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## Defining good governance: The conceptual competition is on

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**Defining Good Governance —  
The Conceptual Competition is On**

Best.-Nr. P 2004-005

**Wissenschaftszentrum Berlin  
für Sozialforschung (WZB)**

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Beim Präsidenten  
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## **Zusammenfassung**

### **DEFINING GOOD GOVERNANCE - The Conceptual Competition is On**

Das Konzept der Good Governance bestimmt mittlerweile große Teile der bilateralen und multilateralen Entwicklungshilfe. Gelegentlich mutiert es zu einem reinen Machtinstrument einzelner Geberländer und -Institutionen, wenn seine Inhalte und Maßstäbe nicht benannt und offengelegt werden. Good Governance ist aber auch ein Konzept zur Effektivierung der nationalen Entwicklungsstrategie.

Das UN-Committee for Development Policy (CDP) befasste sich auf seiner sechsten Sitzung vom 29. März bis 2. April 2004 unter anderem mit der Frage, welche Bedeutung diesem Konzept für die zukünftige Entwicklungspolitik und die Verwirklichung der Millenniumsziele zukommen kann. Unterschiedliche Konkretisierungen sind möglich. Wir dokumentieren den unter Federführung von CDP-Mitglied Udo E. Simonis (WZB) entstandenen Bericht über die Beratungen des Komitees.

## **I. INTRODUCTION**

Since the early 1990s, the notion of "good governance" as necessary for sustainable development and poverty reduction has gained widespread currency, especially among international organizations.

Domestic concerns over what would later be labeled "good governance" had long been present in all regions of the world. However, during the Cold War, they were not accorded much importance in donor-recipient relationships. What helped put good governance at the front of the international agenda was a conjunction of several factors, principally the end of the Cold War, a feeling that market-based policies of structural adjustment had failed to solve the economic problems of many countries and concern that aid was often ineffective in achieving its objectives. Bad policies and bad governance in recipient countries were considered largely responsible for these failures. Indeed, good governance became a conditionality for development assistance from donor agencies.

Good governance is meanwhile specified as one of the targets of the Millennium Development Goals (MDGs), an agenda for reducing poverty and sustainable development that world leaders agreed on at the Millennium Summit in September 2000. Now, at the Sixth Session of the Committee on Development Policy (CDP), commitment to good governance and how to enhance progress is one of the themes on the discussion agenda.

In this paper, the concept, measurement and criteria of good governance will be presented, examples given on how the concept can be operationalized, and lessons drawn for good governance for sustainable development and poverty reduction. The competition on concepts is on.

## **II. THE CONCEPT OF GOOD GOVERNANCE**

Governance has been variously defined as the management of society by the people, or as the exercise of authority to manage a country's affairs and resources. It has to be noted, however, that there has hardly been a consensus as to its core meaning, and as to how it could be applied in

practice. The term does not yet possess a standard meaning<sup>1</sup> Nor has its meaning remained constant in the decade or so of its being accorded a central place in donor frameworks for development.

The lack of specificity in the meaning of the term "governance" becomes apparent when we examine its historical evolution. The concept achieved prominence in donor discourse around 1990, after the end of the Cold War. The World Bank was the first major donor institution to adopt the concept of good governance as a condition for lending to developing countries<sup>2</sup>.

In the beginning, the focus was rather apolitical and on the improvement in the quality of public sector management. By the mid-1990s, international donors' conceptions of good governance had expanded to include the notions of transparency, accountability, and participation. In addition, a new dimension was stipulated, namely, predictability. This last element was introduced in light of the financial crises in the latter part of the 1990s, which led to a call for improvements in corporate governance and stability of international financial markets<sup>3</sup>.

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<sup>1</sup> Presently, there are two distinct streams of discourse on good governance: donor and academic. Academic discourse has dealt mainly with the way in which power and authority relations are structured in different contexts, whereas donor directed discourse has focused more on state structures designed to ensure accountability, due processes of law, and related safeguards. Academic discourse is directed mainly towards better understanding of institutional linkages between the state, civil society and the private sector; donor-driven discourse is oriented towards enhancing policy effectiveness.

<sup>2</sup> Policy quality is measured by the World Bank through a Country Policy and Institutional Assessment (CPIA) which is based upon staff assessments.

<sup>3</sup> There are currently three domains at which good governance is addressed: The first is the national and covers all of the standard elements of a political, economic and administrative nature. The second is the global and refers to all of those elements introduced by the process of globalization, including the regulation of global public goods and economic stability in capital flows. The third is directed at the corporate community.

The recent rise of corporate social responsibility or good corporate governance in some developed countries reflects continuous interaction of non-market based institutions and the private sector in the economic setting of scarcity. The initiatives taken by the World Business Council for Sustainable Development (WBCSD) and others, adapting the codes of conduct in the field of global environmental problems are examples in this instance.

The concept of corporate social responsibility thus can be interpreted as an attempt to transcend social dilemmas, which arise when choices made by profit-maximizing firms yield outcomes that are socially undesirable, or as an attempt to reconcile the private sector's profit maximization motives and the public interest.

In the future, therefore, new elements could be added (and old ones dropped?) from the definition of good governance. Given current conceptions, however, we ask: What can be said to be the key defining properties of the concept? At least three major features can be identified.

First, good governance is predicated upon mutually supportive and cooperative relationships between government, civil society, and the private sector. The nature of relationships among these three groups of actors, and the need to strengthen viable mechanisms to facilitate interactions, assume critical importance.

Second, good governance is defined as possession of all, or some combination of, the following elements: participation, transparency of decision-making, accountability, rule of law, predictability.

Third, good governance is normative in conception. The values that provide the underpinning for governance are the values postulated by the defining actors and institutions.

This last point deserves special consideration. If donor-conceptualized standards of good governance were insisted upon, it would imply an insistence that Western-derived standards of conduct be adopted in non-Western politico-cultural contexts. Scholars have also raised the problem of possible contradictions and trade-offs among the elements, for instance, economic growth, labor conditions, civil liberties, and the protection of the environment.

It is the view of the CDP to ensure that the standards of good governance applied on the national, global and corporate domains would serve the goals of poverty reduction and sustainable development. As the main actor in the process of defining and implementing those goals is still to be the nation state, our further analysis will focus on this level.

### **III. MEASURING GOOD GOVERNANCE FOR POVERTY REDUCTION AND SUSTAINABLE DEVELOPMENT**

What to measure, as well as which indicators to select, are based on certain analytical frameworks. These frameworks are normative in character. This gives rise to a situation where the same indicator may have divergent interpretations depending on which value judgments are utilized.

This begs the question, "Good governance for what?" For instance, "Governance for poverty reduction," "Governance for economic efficiency," "Governance for sustainability", etc. Thus, different sets of indicators are used to measure governance, depending on the nature of the ends in question.

The CDP has analyzed practices of measurement of good governance and can refer to some useful examples where the goals of social equality, reduction of poverty, and sustainable development had been properly implemented in the construction of questionnaires and self-assessment methodologies. Analysis of these examples could be indicative for further development of the measurement procedure.

Three examples of good governance concepts will be presented below.

#### **(a) The UNECA Concept**

The objective of this project, undertaken by the United Nations Economic Commission for Africa (UNECA), is to monitor the progress of African states towards good governance. The sample consists of 28 countries in the five sub-regions of Africa. At the present time, while the methodology and data collection instruments have been developed, the fieldwork is still in progress.

Six components of good governance are identified:

- A political system that encourages input from all groups of civil society.



- Impartial and credible electoral administration, and an informed and active citizenry.
- Strengthened public sector legislative and administrative institutions.
- Transparency, predictability, and accountability in decisions by government.
- Public sector management with stable macroeconomic conditions, effective resource mobilization, and efficient use of public resources.
- Adherence to the rule of law in a manner that protects personal and civil liberties and gender equity, and ensures public safety and security with equal access to justice for all.

Three survey instruments are being used. The first instrument seeks the opinion from an expert panel on issues pertaining to governance. The expert panel consists of at least 100 persons, including: academics, lawyers, business leaders, representatives of civil society organizations, and religious leaders. The second instrument measures the perception of the adult population, represented by heads of household or senior members in a household. The third instrument is to collect factual information and empirical data. The three instruments yield data on 83 indicators.

Intended project outputs include Country Reports, Sub-Regional Reports, and an all Africa Governance Report.

### **(b) The ADB Concept**

In 2001-2002, the Poverty Task Force of the Asian Development Bank (ADB) has produced a proposal intended to serve as an input for the implementation of the Comprehensive Poverty Reduction and Growth Strategy of the Government of Vietnam.

Five key areas of governance are identified for improvement: a more efficient public service; more transparent public financial management; wider access to justice and ensuring universal application; more participative and responsive government; and a government that fights corruption at all levels.

Given the five parameters specified by the report, the Poverty Task Force proposes eight core indicators:

- Make information publicly available regarding services, policies and planning arrangements at all levels.
- Extent of access of the poor to basic government services such as health, education, infrastructure, water and power at the local level.
- Level of budget transparency regarding provincial and local taxation, budgeting, and spending patterns in each sector.
- Extent to which, at the national level, the level of expenditure that is targeted to pro-poor purposes is predictable from year to year.
- Extent to which the decisions and verdicts of courts and tribunals are publicly available.
- Extent to which local government is responsive and follows up on service delivery problems that are raised with them by the poor.
- Extent to which the Grass Roots Democracy Decree has been implemented in each commune so as to improve opportunities for public participation.
- Extent to which laws combating corruption are effective.

The Poverty Task Force then proceeds to propose, for each of the preceding core indicators, a number of outcome and process indicators.

### **(c) The APRM Concept**

The African Peer Review Mechanism (APRM) is a mutually agreed instrument voluntarily acceded to by the Member States of the African Union. It is a self-monitoring mechanism intended to foster the adoption of policies, standards and practices that will lead to political stability, sustainable development and regional and continental integration through sharing of experiences and of successful best practices, including identifying deficiencies and assessing the needs for capacity building.

The APRM is open to all member states of the African Union of which 16 members have voluntarily acceded at present. Other countries have indicated their intention to join.

The main principles of the APRM processes are the following: national ownership and leadership, transparency and broad based participation.

A questionnaire has been developed for each of the four areas of the APRM, with specific objectives, standards and codes, criteria and indicators in terms of which the programmes and policies of the participating countries will be assessed. The main components of the questionnaire may be summarized as follows:

#### **Political Governance (6 objectives)**

- a) Prevention and reduction of intra- and inter-state conflicts
- b) Constitutional democracy, including free and fair competition for power, and the rule of law
- c) Promotion and protection of economic, social and cultural rights, civil and political rights; and the rights of women, children, and all vulnerable groups
- d) Separation of powers, including the protection of the independence of the judiciary and of a effective legislature
- e) Accountability, and efficiency of public office holders
- f) Fighting political corruption

#### **Economic Governance (4 objectives)**

- a) Macro-economic policies and sustainable development
- b) Sound, transparent and predictable government policies, including public finance management

- c) Fighting corruption
- d) Promoting regional integration

### **Corporate Governance (5 objectives)**

- a) Enabling environment for economic activities
- b) Good corporate citizen, including social responsibility
- c) Good business ethics
- d) Fair treatment of all stakeholders
- e) Accountability of corporate officers and directors

### **Socio-Economic Development (6 objectives)**

- a) Promotion of self-reliance
- b) Sustainable development and poverty eradication
- c) Delivery mechanism and outcomes in key social areas, including education, and combating HIV/AIDS
- d) Affordable access to key social services, water, sanitation, energy, finance, shelter, and land
- e) Progress towards gender equality
- f) Encouragement of broad-base participation in development by all stakeholders

#### IV. DISCUSSION

This paper has reviewed indicators on good governance currently in use or in preparation. The indicators reflect different dimensions of governance. Although there is a broad understanding of the concept, a great deal of variation exists in the specification of objectives and measures.

Scales, indices and weights to measure good governance are used for a variety of purposes: for cross-national comparisons and rankings, but also for tracking the development record of a country. In the former case, the issue is how to develop indicators that are valid and can be reliably measured internationally. In the latter case, indicators are generally custom-tailored to the country context. Validity of measurement is a problem with some of the indices. Reliability is another problem, particularly when numerical scores are assigned to indicators that are based on subjective appraisals.

The concept of good governance could be instrumental for the goals of poverty reduction only if the process of measurement and assessment is not biased in favour of the "external" criteria relevant to the donors, investors and international monitoring bodies, but is instead meaningful from the "internal" perspective of the country, especially regarding the poor.

Relevant indicators from the viewpoint of poverty reduction and enhancement of equality as dimensions of good governance, should include "objective" (e.g. reduction of GINI index, diminishing of the share of absolute and relative poverty, etc.), as well as subjective indicators (e.g. trust in government, access of the poor to public information, etc.). The subjective indicators could also have a qualitative character (e.g. discourses in the media, evaluations made by focus groups or expert panels, etc.).

The task of measurement is not yet completed; much remains to be done. There are a number of separate issues, however, that merit attention, particularly methodological issues and substantive considerations.

## V. CONCLUSIONS AND RECOMMENDATIONS

1. In terms of its application, good governance is first of all a general principle and a prerequisite to any society and economy pursuing to attain the maximum welfare possible to reach with its available amount of resources. Moreover, for developing countries and even more, for least developed countries, good governance may help them to attain the maximum reduction of their current levels of poverty.
2. The CDP has worked with three indicators, the gross national income (GNI), the human assets index (HAI), and the economic vulnerability index (EVI). Good governance is a necessary condition for developing countries to avoid wasting opportunities to increase per capita income and to promote asset creation of their populations.
3. Good governance produces economic efficiency by reducing transaction costs through the operation of the rule of law, transparency in government and corporate management and accountability for every institution and individual in society. Moreover, if democracy is the desired way of organizing society, then good governance also requires participation, accountability, transparency and predictability.
4. Good governance can also be an instrument to reduce developing countries' vulnerability, at least to the extent that their own resources could allow it. Good governance can mobilize civil society so as to increase the rate of human capital accumulation and even to ameliorate the impacts of economic vulnerability, by making investment, population and reallocation policies acceptable and viable.
5. All this indicates that in designing institutions and mechanisms for good governance in developing countries an interactive process between donor and recipient countries is of value. On the one hand, outside impositions from donor countries have often been a failure when they are insensible to the cultural and historical peculiarities of the recipient countries. On the other hand, recipient countries need the assistance from donor countries to bring the characteristics of their institutions and social, political and economic processes closer to those required by good governance.

6. Good governance is a compelling concept, and may get even higher prominence in the future. The concept is firmly established on the international agenda, a debate is in progress on its refinement and applicability. This on-going debate is one in which all countries and relevant stakeholders, and not just a few major players, should take part to ensure that the concept is well defined and applicable.
7. The concept of good governance is still evolving. It is part of a conceptual competition, the debate on concepts, to find answers to serious problems, to further sustainable development and to reduce poverty.
8. Different interpretations can be observed as to the elements of the concept and measurement; diverging interpretations are possible as to its outcomes. However, common views exist as to the necessary components of the concept, particularly the participatory approach of governance, and transparency in governance.
9. The least developed countries should actively participate in the discourse on good governance, and they should develop expertise and capacity for doing so. Good governance should be part of the national policy agenda of these countries, and they should try to make the concept productive and useful for their specific problems, particularly their low income, low human assets, and high vulnerability.
10. The least developed countries should establish a forum to which they may invite development partners. The forum would serve for the exchange of experiences and best practices and for monitoring their progress towards better governance.