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How to move forward on governance and corruption

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'Poor governance is not a result of ignorance, but rather of the ways in which power is allocated in society.'

We know that good governance matters for development. It is clear that corruption holds development back. As general propositions, both are straightforward. What is much more challenging is to specify which aspects of governance matter most, and to find effective ways of tackling poor governance and corruption. I propose that the aid community needs to be more open-minded and to think harder about what works, rather than prescribing standard formulas. A rapid review of the things we understand and the things we don't suggests five ways of moving forward.

In overall terms, we know that improving governance is required for sustained development. Kaufmann and Kraay of the World Bank have shown through cross-country analysis that the dominant causality is from improved governance to rising incomes, rather than the other way round. This has also been indicated by studies of the quality of institutions and growth by leading academic economists such as Dani Rodrik at Harvard University.

With regard to corruption specifically, we know that high levels of corruption worsen the prospects for development (Meon and Sekkat 2005). However, we are also learning to regard corruption more as an intermediate outcome than as a primary cause. Underlying political and social structures, incentives, and possibly also norms, explain why corruption emerges and is persistent. These affect investment and economic growth.

Research also suggests that aid is better used and more effective in better governed countries. This logic has come to be widely accepted in aid policy, and there are a number of attempts to translate it into practice (e.g. aid allocations based on the Country Policy and Institutional Assessment (CPIA); the US's Millennium Challenge Account). We need to give aid both to better and worse performers (because many of the poorest live in the latter); but there is a rationale for using additional aid more consistently to provide incentives for governance improvements.

While we broadly know that governance is crucial, Rodrik and others remind us that we know less about what institutional aspects really matter; and at which steps on the development ladder they do. Vietnam and China are very prominent examples in this regard: they are formally (still) communist, and neither country has secure property rights or an established rule of law. Regarding the ease of doing business (licensing and taxation), Vietnam ranks worse than Malawi or Kenya.[1] Yet both China and Vietnam have seen substantial foreign and domestic investment and economic growth over many years.

Moreover, China and Vietnam have not only experienced growth but also have established a relatively inclusive network of social services, as has Bangladesh, which has consistently ranked at the bottom of Transparency International's indices on corruption. Thus, in some countries, corruption has emerged and become rather widespread without becoming an insurmountable obstacle to growth and development (although it may still be costly and increase unfairness).

This has led to the proposition that what we need to focus on is 'good enough' rather than 'all out' good governance. Donor agencies may be operating with an overly idealistic and demanding vision of governance. At the same time, on the ground, donors often avoid conflict with governments even if governance is worsening, until problems hit international headlines (as recently happened in Ethiopia and Uganda). Hence, we need a greater emphasis on operationalising 'good enough governance', and on translating it into aid policy and actual practice. The UK Department for International Development (DFID) has begun to do so by emphasising the 'direction of travel' (i.e. trends in governance and corruption) and it has placed governance advisers in many country offices.

Moreover, poor governance is not a result of ignorance, but rather of the ways in which power is allocated in society. Donors are beginning to develop a greater understanding of how political factors hold back change (DFID's Drivers of Change studies; Sida's (Swedish International Development Agency) power analyses). We know yet too little about when, why and how interest alignment against change can turn into interest alignment for progressive change. Moreover, donors still need to learn how to translate greater understanding into practical engagement with politics – and to do so without being driven by the foreign policy agendas of their home countries.

Importantly, we are learning to pay more attention to regional and global factors. In an interdependent world, governance is not driven exclusively by domestic factors, but is subject also to regional and global influences. Regional competition can stimulate efforts to improve governance – and this is a driver which has been much stronger in Asia than in Africa. At the same time, globalisation opens up many opportunities for reaping and protecting the benefits from corruption and 'grand theft' – drugs, diamonds, oil, and metals can be sold at high prices on world markets; and where accountability is low, the receipts can be appropriated by the few and channelled into bank accounts outside the country of origin. Changes at the international level are needed to narrow such opportunities.

A further key issue is whether (high levels of) aid can negatively affect governance by fuelling rent-seeking and corruption. Paul Collier from Oxford University has argued that these potential negative effects of aid can be mitigated if sufficient scrutiny and checks and balances to constrain governments are in place. However, these are precisely lacking in many countries, and greater support needs to go towards building such effective mechanisms for scrutiny and monitoring of results in recipient countries.

Finally, we need to think harder about donor interventions to improve governance – also in the light of our limited knowledge of what kinds of change matter most. We know that anti-corruption efforts have frequently been ineffective. For example, Georgia, Tanzania, and Zambia are focal points for DFID efforts at anti-corruption; but in the former two, not much has changed over the past six years, while the situation in Zambia appears to have worsened.[2]

Anti-corruption interventions are complex: they can be abused politically (to persecute the opposition); may focus on legal and institutional changes but not on substance/implementation; can generate (even greater) public cynicism if they are perceived as not working; and can backfire against politicians who used anti-corruption as a political platform but then are unable to live up to the standards previously demanded (e.g. Kenya since the 2002 election of the Kibaki government).

Levels of perceived corruption

	Georgia	Tanzania	Zambia
2000	..	2.5	3.4
2001	..	2.2	2.6
2002	2.4	2.7	2.6
2003	1.8	2.5	2.5
2004	2.0	2.8	2.6
2005	2.3	2.9	2.6

Transparency International; ratings from 0 (completely corrupt) to 10 (completely free of corruption)

In summary, there are five implications for aid policy and practice:

- Set greater and more transparent incentives for countries to improve governance, stimulating regional competition.
- Focus on the political and social factors underlying corruption, and learn how to engage with these.
- Make sure that aid (in whatever form it is provided) does not fuel corruption; seek to develop more holistic approaches to accounting, monitoring, and auditing which are mutually owned by aid recipients and donors, with a focus on results.
- Seek to understand better what governance improvements countries really need to make the next step in their development; based on 'principled pragmatism' and an awareness that a variety of institutional patterns can work.
- Evaluate more rigorously 'what works' with regard to donor-supported governance reforms, and whether these really have the expected impact on economic growth and service delivery.

Reference

Meon, P-G., and Sekkat, K. (2005) Does Corruption Grease or Sand the Wheels of Growth? Public Choice 122 (1-2).

Notes

1. International Finance Corporation and World Bank, Doing Business 2006 survey.

2. The CPI is based on perceptions rather than 'objective' data, so results should be interpreted with care.

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