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Hans Peter Repnik and Ralf-Matthias Mohs*

“Good Governance”, Democracy and Development Paradigms

“Good governance” has become a central term in the international discussion on development co-operation. What is actually meant by “good governance”? By which yardstick can it be measured? How is governance related to development, political participation and democracy? What implications does this have for bilateral and multilateral donors?

The structural crisis which hit the developing countries in the eighties was a graphic demonstration of the fact that traditional project assistance had been unable to give any real sustainable impulse to a self-sustaining and equitable development process, as long as recipient countries' policies did not provide the necessary framework conditions. Both multilateral and bilateral donors therefore shifted the emphasis of their development co-operation to programme assistance. Experiences so far have been undeniably positive, but at the same time have led to an increase in down-to-earth attitudes in contrast to the more optimistic assumptions of earlier development models.

An example of this is sub-Saharan Africa. Between 1988 and 1990, bilateral and multilateral donors mobilized a total of approaching US\$ 13 billion under the Special Programme of Assistance (SPA), to provide support for economic reforms by means of quick disbursing balance of payments assistance. At first sight the results are encouraging:

- ☐ average economic growth in those countries participating in the programme has picked up, rising to 4.3%, thus surpassing population growth for the first time in a decade;
- ☐ annual growth in export production of 5.2% testifies to the increased international competitiveness of countries involved in reform;
- ☐ investment growth of 6% in real terms has opened up the prospect of increased employment and a reduction in external dependency.

The translation of these externally financed growth impulses into development sustained by the momentum of the African national economies has, however, not yet been secured. It is, for example, becoming increasingly clear that the increase in the investment rate in the countries in question is still primarily fuelled by the inflow of external resources – and that a market-friendly economic environment, although unquestionably a necessary condition for development, is not the complete answer.

Core Responsibilities of Governments

The in many respects fruitful thought this provoked led to development being defined more broadly within the discussion on governance. During this discussion a fundamental revision of thought on the problems at the very heart of international development and the measures required to overcome these problems took place. “Good governance” has become *the* word in international discussion on new concepts of and approaches to development co-operation, not only amongst donors but also on the part of the developing countries themselves.

“Democracy and human rights are of fundamental significance for development” and “good governance is basic to the economic and social progress of all countries”: these statements are not the new development creed of Western donor countries. The first statement comes from the Memorandum to the Stockholm Initiative on “Joint Responsibility in the Nineties” which was signed *inter alia* by President Aylwin of Chile, the Zimbabwean Minister of Finance, Chidzero, the former President of Tanzania, Nyerere, and Salim Salim, Secretary General of the Organisation for African Unity. The second statement is to be found in the Action Programme which was adopted in

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Paris by the "Second United Nations Conference on Least Developed Countries" in September 1990.

Before this new international consensus can be translated into development practice, answers will have to be found to the following three questions:

- ☐ What is actually meant by "governance" and, more particularly, "good governance"? By what yardstick can "governance" be measured?
- ☐ How significant is the "how" of governance for the development process and what implications does this have for bilateral or multilateral donors?
- ☐ Above all, how is governance related to development, political participation and democracy?

In a very general sense, governance is the exercise of authority, control, management and power by the government; but what is *good* governance? An answer to this question may be derived from consideration of the core responsibilities of the state. Good governance can, in this sense, be measured according to the extent to which a government fulfils these, its core responsibilities.

The collapse of the totalitarian states in Eastern Europe, the evident failure of the planned economy as an economic system and the unquestionable successes of the social market economy all teach the very clear lesson that these core responsibilities should be kept as few as possible.

Applied to the ultimate goal of development policy, to improve the welfare of people in developing countries, two core responsibilities of the state emerge from the principle of subsidiarity. The first consists in laying down rules and ensuring observance of these rules, so that the markets, in which individuals and groups of individuals meet, can work efficiently. Not all areas of economic and social development can, however, be controlled via the market. A second core duty which falls to the state is therefore to intervene with corrective measures in areas where the market fails. Here we think particularly of public goods and merit goods. Examples include the provision of state services, particularly for the poorer sections of society, in the areas of education and health, as well as the basic tasks of the state with regard to the establishment and maintenance of physical and social infrastructure.

"Instrumental Demands"

In order for state activity to reach these goals efficiently and thus merit the label "good", current discussion on development policy demands the following of state activity:

- ☐ Governments should be accountable.
- ☐ Transparency should be a feature of government activity. Essential to attaining this is the availability of information which would allow an assessment to be made of government activity. This includes information on direct action on the part of the state, but also the publication of general economic and social data required by individuals wishing to plan their own activities rationally.
- ☐ Governments should establish and enforce a stable legal and economic framework which ensures the predictability of state and individual action within this framework and which is conducive to private initiative.
- ☐ Governments' own activities and programmes should be geared towards improving the well-being of the poor and should leave self-help organisations and non-governmental organisations sufficient room to manoeuvre.

Accountability means first and foremost that public servants and others holding public office can be held accountable for their actions. This is essential if the development aims officially pursued by the state are to be realised in actual state activity. Without accountability there is no guarantee that scarce public funds will be used in an efficient manner in the pursuance of macro-economic and social objectives. What is more, without the possibility of calling governments and public servants to account, the risk of corruption and misappropriation of public money increases dramatically – a danger to which obviously not only the developing countries are exposed.

The accountability of governments can only really become effective in practice if the information needed for an assessment of state performance is freely available. This is true both with respect to transparency in state activity and to the provision of social and economic data.

To guarantee a climate conducive to the promotion of private initiative it is not, however, sufficient simply to make reliable data of this type available. Rational assessment of economic chances and risks also demands stable and predictable framework conditions; people do not invest in a climate of unstable rules and incentives.

A climate conducive to investment therefore requires certainty of law. The primary requirement for the existence of certainty of law is an independent and competent judiciary, in order to protect property and enforce treaties and agreements effectively. Certainty of law also means that known and recognised procedures exist, whereby the legislative framework itself can be adjusted to the changing needs of the future.

Certainty of law is not the only requirement, however,

there is also a need for certainty in economic planning, based on balanced and stable economic development. An unstable, unpredictable legal framework increases the cost of business transactions just as much as does an imbalanced economic framework characterised by fiscal deficit and inflation. In addition, there is broad consensus now that this framework has to be "market-friendly" and conducive to private initiative.

The promotion of economic and social development through the establishment of an appropriate framework and through proper targeting of public expenditure towards the long-term development needs of the poor, obviously forms only a part of the duties of the state. Similarly, the demands on the state which follow from this form only part of the demands which should be made of good governance. They are "instrumental demands" in terms of service to the final goals of development.

Yet, economic and social development are not the only final goals to which state activity should primarily be geared. Good governance should not therefore only be measured "instrumentally" by the contribution a government makes to the attainment of economic and social objectives. The actions of the state must also be geared to ensuring that the human rights of each individual citizen are safeguarded. These include not only the right to personal safety and integrity, but also and most particularly the basic political rights and liberties, such as freedom of speech and freedom of association. Good governance is inconceivable, taking the idea further, unless those in power make that power available to others at regular intervals, in order to receive legitimacy through the electoral process. Political participation by the governed in the political decision process, in a word, democracy, is an essential precondition for good governance.

Is democracy then also a precondition of successful economic and social development? Finding an answer to this question is central to bilateral and particularly to multilateral co-operation in development.

Criteria for Aid Allocations

There is broad consensus that the five "instrumental" demands outlined above are essential if state activity is to be efficient in the pursuance of development goals. They are therefore also basic requirements for successful development co-operation. This consensus is present not only amongst bilateral donors and multilateral development organisations but is also shared by a large majority of the developing countries themselves. This being the case, the volume and structure of international development co-operation will, increasingly, be linked to

the degree to which these conditions are met in the individual developing countries. It will also be necessary under technical co-operation to support developing countries in the establishment of accountable, transparent and responsible government institutions.

There is also unanimity that respect for individual human rights such as physical integrity and freedom from torture is a moral imperative. In its capacity as bilateral donor, the German government has already taken action on this point, by establishing respect for human rights, political participation and the "instrumental" requirements for good governance as criteria to be applied in decisions on the amount and structure of development aid. Granting aid will be conditional in particular on

- ☐ respect for human rights,
- ☐ popular participation in the political process,
- ☐ guaranteeing certainty in law,
- ☐ a "market-friendly" approach to economic development, and
- ☐ the orientation of state activity towards improving the welfare of the poor.

The last criterion means in particular: structuring public expenditure towards achieving this objective. This will in many cases not be possible without a reduction in excessive spending on armaments. The military expenditure of a recipient country is therefore being considered explicitly in this context.

Yet, applying these criteria does not imply that where they are not being met all development aid to the country in question will be cut off automatically. The application of these criteria has, therefore, an essential bearing not only on the volume, but also on the structure of German aid. The principle which comes into play here is that the poor of a country, living in affliction under an oppressive regime, should not be punished twice over. The more humane and developmentally appropriate response would rather be to make a distinct reduction in the degree of co-operation with state institutions, whilst at the same time carrying on programmes of assistance at grass-roots level, in particular in co-operation with non-governmental organisations.

There is now a widely shared consensus among bilateral donors that these criteria will be the guiding principles for aid allocations in the 1990s. Rather more controversial is the question of the extent to which aspects of good governance, over and above the instrumental demands, in particular human rights and democracy, should be included in the development dialogue within multilateral organisations and between them and recipient

countries. Numerous members of multilateral organisations from developing countries have already expressed their distaste for such a dialogue. They refer amongst other things to their own national sovereignty, the importance of cultural aspects, the limited mandates of international organisations, and the need, in the interests of efficient multilateral co-operation, to distinguish clearly between "ideological" and "technical" questions.

Cultural Differences

Terror and torture at the hands of the state cannot be dropped from the international agenda at the first mention of national sovereignty. Other objections do, of course, demand to be taken seriously, but should not be spared critical examination.

References to the importance of cultural differences carry particular weight here. They may also be of direct relevance to the requirements for good governance

discussed above. "Modern" systems of political organisation are often only a surface layer below which are the "traditional" systems of social order. This can often lead, as in sub-Saharan Africa in particular, to the coexistence of two value systems or sets of norms. Modern legislative mechanisms, such as codified laws, treaties and attested property rights, exist side by side with ideas of "consensus", "common property" and "reciprocity". Many of the members of this type of social system see their obligations to the traditional organisational units, such as the tribe or the extended family, as having precedence over the demands of the modern state – and will interpret the instrumental demands of good governance accordingly.

Such cultural aspects are without doubt important in the context of development co-operation in practice and must be taken into consideration in the planning and design of any project. They must not however be allowed to act as a pretext for corruption and bad management! Respect for

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Spezialuntersuchung im Rahmen der
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In what direction and with what speed does structural change take place in a highly developed economy which is strongly integrated into the international division of labour such as that of the Federal Republic of Germany? What is the pattern of structural change in other industrial countries? What evidence is there to back up the opinion that "structural" causes are mainly responsible for misdevelopments such as high unemployment and the slowing-down of productivity growth? Answers are given to these questions in the latest special analysis produced by the HWWA-Institute within the framework of its "Structural Report" to the Federal Ministry of Economics, Bonn. (Only available in German.)

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cultural differences does not alter the fact that the requirements of good governance discussed above are crucial to successful development co-operation, and that is accepted by multilateral organisations too.

Yet, cultural differences are not only referred to in arguments against insisting on the instrumental criteria for good governance, but above all in arguments against using political participation as a criterion for allocating aid. However, the call from bilateral donors for increased political participation in countries receiving development assistance is not tied to any one particular constitutional model. It is, though, considered important for those in power to submit themselves to the electoral procedure at regular intervals and for the voters to be given a real choice of alternatives.

Mandate of Multilateral Organisations

The consideration of the issue of political participation in the context of multilateral organisations is challenged by critics not only on the grounds of cultural differences, but also with the argument that this stands in contradiction to the mandate of multilateral organisations, that is, the commitment to promoting economic and social development. This position would only be tenable, however, were the attainment of economic and social development in reality in all circumstances independent of the concrete form of political system. One must therefore pose the critical question whether the "instrumental" criteria for good governance, as posited at the outset, are themselves independent of human rights and democracy, in particular

☐ whether they are sufficient to promote a sustainable process of economic and social development: can, for instance, a legislative framework conducive to development, transparency of government activity and certainty of law maintain a stimulant effect on the activities of individuals on a long-term basis, regardless of how the legislative framework has been created?

☐ whether the instrumental criteria of good governance will be established and observed independently of the kind of political system: can, for instance, the orientation of public expenditure towards improving the situation of the poor be ascertained without popular participation in decision-making?

There are serious reasons for a rather sceptical response to the first question. A stable economic and legislative environment conducive to development will only lead to private investment if the private investors can also have confidence that this set of parameters will remain valid in the future. The political legitimisation of those in power through a democratic process appears to be an

essential requirement for this confidence to arise, as experience in the area of structural adjustment policy in African countries already cited above suggests.

Critics who speak out in multilateral fora against the inclusion of this type of question in the multilateral dialogue on development policy call on the examples of economic success achieved under authoritarian regimes in countries like the Republic of Korea and Chile. The point is undoubtedly correct in so far as one can find examples of authoritarian regimes where, despite the lack of political participation, remarkable success has been achieved in the economic sphere. Yet, in most cases economic growth without democracy has finally led to the eruption of social tensions, as the poor have participated only insufficiently in this process. Neither would anyone refute the fact that there are examples of democratic regimes whose policies have failed to bring the hoped-for economic and social success. Obviously, democracy is essential for demands on good governance such as accountability and transparency, but does not guarantee sound economic policies.

Democracy and Development

Yet, it is not only policies that matter. There should be no dispute that democracy is a human right, and it is on this ground that it is being considered by bilateral donors and the EC as a criterion for allocating aid. Its relevance in the context of a "technical" interpretation of the mandate of the Bretton Woods institutions has, however, not yet firmly been established. Does it have an impact on development, what impact does it have and under which circumstances? Are differences in culture and the level of social and economic development between countries like Korea, Chile and the countries of sub-Saharan Africa of importance for this link?

Empirical research has not yet led to convincing answers to these questions. It may well be, for instance, that specific combinations of factors like moral values ("Confucian ethics"), social structure ("the existence of a middle class with entrepreneurial experience") and the level of economic development, allow "market-friendly" incentives to have the desired impact on economic activity, irrespective of the manner in which these incentives acquire political legitimisation. This would explain the economic success of countries like the Republic of Korea and Chile under authoritarian regimes. Similarly, the absence of this combination of parameters may explain the fragility of the success of reforms in sub-Saharan Africa which are limited to the economic sphere. In the latter case political participation and democracy may be essential prerequisites for the development of a broad

broad entrepreneurial middle class, and for policies which focus on human capital formation – and thus turn out to be not only human rights, but “instrumental” requirements for development as well, which would also fall within the mandate of multilateral organisations!

Statistical evidence for the existence of such a link at the aggregate level was given in recent publications by the World Bank and the United Nations Development Programme. The UNDP's Human Development Report 1991, for example, has drawn up for a large number of countries a Human Freedom Index and a Human Development Index. Quite apart from the problems of method involved in drawing up this type of index and of measuring and weighting the variables recorded, the result is interesting in that a clear link emerges between the Human Freedom Index and the Human Development Index. In other words, countries in which human liberties are largely respected, showed above-average success in the area of social development.

As discussed above, establishing a statistical link through “cross-country” analysis between the two indexes is not the same as saying there is a causal relation between the two. So, on the one hand it would be plausible to assume that extensive investment in human capital, particularly in education and health care, would establish the basis for political participation and thus the end of authoritarian regimes. It would, however, be equally plausible on the other hand to argue that open, participatory systems of government are absolutely essential if investment in people is to be given the proper status in the overall context of state expenditure.

It is, however, important to note here that there is, equally at the macro level, an additional link between one of the non-instrumental aspects of good governance, political freedom, and social development. Evidence for this is given in the World Bank's World Development Report 1991. Drawing an international comparison, the report states that there is a clear link between one of the most important components of social development, the level of education, and political and civil liberties. The level of education itself, again, proved a key factor in explaining international differences in labour productivity and economic growth.

These results underline the fact that there *is* a link between democracy, investment in human capital and economic growth, notwithstanding the relevance of the country-specific variables, discussed above, to the actual significance of this link. Democracy thus justifiably constitutes an integral part of the development paradigm in the 1990s. The demand of donor countries for good governance and more democracy in the recipient

countries should therefore in no way be seen as the expression of an ideological offensive launched by Western donors or as a pretext for the reduction of development assistance. This call is rather the expression of an endeavour to see the solidarity with those who suffer in poverty translated into action through efficient aid programmes. This is the only way to ensure that development aid benefits those who really need it and, by investing in people and establishing the right environment, to enhance the potential of those living in developing countries to help themselves.

A New Vision

Good governance in developing countries will, however, only lead to success if the industrialised nations are also prepared to support the reforms developing countries make to this end. An increase in development co-operation is certainly necessary but by no means the complete solution.

The gradual integration into the world economy of the economies of Eastern Europe reformed along market lines, economic recovery in developing countries on the basis of economic and political reforms, the growing pressure of population growth in developing countries and the global threat to the natural environment will add further to the integration and mutual dependency between North and South.

History tells us that in politics there must be visions. Without an eye on the long term it would have been impossible to overcome the division of Germany and Europe. The integration of Europe must become the basis for a new vision which combines global thinking and global action in one and sets the reduction of the gap between North and South as the central challenge for the future. For here too there is a painful division which must be overcome.

To come to grips with this historic task, *all* political decisions made in industrial countries must increasingly be consistent with the programmes and objectives of development policy; a demand which is also gaining ground within the discussions of donor countries in the OECD. The coherence of the industrial countries' policies will have to stand up to the test of whether they enable developing countries to participate actively in the worldwide exchange of goods, services and investments and reduce their dependency on help from outside. The liberalisation of agricultural trade, the reduction of protectionism and barriers to trade as well as a successful conclusion of the Uruguay Round are all of crucial importance here. At the same time they are a critical test of our ability and indeed our will to both think and act globally.