

Rethinking Governance to Fight Corruption

This Brief argues that the key to more effective anti-corruption strategies is to think differently about governance. Instead of starting with an OECD model of governance in mind, and assessing the gap between the developing country reality and OECD institutions, policymakers would do better to start with fewer assumptions, and some questions. What are the underlying reasons for poor governance and high levels of corruption in so many poor countries? What do we know about the political processes involved in building more effective and accountable public institutions?

- Perhaps most importantly, there is growing debate about the potential for donor behaviour and the global business environment to contribute to governance problems in poor countries, and an OECD agenda to start addressing this (the Paris Declaration, a range of anti-corruption measures).

Some donors are even talking openly about politics. As the British government's 2006 White Paper puts it: "Politics determines how resources are used and policies are made. And politics determines who benefits. In short, good governance is about good politics." (DFID 2006:23). The same paper tells us that building better governance takes time and has to come from a political process within each country: outsiders cannot impose models. Good governance is about how citizens, leaders, and public institutions relate to each other, to make change happen. However, despite these insights, the White Paper goes on to advance a technocratic and largely conventional agenda for enhancing growth and improving basic services, with barely a nod in the direction of politics.

The focus is still on institutional models, not political process

This failure to connect the rhetoric about politics with an operational agenda to improve governance and fight corruption is widespread. The World Bank's policy paper 'Strengthening World Bank Group Engagement on Governance and Anticorruption' (World Bank 2007) is a case in point. Its aim is stated as being to 'help develop capable and accountable states and institutions that can devise and implement sound policies, provide public services, set the rules governing markets, and combat corruption.' The importance of a 'committed country leadership and coalition of reformers' is recognised, but essentially the strategy for achieving these ambitious objectives is a conventional one of public sector management interventions supplemented by transparency and related reforms, as well as engagement with a wider range of partners: multinationals, the domestic private sector, the financial sector, and civil society. The task is seen as helping to create OECD-style political and market institutions (including a thriving, competitive and responsible private sector). Donor efforts need to be more systematic, consistent, committed and harmonized. But there is no diagnosis of why so many poor countries suffer from bad governance, why sustaining political commitment to reform has often proved so difficult, or what sort of political process might be involved in getting more capable and accountable institutions.

Most governance assessment frameworks used by donors (DFID's country governance analysis; the EU's Political Profiles; the Millennium Challenge Account assessments) still examine governance performance in developing countries taking OECD models of market capitalism



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A more sophisticated debate is taking place

First the good news. The development community is having a much more sophisticated debate about governance and anti-corruption than five years ago. For instance:

- there is a refreshing willingness to focus on the essential attributes of governance (capability, accountability, responsiveness) rather than on specific political systems.
- Corruption is increasingly seen as a product of poor governance. A policy paper for the DAC recognises that corruption is a symptom of unresolved governance problems, resulting from 'incompleteness of the process of building an effective and accountable state' (DAC 2006:9).
- The importance of country-led approaches, local policy 'ownership' and political commitment to reform is widely recognised.
- There is (sometimes) recognition that social, institutional and political change is a long-term endeavour, and that there are few quick fixes.

and liberal democracy as their reference point. This is particularly so in the case of corruption, the very definition of which presupposes the existence of clearly delineated divisions between the public and private spheres of life. These assessments typically look at a country's legal framework, the functioning of formal institutions, and at different dimensions of governance such as 'voice and accountability', 'the rule of law', 'anti-corruption', and the regulatory environment. The (often implicit) assumption is that the deficiencies thus revealed can be addressed through financial and technical assistance to build capacity of state institutions (the supply side), and strengthen civil society organisations (the demand side), backed up as necessary by dialogue and conditionality.

However, experience suggests that trying to nurture better governance and fight corruption by transferring institutional models from rich to poor countries, or by aid conditionality designed to change the behaviour of political and economic elites does not work very well. Some progress has been possible, but is often hard to sustain, and institutional models work differently in different social and political contexts. For example, anticorruption commissions have tended either to lack teeth, or to be used to pursue political opponents. An assessment of state capacity building efforts in Africa (Levy 2004) suggests that a principal reason for the limited success of conventional approaches is the implicit assumption that the weakness of public administration is managerial in origin. Instead, a central lesson of experience is that public administrators are embedded in a 'complex, interdependent system' incorporating 'political institutions and social, political and economic interests more broadly'. A better understanding of these interests should be the starting point for designing more effective donor interventions.

Better political analysis is possible

A number of donors are piloting a more political approach to governance. The World Bank has done some political economy studies in selected countries. Sida has undertaken 'Power analyses'. DFID initiated the drivers of change approach a few years ago, although their more recent 'Country Governance Analysis' takes a more normative stance. Most recently the Netherlands Ministry of Foreign Affairs has developed, and is piloting their own version of political economy analysis. It remains to be seen how influential such approaches can be – the temptation is to pay lip service to politics before reverting to the comfort zone of conventional thinking about governance. That would be a pity, because underpinning these approaches are some fundamentally important ideas about processes of state building.

The challenge still faced by many poor countries today was eloquently expressed by James Madison in the late 18th century: 'In forming a government to be administered by men over men, the great difficulty lies in this: you must first enable the government to control the governed; and in the next place oblige it to control itself'. Trying to find that balance between control and accountability lies at the root of governance problems in many parts of the developing world.

Historically in Western Europe this happened through a process of interaction, bargaining and competition between holders of state power and organised groups in society. The

process was often violent, but over time it provided the basis for increasing both state capability and accountability, as the parties involved came to identify common interests and negotiate arrangements to pursue them. This led to more civic ways of managing competing interests, and resulted in the creation of legitimate, stable institutions: arrangements that were valued – and thus become 'institutionalised' – because they were seen to serve a common purpose. A major element in the process of establishing effective political and economic institutions was the bargaining that took place between rulers and organised groups over the payment of tax.

The circumstances facing developing countries today are very different. Many of their governments have little incentive to bargain with their own citizens – over tax or anything else. This is a major part of the explanation for poor governance. A complex set of historical factors, including state formation through colonisation, has resulted in the concentration of political and economic power in the hands of small elites, relatively unrestrained by organised societal interests. The state tends to be powerful in relation to citizens (so accountability is lacking), but weak in relation to its capacity to make or implement policy (so competence or capability is lacking). The need for states to bargain with organised groups of citizens is further weakened by the global context. A combination of high levels of inequality, with increasingly close interaction between rich and poor countries provides unprecedented opportunities for political elites to gain access to large, non-tax sources of revenue, notably rents from natural resource exports (particularly oil and minerals). The availability of external military support and aid further reduces the need for states to engage with their own citizens.

Better political analysis can help to tease out the way in which very deeply embedded factors (such as the history of state formation, the source of government revenue, social or economic cleavages, challenging geography) have an impact on governance, and help shape the formal and informal institutions that constitute the 'rules of the game', the incentives of political actors and the opportunities for societal groups to mobilise. The analysis points external policymakers, including donors, in the direction of some key questions: what helps to explain the underlying governance challenges? What could stimulate groups that have the potential to organise some significant counter-power to take collective action? In particular, what could stimulate them to organise around interests that are susceptible to bargaining and compromise (e.g. economic interests)? Is there anything that external players could do to help or hinder these processes?

Research on governance and growth is adding to the debate

An emerging debate about the links between governance and growth reveals that some economists are also recognising the need for a switch of focus – away from a preoccupation with putting in place formal institutions to protect property rights and sustain competitive markets, and towards a better understanding of the incentives driving political behaviour, and the interaction between politicians and potential investors. They have noted that, while in the very long term there appears to be a strong correlation between a conventional good governance agenda (stable property

rights, lower corruption, an accountable public sector, the rule of law) and growth, the links are much weaker in the short to medium term. Some countries with weak formal institutions have achieved good – even spectacular – growth. Moreover, there are increasing doubts about the feasibility of quickly implementing systemic reform at all. Instead there is a growing willingness to recognise that all developing countries are characterised (to a greater or lesser extent) by personalised, exclusive relationships between holders of political power and citizens (variously described as ‘limited access orders’, ‘hand-in-hand’ arrangements and ‘clientelism’); and that rather than trying to implement ambitious institutional reform, a more effective starting point might be to gain a better understanding of the political incentives sustaining such relationships.¹

Coming to terms with politics is very challenging for donors

Donors tend to shy away from local politics. It highlights the limited and uncertain ability of outsiders to influence policy, and the long timescales involved in building more effective, accountable public institutions. This is especially problematic given current ambitious, high profile objectives of securing improvements in governance within the timescale for achieving the Millennium Development Goals, on the basis of which large increases in aid have been justified. For anti-corruption activists, the challenge is especially acute. Pointing to the underlying institutional incentives that drive corrupt behaviour can look like acquiescence, or even collusion. Corruption poses a clear threat to aid effectiveness. It increases fiduciary risks for donors, and threatens to undermine support for aid from their own taxpayers. Corruption damages the most vulnerable: it diverts resources badly needed for development, so the poor suffer most from both grand and petty corruption. The understandable reaction tends to be moral outrage, and a search for direct, short term ways of fixing the problem. But this may not be a very good basis for policy-making.

More effective approaches are possible

Better political analysis does not offer quick fixes – indeed it demonstrates why these so often fail. But nor need it induce undue pessimism. The capacity of external actors directly to promote better governance and to ‘fight’ corruption may be more limited than they would like. But there are ways in which they could help – often indirectly, and over time – to change the institutional incentives that politicians face; to increase the prospects for collective action around shared, negotiable interests; and to encourage constructive bargaining between states and their citizens.

For a start, they should attach real urgency to **expanding action at a global level to limit the damaging impact of rich country governments and businesses on governance in poor countries**. Some measures are already on the OECD agenda: to curb collusion in corruption / money laundering; to control the spread of small arms, and the trade of conflict diamonds; to encourage governments of resource-rich countries to publish full details of the income they

receive from oil, gas and mining (The Extractive Industries Transparency Initiative), and so on. There is also scope to use the coordinated diplomatic and economic bargaining power of the European Union to change incentives of governments and businesses in poor countries – for example the Forest Law Enforcement, Governance and Trade Regulation (FLEGT) that seeks to curb corruption associated with illegal logging and timber exports through voluntary agreements with exporting countries. Other innovative ideas are under discussion, including regulation of private military service companies, and engaging large pharmaceutical companies to co-operate in limiting corruption in the procurement of drugs by government agencies in poor countries (Moore and Unsworth 2006). The point about all such initiatives is that a) they have the potential to have a significant, although indirect, impact on governance; b) they can work with the grain of private sector interests; and c) they are things that OECD governments and businesses can directly influence. They therefore deserve priority.

Donors should also prioritise action to **limit the damage of their own behaviour on governance**. This includes giving real urgency to the Paris agenda, including rationalisation (not just harmonisation) of donor activity; making more realistic judgements about the political feasibility of their own agendas; and looking for local sources of pressure for change. **Aid modalities** may be important (more research is needed on this). Some simplistic, and over-ambitious claims have been made for how budget support could strengthen domestic accountability. But if expectations were more realistic, there could be scope for more transparent, predictable funding from donors, channelled through government systems, to support more ‘institutionalised’ planning, budgeting and expenditure management processes. This in turn could have an impact on a) government’s ability to make and implement effective policies; and b) incentives for different groups to organise to try to influence those processes, and hold governments more accountable (because more rules-based, predictable processes provide entry-points – e.g. for MPs; or citizen budget monitors; or users of services; and make the effort of organising worthwhile). This is not a conclusive argument for budget support over, say, sector aid: budget support in a difficult governance environment can be more volatile than other forms of aid. But it does suggest a different basis for making the judgements and trade-offs – for example more realistic conditionality, and more value attached to predictability.

There may be scope to **work more effectively with civil society**. Most donors are involved in trying to ‘strengthen’ pressure from civil society on governments – for improved accountability, service delivery, or observance of human rights. But they are often less effective than they could be because a) they support groups that share a poverty or governance agenda, but may have little membership base or political clout; b) because they take insufficient account of the **incentives** of different groups to organise; and c) because they tend to focus on ‘demand’ side pressures without thinking enough about the state’s capacity to respond, and about the dynamics of state-society interaction.

More effective approaches might include:

a) looking for groups with capacity to organise and engage with government, whose interests may not be directly pro-poor, but may overlap with those of development actors (for example, business groups pressing for better public

¹ For a more extensive discussion, see the Governance and Social Development Resource Centre (GSDRC), Selected Conference Papers: Governance for Growth Seminar <http://gsdrc.ids.ac.uk/index.cfm?objectid=271986CC-A75D-10D6-AAFCB8CE4CCBADCB>

infrastructure or regulatory environments). This could bring indirect benefits for governance, especially where there is very little effective counter-power to governments.

b) Taking more account of how to strengthen incentives of societal groups to organise, and governments to respond. Groups that potentially share common interests in promoting public goods may not organise to demand these, because they face strong incentives instead to use personal connections to ministers / officials to negotiate private deals (tax concessions, business monopolies). They may have weak incentives to take the time and effort to organise around broader, more public demands because they have no confidence that governments will respond. In particular, poor people cannot afford the time and risks involved in organisation if they have no expectation that this will make a difference. **The way in which public programmes are designed and managed** could affect the incentives for collective action of both users and service providers.

Public financial management, and especially taxation, is of strategic importance for improving governance and strengthening local incentives to fight corruption. Donors tend to focus attention on spending – through PRSPs, MTEFs, and programmes to improve public expenditure management. These have achieved some success, and are well worth persevering with. However, until recently donors have neglected revenue; especially the links between domestic revenue-raising and state-building. This is now changing (for example a policy paper on taxation and governance will be presented to the DAC Govnet in October 2007). The basic argument is that the historical experience of tax is still relevant for developing countries today, although the global environment has changed fundamentally. Governments that have to rely on taxpayers for revenue are more likely to have an interest in nurturing growth, and in building effective organisations to collect and administer tax. The experience of being taxed can be a powerful motivator for taxpayers to organise and demand accountability for how their money is spent. In many developing countries political elites have low incentives to negotiate with citizens over tax because they have access to other (easier) sources of revenue – including rents from export of natural resources (e.g. oil and gas) or from narcotics, corruption, and aid. Also, tax is difficult to collect in low-income, agrarian economies, and local tax collection is often coercive. Nevertheless, there is scope for many poor countries to raise more revenue through more broadly-based taxation, and to improve relations with taxpayers. An existing global tax reform agenda that aims to simplify tax systems, reduce exemptions, increase transparency and improve tax administration could help stimulate taxpayer organisation, and state-society bargaining over revenue. Taxpayers have more potential than many other groups to organise on a sustained basis around shared economic interests that are susceptible to compromise, and to use their leverage to hold governments accountable.²

Finally, there are many opportunities for donors to use **targeted information and communication strategies** around project and programme interventions to help stimulate collective action by users, politicians and activists. They could also do much more to support the generation

and dissemination of good quality, accessible local data, and related policy analysis: this could be important in stimulating demand for government action, and more evidence-based policymaking. This low profile work tends to get neglected in favour of more eye-catching efforts – for example to support local media. Donors could also do more to connect with groups (business, trade unions, religious groups) that have overlapping interests in growth and better governance, by watching their language: donor jargon is a big turn-off for such groups.

Is this agenda likely to catch on?

This kind of low key, long term approach to improving governance and fighting corruption lacks the instant appeal of more direct campaigns. But a growing body of evidence – debated informally within many development organisations, if not yet widely acknowledged in formal policy statements – points to the limited impact of more conventional strategies. Questions about the feasibility of promoting growth through the creation of formal political and market institutions have added to doubts that developing countries can ‘skip straight to Weber’ (Lant Pritchett’s telling phrase). The availability of ‘without strings’ loans and technical support from China threatens to undermine donor attempts to secure commitments to better governance in return for large increases in aid. So getting donors to start taking politics seriously may be a less forlorn hope than it was a few years ago. Moreover, all the suggestions above are things that donors could do if they once became convinced that they mattered. Thus, over time and in incremental ways, they could make a difference.

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² For more on this see the Centre for the Future State, IDS: www.ids.ac.uk/futurestate and the forthcoming DAC Govnet paper.