms of these characteristics/barriers and the extent to which they are natural or policy induced. There are, however, some services which are similar in nature between certain cells. This is because when provided to different types of population the same service can be characterized by differing degrees of exit or voice potential. For example, primary education is found in both Cells 1 and 3 of Diagram IV. Nevertheless, from the

standpoint of accountability, this seeming overlap does not imply a duplication. Contextual features and attributes of the public need not be the same even for identical services. An urban primary school, unlike a rural school, may leave an exit option for the public. This difference is relevant to the determination of the approach to accountability to be adopted. What distinguishes each cell is the positioning of a set of public services in the context of a unique exit-voice combination.

IV. Improving Accountability: A Menu of Options.

What options are available to improve public accountability for the services in the four cells discussed above? This question can best be answered by viewing the features of each service against the constraints and opportunities for exit and voice being faced by the relevant publics. Options here refer to alternative remedies or solutions to the problem of accountability. Given the diversity in the characteristics of services and their publics, a menu approach is clearly superior to an approach that promotes a single or standardized solution.

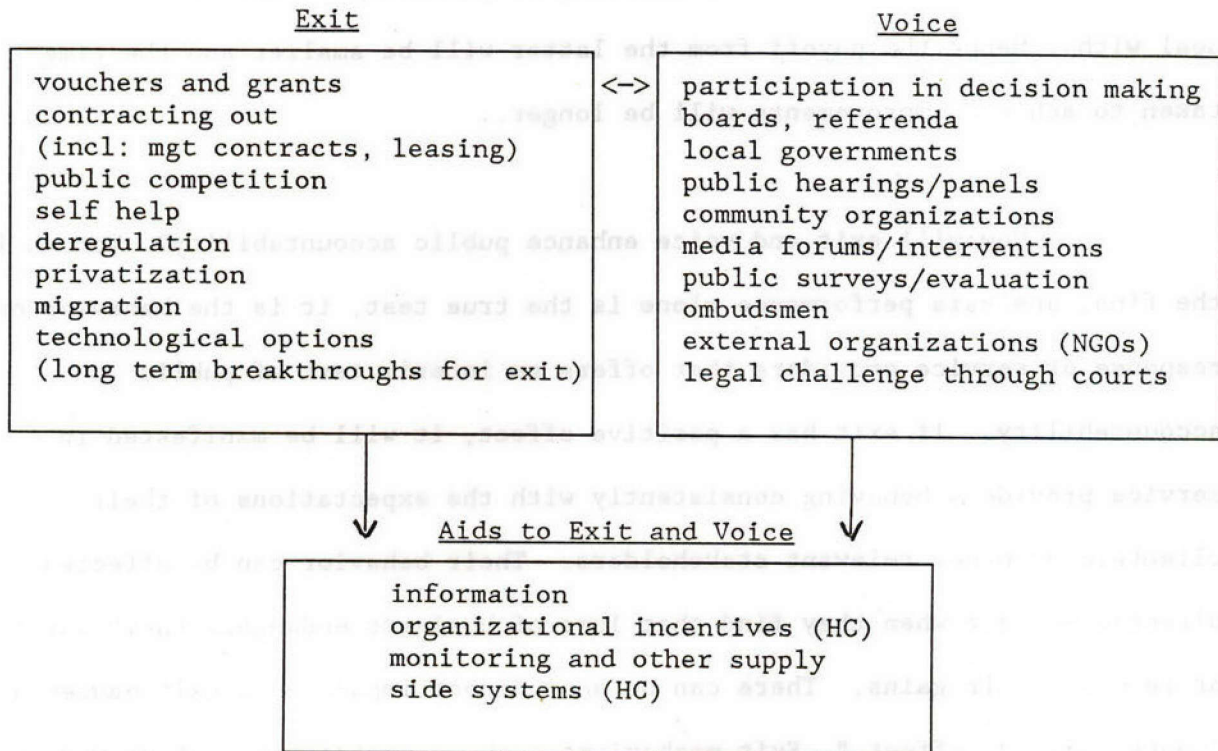
Some implications for improving public service accountability are self evident in Diagram III. First, the accountability problem appears to be most severe in Cell 1 where the potential for both exit and voice are low. Second, the search for improved accountability as one moves down to Cell 3 should focus more on exit (for example, private delivery or self help schemes) than on voice. To improve accountability in Cell 2, on the other hand, the thrust should be on voice rather than on exit. The greatest need for

improving accountability is in these three cells with Cell 1 deserving priority attention. Third, the search process should first explore the scope for eliminating policy induced barriers and characteristics as a means to improve accountability. Natural barriers or features are more difficult to deal with. Hence the payoff from the latter will be smaller and the time taken to achieve improvements will be longer.

How will exit and voice enhance public accountability? Though in the final analysis performance alone is the true test, it is the behavior or response of service providers that offers an interim test of public accountability. If exit has a positive effect, it will be manifested in service providers behaving consistently with the expectations of their clientele or other relevant stakeholders. Their behavior can be affected directly by exit when they find that loss of business endangers their survival or reduces their gains. There can be an indirect impact when exit causes a "contestability effect." Exit mechanisms such as contracting out or vouchers send out a signal that providers' future business might be lost. This in turn will tend to make service providers more accountable. The impact of voice again is direct in the sense that the public exerts a direct pressure for change on providers. Whether direct or indirect, the effect of exit and voice will finally be manifested in the monitoring and incentive systems of providers as they can adapt their responses only through this medium. Hence the realignment or integration of hierarchical control (HC) with exit and voice mechanisms is at the heart of the design of improved public accountability. Diagram V below shows the linkages among the three.

DIAGRAM V

Mechanisms for Accountability



We shall now examine the relevance of the exit and voice mechanisms of Diagram V for improving the accountability of services that might fall under the different cells of Diagram III. Though they are important, less attention is paid here to the role of HC mechanisms (monitoring, incentives, etc.) mainly because there is an extensive literature on the subject.

Low Exit - Weak Voice

Since both exit and voice are difficult or too costly for the public in Cell 1, these services pose the most severe challenge to those who design accountability systems. When there are severe constraints on exit and voice, the traditional approach of improving accountability through better HC will have serious limitations, chiefly because the principal-agent problem referred to in an earlier section cannot be satisfactorily resolved in a non-competitive setting with multiple principals who have conflicting goals or preferences. The answer therefore lies in searching for ways to expand the exit and voice options, and integrating them with appropriate HC mechanisms.

Given the constraints on exit, however, the focus of accountability in Cell 1 has to be on voice. The exercise of voice is not only costly for the poor in terms of time and effort, but also more risky than exit as the outcomes of voice are less certain. The poor are unlikely, therefore, to readily invest in the use of voice. Given the high costs of voice facing them, the endeavor should be to search for voice surrogates. These are external agents who mobilize or organize the local public in order to demand and monitor better service performance. Non-governmental organizations (NGOs) are well known for playing this role. In some cases, they may also act as service providers. Their voice augmenting role tends to reduce the cost of voice to the local public who are generally poor and illiterate. Under monopoly conditions involving the poor, this form of cost internalization by an external agency can tilt the balance in favor of the use of voice by the public. In health services, population control, and education, NGOs have played this role admirably in many developing countries. The

alternative of a local community organizing itself to exert voice is also feasible²¹. The cost of voice in this case has to be borne fully by the community, a burden that many poor groups are unable to bear. In both cases, the incentive within the organizations to ensure accountability is aided by a sense of professionalism and commitment rather than by financial rewards.

Dissemination of information about services can aid the public in demanding greater accountability from service providers. More systematic pressure can be exerted through a periodic public monitoring and evaluation of the relevant public services. This can be done under public or private auspices. An expert group, for example, can be commissioned to poll the beneficiaries or gather data from them as well as the service providers for analysis and comparison across locations and over time. Compared to the direct use of voice, this is less demanding and less costly for the public. Again, this is a surrogate for voice through external intervention and is designed to promote greater accountability. Its limitation is that such evaluation invariably calls for public resources. Public surveys have been used extensively in Australia, France, Canada and the Netherlands as a usable means of feedback on tax administration. Canada, for example, gathers feedback on taxation from clients on a continuing basis. In this context, transparency of the methods and data used and care in the dissemination and use of findings assume special importance.

²¹. See Samuel Paul, Community Participation in Development Projects: The World Bank Experience, Discussion Paper No. 6, World Bank, Washington, D. C., 1987; M. Esman and N. Uphoff, Local Organizations: Intermediaries for Rural Development, Cornell University Press, Ithaca, N. Y., 1984. Since the 1960s, many experiments in the use of voice have been attempted in the developing world with a special focus on the poor.

Complaints procedures and the institutional mechanism of the "ombudsman" are ways of providing voice to the people when there is no need or incentive for collective action. Here the attempt is to let individuals make known their problems to designated authorities for redressal. "Hotlines" can be established to help the public respond fast to unsatisfactory services or decisions by public agencies. A review of international evidence in this area shows that these mechanisms are in place in many countries, but that their utilization and impact vary widely. An important finding is that in poor societies, it is the elites who tend to use these devices more effectively. In Tanzania where the ombudsman did not evoke any response from villagers, a special effort was made to reach out by adopting a mobile approach, but with limited results.²²

Though spatial barriers are the binding constraint on exit, it is possible that new technologies for service delivery can be used to augment the scope for exit. For example, under certain conditions, mobile courts, schools and hospitals can cross spatial barriers and offer more options to the public in the fields of criminal justice, education, and health. As Hirschman has noted, there is a risk that easier exit may not necessarily eliminate the performance deterioration in the local public school or clinic. The fact remains, however, that technology can be a source of exit expansion under certain conditions and may cause overall accountability to improve.

²². P. Eaves., Op.cit.

Low Exit - Strong Voice

In view of the dominance of scale economies, the scope for improving accountability through the exit option is limited in this case. Supplementary generation of electricity by agents other than an existing monopoly can be thought of, for example, as a means of increasing competition in the utility field. But the impact of such measures remains relatively insignificant. The improvement of accountability must therefore be sought in devising creative ways to use voice.

Since strong voice characterizes this cell, an important option to explore is the participation of the public's representatives in the decision making bodies of service providers. For example, users' representatives can be made members of the boards of directors or committees of these organizations. Where appropriate, users may hold stocks of utilities so that they have a stake in their management and performance. In most developing countries, such use of voice or "public participation" is conspicuous by its absence. Irrigation projects, for example, are typically owned by governments. Yet, beneficiary farmers could be made joint investors, or responsible for maintenance, thereby creating a strong incentive for them to demand and facilitate good performance.

In developed countries, public participation in the regulatory process is an established practice. In the U.S., many regulatory agencies have a statutory duty to provide a forum for disputes arising in the course of the agency's rule making, or between those regulated and those affected by the actions of the industry concerned. Since public participation in this process

was limited relative to that of the regulated industries, intervenor funding mechanisms have been created in some cases to deal with this imbalance. Thus the California Public Utilities Commission has established a mechanism for after - the - fact funding to groups and individuals who have a financial hardship and who have made unique contributions to a decision adopted by the Commission. Another example of public involvement is in "negotiated rule making" that brings together representatives of an agency and the relevant interest groups to negotiate the text of a proposed rule. Regulatory negotiation has been used by the Environmental Protection Agency and other departments of the U.S. Government.

Where direct participation of users in decision making is difficult or inappropriate, it may be possible to consult them on important issues or to afford them opportunities to express their views on key decisions directly affecting them. Public hearings on the revision of rates in utilities is a good example of this approach. Advisory panels of a standing nature are another institutional mechanism. These devices can be set up by service providers or through regulatory agencies which are in any case necessary given the monopolistic nature of the activities involved. Since large scale organizations are typical of the services in Cell 2, any direct or indirect voice mechanism will act as a useful countervailing force against the potential collusion implied in the multiple principal-agent relations alluded to earlier.

Finally, public evaluation of the type discussed under Cell 1 and provision for legal redress of complaints can (e.g., hotlines, ombudsman, etc.) play a positive role here. The dissemination of comparative performance

data, including the publication of performance indicators on costs, access and quality, etc., can be expected to sensitize users to demand better service and thus to create further pressure for accountability.

High Exit - Weak Voice

Since exit is relatively less costly than voice for the set of services in Cell 3, the basic thrust of accountability improvement here should be on expanding the scope for exit.

Deregulation of services. is an obvious option to consider since there is usually space for both public and private service providers to coexist and compete. For example, deregulatory measures in the education sector may induce the establishment of private schools along side public schools. Monopolies granted to trade agencies, when abolished, will encourage private traders also to enter the field. Since the public involved is poor(weak voice), the public function of regulation and possibly subsidization is likely continue. One option is to make grants to the private providers so as to minimize any adverse economic impact of deregulation on the poor. Grants -in-aid to NGOs have been used in both health and education sectors to achieve this objective. Food stamps or ration cards can be used for the same purpose in the area of essential goods distribution.

If for some reason, certain services require close government supervision, contracting them out to multiple private providers can be another option. This approach would permit careful monitoring and quality control while affording increased scope for exit to the public. Municipal services of

various kinds (garbage disposal, road maintenance, tax or fee collection, etc.) have been contracted out in many developed countries. An important way in which this mechanism impacts accountability and performance is through its "contestability effect".

A more direct impact on accountability can be made through the use of vouchers. People who deserve special support for income or other reasons can now receive subsidies for certain services while choosing the service providers that meet their needs most efficiently. The administration of vouchers could be more cumbersome than that of grants to the service providers. On the other hand, vouchers are a superior mode for the exercise of exit in comparison to the grant system. In several European countries, housing vouchers have helped improve living conditions and reduced excessive rent burdens by providing low-income renters an option to exit substandard public housing. Chile successfully replaced housing subsidies through low interest rates with the more direct subsidized method of a voucher program. Under this system, beneficiaries pay for the value of a specified house with their own savings, the voucher and a credit obtained from commercial banks at market interest rates. Initially vouchers did not work well because there was no private supply of very low cost housing and because the commercial banks were not interested in financing low income earners. Eventually, the construction industry responded as increased financing was provided by the State Bank and the Ministry of Housing. The private sector has now become so active and specialized in low cost housing that per unit costs have dropped.

The voucher system works best under certain conditions:

- * Individuals' preferences for a service differ significantly, and the differences are legitimate.
- * People are motivated to shop aggressively for the service.
- * Individuals are well informed about market conditions, including the cost and quantity of the service and where it can be obtained.
- * Many suppliers of the service are already in competition, or find it a relatively easy field to enter.
- * The quality of the service is easily determined by the user.
- * The service is relatively inexpensive and is purchased frequently, so the user learns by experience.²³

High Exit - Strong Voice

This is the simplest case of all since services in this cell rank high on both exit and voice. To the extent that some of these are private services, the options to follow are fairly self evident.

²³. J.W. Allen, et. al, The Private Sector in State Service Delivery: Examples of Innovative Practices, The Urban Institute Press, Washington, D. C., 1989, p. 98.

Privatization is clearly the first option to explore. When the potential for exit and voice are both high, market competition can be expected to ensure accountability. Where quasi public goods are involved, governments may continue to perform a regulatory role (e.g., standard setting, quality control, etc.). For example, city transport may be left to competing private transport operators, but under the watchful eye of a regulatory body, advisory councils involving the public, etc.

Where the private sector is not adequately developed, there may be a case for the public sector to continue to play a service provider role. Instead of outright privatization, public-private competition may then be encouraged. For example, private banks may be permitted to compete with public sector banks. Both public and privately owned airlines may coexist.

Both privatization and public-private competition can be expected to ensure accountability through the exit option. As Hirschman points out, however, services which entail continuing relations between the public and the providers face a unique problem. The public are unlikely to exit without first attempting to use their voice to improve performance. This need not pose any difficulty in Cell 4 as the public involved are characterized by strong voice.

Hierarchical control within public agencies and the exit and voice options discussed above should be mutually reinforcing. For example, the internal incentives and control systems and practices of service providers(HC) should be congruent with what is being attempted on the exit and voice fronts. If not, they will work at cross purposes and weaken public accountability. If service providers do not have the incentive to improve quality as indicated by

the feedback from a public evaluation or a panel, accountability and performance will not improve. The commercial nature of some services (utilities, public enterprises with priced services, etc.) will make it easier to use financial and other related incentives to motivate the employees of the service providers. The primary task here is to ensure that such incentive and control systems are consistent with the requirements of accountability to the public.

V. The Paradox of Capture

A common feature of the two right hand cells in Diagram III is that the publics involved command "strong voice." This means that all or some of the beneficiaries of the services belong to the better off and more articulate sections of the population. The options to improve accountability analyzed in Section IV highlight a variety of ways in which the voice mechanism could be used for this purpose. Furthermore, services in the lower right hand cell could be made to perform better through the exit option. One would expect to see in developing countries many examples of the use of voice and exit in improving the services depicted in the different cells. Yet the reality is that such examples are few and far between. If voice is not being used to improve public service accountability in Cells 2 and 4, and exit is not being resorted to in Cells 3 and 4, it is reasonable to conclude that service performance will remain less than optimal. What accounts for this paradox?

A closer look at this paradox shows, however, that it can indeed be explained to a large extent by reference to a set of factors that exist in the public sectors of many developing countries. It is reasonable to hypothesize that the interaction among these factors, as detailed below, is the primary explanation of the paradox.

(1) The population with a strong voice who have an interest in the services in the right hand cells of Diagram III includes politicians, bureaucrats and other influential persons who happen to play an active role in the management and control of the same services. They need not be large in number as long as their influence is considerable and their networks strong. They are members of both groups, beneficiaries and service providers, and are mutually reinforcing..

(2) As a group, they have a strong disincentive to use exit and voice, and are inclined to prevent others from using these options. Exit which implies the existence of competition can disrupt the "quiet life" of service providers who are part of or linked to this interest group. Voice entails a risk for the users in so far as its outcomes are uncertain. In fact, voice may well force the elite group to share the benefits of a service with the rest of the public. It is in the interest of the group, therefore, to seek alternative ways to maximize its share of the benefits.

(3) The group referred to above is relatively small and well organized in contrast to the larger public of which they are a part. It is easier for

them to engage in effective collective action than for the public at large.²⁴ Their strong voice, their joint status as beneficiaries and controllers of services, and their membership of a compact and organized sub-group seem to give them the capability, opportunity and a strong incentive to capture a disproportionate share of the services (for themselves) and possibly also to benefit others closely linked to them. It is almost as if they are well positioned to appropriate these services with much less effort or cost than will be the case if they had to resort to exit or voice. The paradox that is evident in many countries is therefore more apparent than real.

Examples of the paradox of capture abound in developing countries.²⁵ Governments often give preferential allocations and quotas of scarce services (including goods) to politicians, bureaucrats and business. Telephones, housing, permits of various types, etc., illustrate the point.

* In one country, housing development boards (public agencies) have a priority quota for civil servants that limits the supply available to the public at large.

* In another case, all higher level civil servants can get one telephone connection (a highly scarce service) on a priority basis upon retirement.

²⁴ Mansur Olsen, The Logic of Collective Action, Harvard University Press, Cambridge, MA 1965.

²⁵ Capture should be distinguished from "rent seeking" which denotes the gains appropriated by bureaucrats, politicians, etc., from the provision of services to others.

* An electricity board(state owned enterprise) provides electricity free to all its employees while the public faces power cuts and rationing.

Sometimes, informal arrangements and contacts are used to get allocations of scarce items. Thus queue jumping tends to be widespread, but without rousing any public outcry largely because of the lack of transparency of procedures (e.g., admission to quality schools, hospitals or in the allocation of urban land). If, through such devices, influential segments of the public are able to capture the public services they require, there is no incentive for them to resort to the more costly exit and voice options. Those responsible for the actual service delivery, as shown above, may also collude in this process as exit would be a threat to their quiet life. This then is the explanation for the paradox of scarce and often poorly performing public services coexisting with the reluctance of the influential publics involved to make use of the available exit and voice options to improve performance for all.

In many developing countries, the phenomenon of capture is a dominant barrier to the increased use of exit and voice and hence to the improvement of accountability. Capture can now be added to the three other barriers, listed in Section I, namely, governments' monopoly of public services, the public's limited capacity and willingness to demand service, and the difficulties in measuring and quantifying the outputs of services.

There are three important implications of capture for public service accountability. First, capture can be considered a case of pseudo-

exit. Since the elites have a way out of the consequences of the poor performance of public services, there are no internal incentives for the agencies involved to improve their accountability. Genuine principal-agent relations do not exist in this setting. Collusion between the two will be pervasive under these conditions. Furthermore, Voice of the public at large is usually unequal to the task of augmenting public service accountability.

Second, the longer the paradox of capture persists, the greater the difficulties in dismantling it. Over the long haul, the capture phenomenon may cause performance for the rest of the public to decline so much that it sets in motion strong voice mechanisms (mass protests, political upheavals). This may cause major reforms of the prevailing regime to be undertaken leading to a distinct improvement of accountability. The implication here is that no perceptible improvement of performance needs to be expected unless and until a severe crisis erupts.²⁶ Increasing the supply of services is the only other means to weaken the incentives for capture.

Third, continued public dissemination of information on public service performance and the creation of greater public awareness of these issues on a continuing basis can be used interim to influence accountability if the crisis scenario does not materialize. In the final analysis, capture can be countered only by the voice of the rest of the public. There is some evidence that this approach can indeed lead to improved public sector performance and accountability. For example, the publication of comparative data on infant mortality is said to have put pressure on some governments

²⁶ M. Olsen, The Growth and Decline of Nations, Yale University Press, 1985.

(obviously poor performers) to expand and improve their public health programs. The Indian State of Tamil Nadu was ranked second from the bottom (compared to other states) in terms of nutrition indicators some years ago. The shock of this revelation is said to have triggered a new and successful nutrition program in this state which today has improved its position to the medium range. Comparative studies of public services and the wide dissemination of their findings can, thus, help mobilize public opinion and initiate public action. This approach promises to be a useful surrogate for competition in the public sector.

VI. Conclusion

The basic argument of this paper is that public accountability is an important determinant of public service performance and that its impact on performance can be augmented by moving away from an exclusive reliance on HC mechanisms such as monitoring and use of organizational incentives to a system that uses exit or voice mechanisms in conjunction with HC. Whether the public will resort to exit or voice will depend on the relative costs associated with these options and the expected value to them of the performance improvement resulting from their use in a specific context. The costs and returns associated with exit and voice will in turn be influenced by the degree of market failure underlying the services in question.

Exit and voice can be expected to impact accountability both directly and indirectly. The contestability effect of some of the exit and voice mechanisms can have a direct effect on the behavior of service

providers. Through their impact on HC mechanisms, they can also have an indirect and positive effect on the same set of agents by keeping them "in line". The nature and extent of this impact will depend on the relative bargaining power of the multiple stakeholders vis-a-vis the agents involved.

The factors that influence the potential for exit and voice in the context of different public services are several. The key characteristics on the exit side are the presence of economies of scale (monopoly), legal barriers to entry, and spatial barriers to exit. Voice potential is determined by legal, informational and institutional barriers, the public's level of income and education (and hence political power), the relative importance of the service to the public, and service differentiability. Some of these are natural barriers and characteristics whereas others are artificial or policy induced. Economies of scale, spatial barriers, the relative importance of services, and differentiability are natural factors. Legal, informational and institutional barriers, and income and education characteristics (to a large extent), are policy induced factors. Public services can be categorized in terms of the exit and voice potential they afford the public by reference to these barriers and characteristics. An analysis of the features and barriers of public services and of the publics involved can be used to predict the potential for the use of exit and voice in specific service contexts. This analysis along with the knowledge of the extent to which such features/barriers are natural or policy induced provide a basis for the design of new mechanisms for public accountability and improved service performance.

A useful approach to the improvement of accountability is to devise ways and means to overcome these barriers or to minimize the adverse effects of these characteristics. Clearly, natural factors are more difficult to overcome than those induced by policy. Exit and voice potential can therefore be more easily realized by first eliminating the policy induced barriers. Minimizing the adverse effects of natural barriers will call for more time, effort and resources. Judged by these criteria, services characterized by weak voice and low exit will be the most difficult to deal with. Natural factors play a dominant role in causing this combination of exit and voice. The implications of this analysis can be seen in the menu of options for improving accountability for services that fall under the different combinations of exit and voice potential discussed in Section IV. A menu of options that fits the problems of the different exit-voice combinations is a more useful approach to the improvement of public service accountability than one that offers a standard answer for all situations. The set of propositions summarized below can be a guide to the choice of options:

1. When a public service is characterized by limited exit and voice potential for a population that comprises the poor (often rural or isolated groups of people), improved accountability is achieved more effectively through the use of voice than of exit.
2. When there is limited exit potential for the public in the context of a service and the public consists of the poor and the non-poor, voice is the primary means to improve public accountability.
3. Voice is strengthened through the medium of external intervention

under the conditions described in (1) above, whereas the use of voice occurs through the public's own initiative under the conditions described in (2) above.

4. When a service offers exit potential, but the public is low on voice potential, exit is a more effective means to augment accountability than voice.

5. When a service is characterized by "product involvement" and offers potential for both exit and voice, accountability is augmented through a combination of exit and voice mechanisms.

6. Sustained accountability for a public service is achieved through the use of HC (organizational monitoring and incentives) only when reinforced by the use of exit or voice mechanisms.

The phenomenon of capture is an important barrier to the improvement of accountability in developing countries. Capture, along with government monopoly of many public services, the limited capacity of the public to demand and monitor good performance, and the problems in measuring and quantifying the benefits of services, make the improvement of public service accountability an especially complex and difficult undertaking.

What can be done to enhance public service accountability in developing countries in the medium term? First of all, even when the phenomenon of capture or other problems severely limit the scope for significant reform, there is a case for mobilizing public opinion for change

through the dissemination of information on the performance of public services. Public surveys of client satisfaction, public evaluations of service providers, comparative analysis of performance indicators within countries and across countries can be used to lay the foundation for a ground swell in favor of reform. The Tamil Nadu example of the origin of a nutrition program referred to earlier illustrates how influential information could be in changing public opinion and policy makers' perspectives. This is certainly an area in which the World Bank and other international donors can play a catalytic role.

Second, there is a need to correct the imbalance that has developed among the stakeholders of public services. In many developing countries, the mandates and behavior of service providers are dominated by their own preferences or the priorities of their supervisors and influential elite groups. The weakest stakeholder is the public or its segments who do not have an adequate "voice" for the reasons discussed in this paper. It is important to examine the kinds of exit and voice mechanisms that can be mustered to correct this imbalance. Since the costs and benefits of the different options tend to vary a great deal, there is merit in assessing the experiences of different countries in this regard. Innovations in the design of improved accountability systems must be informed by the international evidence on the ground.

Third, the HC mechanisms being used by service providers (monitoring and incentive systems) must be checked for their compatibility with the expectations of the stakeholders and the trade offs that have been worked out between them. The spectrum of performance dimensions (inputs,

access and quality) discussed in the paper provides a useful basis for this check. If, for example, quality or access attributes are missing, and incentives are not in place to motivate service providers to pursue these dimensions of performance, the corrective action required is to deploy exit or voice mechanisms or a combination of the two so as to get the service providers to be more responsive or accountable to the stakeholders. In developing countries where poverty reduction is a major goal, correcting the imbalance among stakeholders in favor of the poor and towards access and quality as performance dimensions merit special attention.