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The Future Governance Agenda for Country Assistance Strategies: An Approach to Governance Reform

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BACKGROUND

The development industry is increasingly recognising that institutional constraints in developing countries are fast becoming a primary limiting factor for growth. Institutional decay and breakdown is also placing the stability of democratic political systems at risk. If this decay and breakdown is not reversed, ultimately democracy and free markets in developing countries will also face increasing risks thereby creating further negative impacts on institutions. Reversing this vicious cycle must be the subject of international development pre-eminence as all "sectors" rely on primary institutions to function.[1]

The framework for institutional assistance interventions to developing countries is missing or has remained marginally addressed. The Millennium Development Goals (MDGs) and the Poverty Reduction and Growth Facility (PRGF) do not directly address the governance aspect of the post colonial societies and its role in achieving poverty reduction or millennium development goals.[2] If "institution matter" what should the international assistance approach to designing interventions that promote governance and institutional revival be? What is the knowledge base required to design governance interventions? What is the new governance research that can produce that knowledge base?

The core functions of the nation state are conducted by the institutions that enforce contracts and resolve disputes thus enabling transactions and therefore modern economic activity. These functions are the judicial, police, revenue, accounts and audit. Taken together, the institutions that manage these functions represent what can be called the transaction cost sector.[3] The principles applied, the precedents established and enforced as well as the process of doing so through the transaction cost sector define the governance character of the state. If the transaction cost sector is functioning well it has a positive radiance on the entire institutional fabric of a country. Governance culture determines the extent to which governance practice is observably deviant (corrupt) from

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[1]Stewart Patrick "Weak States and Global Threats: Assessing Evidence of Spillovers". Working Paper 7301/03/2006 Centre for Global Development.

[2]Millennium Development Goals only address governance in Goal 8 where governance is referred to as international trade and investment.

[3]The "Transaction Cost Sector" is a term that refers to the revenue (land and other taxes), accounts and audit, policy and judicial functions. Daniyal Aziz, "Governance Reconstruction in Pakistan" forth coming.

the stated methods of functioning. Governance culture in turn is consequent upon the historical experience of institutional genesis and the resulting structure.

The perception persists that during the reign of colonialism, institutions in the colonies were sufficiently robust and it was only after independence that native post colonial managers and politics had created the conditions for institutional decay and dilapidation. This perception has all but absolved the need for any further examination of the "existing conditions" of the institutions their in historical context. Rather it promotes the use of what amounts to current analytical snap shorts of the institutions pre-empting critical historical analysis.[4] Incontrovertible historical evidence however tells a very different story. It is quite clear that the colonial institutional structures remained under acute financial and administrative stress and finally succumbed to this stress by collapsing resulting in independence. After independence countries were preoccupied with consolidation and lured by cold war politics. The institutional knowledge to be able to redesign the administrative structures did not exist in the political movements which successfully overcame colonialism. Post-independence remnant bureaucracies dominated the institutional realm justifying the previously unacceptable status quo as legitimised by the purging of foreigners.[5]

With the advent of the cold war the competition between communism and capitalism as models of economic ordering overwhelmed the global policy arena. Neither model had an institutional or governance culture focus. International assistance became a multi purpose instrument to demonstrate the robustness and exportability for each economic model as well as a host of other objectives none of which were intended to address underlying institutional weaknesses.

The sponsors of the two economic models took the inherited institutions for granted as the existing bedrock on which to partner with developing country governments to administer their economic model. This practice assumed that the institutional bedrock would continue functioning in the same fashion. The underlying inability of both economic models to mitigate institutional degradation issues was glossed over by parading marginal improvements in social and economic sectors with massive aid inputs. In this process, the development industry has evolved an elaborate framework and detailed knowledge for assisting I the social sectors, financial management, financial liberalisation and infrastructure but little in the realm of institutional revival.

For more than half a century the cold war meant cold storage for governance reform. While the battle for economic domination has raged the institutions increasingly decayed and corroded in a variety of ways. Today most of the developing world is fraught with exactly the same symptoms. From Nicaragua[6] to Albania to India to the Philippines the symptoms are exactly the same: Systemic, endemic, syndicated corruption in an environment of multiple institutional failures. It is entirely unclear how

[4]"Governance Tool Kits" used by USAID and Asian Development Bank are an example of the type of generic survey instrument that asks questions about the existing conditions of an institutions.

[5]For greater detail see for example Charles H. Kennedy, "Bureaucracy in Pakistan" Oxford University Press, USA: Ist edition (January 1, 1988).

[6]Memorandum of the President of the International Development Association and The International Finance Corporation to the Executive Directors on a Country Assistance Strategy of the World Bank Group for the Republic of Nicaragua December 18, 2002. Central America Country Management Unit Latin America and the Caribbean Region.

improvements in education, health, water supply and sanitation and infrastructure are going to result in a better functioning judiciary, police, revenue and finance or accounts and audit institution. Yet the international emphasis is on these "social sector" functions, expecting that the major institutional failures will work themselves out without any framework for exactly how that will happen.

LACK OF A DEVELOPMENT STRATEGY ON GOVERNANCE

With this background, however, it is not surprising that the development industry's ability to assist in creating positive outcomes in institutional development did not evolve.[7] In fact increasing symbiosis with existing bureaucracies in recipient countries for programme acceptance and execution and the resulting career advancement prompted the international development actors to procrastinate on and marginalise governance issues. More importantly the organisational culture of the international assistance bureaucracy hardened into its structure of focusing on neatly organised sectors and not multi-disciplinary organisational requirements of governance. The international bureaucratic structure and knowledge required to be able to assist in governance interventions never came into being. Worse, attempts to highlight the governance agenda and at restructuring the international bureaucracy in accordance with such requirements was generally scuttled.

A review of World Bank "country assistance strategies" for eight randomly selected counties across four continents reveal a complete scatter on governance. From a "governance filter" to "a cross cutting theme that will underlie all programmes", any array of governance programme interpretations can be found. Any diagnostic or standard according to which transaction cost sector assistance can be calibrated is missing. Other methods resort to ranking countries internationally on corruption in a naming and shaming campaign or applying governance tool kits which consist of rhetorical questions for a particular institution on the basis of which an assistance programme is "tailor made" with the little consequence. Resultantly, the international development industry and social science have virtually thrown in the towel on governance reform and anti-corruption.

Clearly, this constitutes the basis for a major global institutional development policy review. In the following paragraphs I have highlighted some of the critical features which must be considered in embarking on such and agenda along with some suggestions.

ORGANISING FOR MULTI-DISCIPLINARY INTERVENTIONS

Governance issues are by their nature multi-disciplinary. There are several major obstacles in the organisational structure of the international aid bureaucracy that virtually prohibits multi-disciplinary interventions without which governance issues can not be addressed. Governance programmes are avoided as mission teams drawn from various "sectors" to establish multi-disciplinary capacity find it difficult to coordinate especially when they have separate hierarchies guarding separate interests within their own organisation. In country, multi-disciplinary programmes have to coordinate with a

[7]World Bank, "Strengthening Bank Group Engagement on Governance and Anticorruption" Development Committee (Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries) September 8, 2006.

number of stake holders often getting pulled in different directions resulting in friction and stand offs which then require further handling and mitigation thus having the tendency to get messy.

As missions only have short visits, country managers and teams risk getting overloaded with difficult management issues requiring mitigation between stakeholders while they loose effectiveness. The environment causes delays in budget execution and limits achievement of targets and therefore is a no go area for career advancement. Due to the lack of institutional knowledge on the detail and historical context of institutions, programme design and on going adjustment decisions are difficult. As there is no governance framework and no hierarchy directly responsible for governance issues, the budgets for country programmes get divided by he existing hierarchies finally resulting in mere references to governance.

On the country side all governance programmes content emphasises efficiency, effectiveness, transparency, capacity, accountability, information communications technology and process reengineering among others. Developing countries bureaucracies are suffering from being under resourced in recurrent expenditures for the past seventy-five to eighty years. Research shows that the first massive cutbacks in salary structure and resources across the board date back to the early 1930s only to be repeated in the 1940s and then again at independence. Subsequently, as well bureaucracies remained under resourced for a host of reasons one of which was the introduction of the development budget concept by international development agencies. As a result of these conditions, illicit incomes have become the norm by bureaucracies simply to maintain day to day living standards. The behaviour modifications required for governance programme objectives to succeed as mentioned above all detract from the ability to extract illicit rents. Without any incentives to replace their needs and match existing expectations the bureaucracies cannot be expected to march to the new behaviour requirements.

Resultantly, when aid managers cite lack of interest by recipient countries as the reason limiting their ability to gain entry points for governance reform there is more than meets the eye. The evolving international aid policy of not prescribing donor solutions and instead supporting country programmes reinforces alleged inability by middle level managers to embark on governance programmes in a comprehensive way. This country programme vs. donor conditionality shell game is actually the toggle through which the symbiotic relations between the international and the domestic bureaucracies internalise policy content and control. The recipient country bureaucracy flexes country programme muscle when the international aid bureaucracy needs to ward off attempts by their senior management to direct the programme in a particular way and the international assistance managers flex conditionality muscle to ward off programmes sponsored by domestic democratic leadership when the recipient bureaucracy feels threatened. The result is the preservation of the status quo and continuing lack of focus on governance.

THE ANTI-CORRUPTION AND GOVERNANCE FRAMEWORK

These conditions require several measures to effectively surmount these deficiencies. First, a clear governance framework must be created placing governance upfront and dead centre and not marginally or residually dealt with in global assistance

framework. The governance framework would require the same international presence as the PRGF (Poverty Reduction and Growth Facility) or the MDGs (Millennium Development Goals). The framework must have a high profile anti-corruption mandate as well as high equity promoting content. Countries can either choose to have an anti corruption, equity promoting governance agenda or to opt out but not be able cherry pick. Within the framework there would naturally be country to country flexibility in individual cases but not at the expense of the objectives of the framework.

The framework must have an upfront and clearly stated approach to manage recurrent expenditure requirements particularly salaries. International assistance strategy must get over the development budge expenditure hangover; it has not worked and has caused massive distortions. Forty years should suffice for the experience to cause policy revision. Resource requirements must be agreed with the respective institution as quid-pro-quo for the clearly stated outcomes desired and subsequently made available in a non-negotiable, transparent, effective way on a monthly frequency.

Second, the Governance hierarchy within the international organisation must be created at the tope executive level must have a clear multi-disciplinary mandate. The country manager must be equipped with highly devolved financial and administrative authority across the spectrum of operations. This authority should only accrue if the respective country has agreed to adopt the anti-corruption and governance framework. Career advancement requirements should be modified to represent positive promotion and financial prospects for those choosing and succeeding in governance reform careers.

Third, the international social science advancements in institutional change and cognitive sciences must be brought to bear on international development policy. In order to achieve this management needs to be capacitated in governance theory and practice. Programmes to create these platforms as well as initiate new research on institutional history as required must be created. This can be framed out to various institutes not as consultancies but as research projects so that the resultant "knowledge" can be held accountable by peer groups and not lost in a country report.

Only multilateral agencies have the ability to create a global anti-corruption and governance framework. Such a framework is increasingly the need of the day. Taking the lead and presenting an acceptable diagnosis of the problem along with a programme for institutional revival will gain currency with bilateral and other donors. Getting by-in to the objectives is half the problem of donor coordination and mustering resources. The other half, division of labour with roles and responsibilities of the recipient Government as well as budgets, should be clearly stated in the country document with the recipient country overtly taking control and not be left to competition between the various donors often at the expense of the programmes.

THE ANTI-CORRUPTION AND GOVERNANCE FRAMEWORK STRATEGY

Critical institutions are necessary to identify and prioritise as it is not possible to take all institutions into the reform programme at once. Therefore there is a selection requirement. As mentioned in the introduction the transaction cost sector constitute the core institutions of the state. Their revival will create a positive radiation on the institutional fabric both of the state and the private sector as a whole. Therefore the

framework should undertake to intervene in respect of the transaction cost sector institutions of the economy i.e. the judiciary, the police, the revenue (includes finance) administration, the accounts and the audit.

Critical Mass is a concept not addressed by current institutional assistance programmes. Many countries have one off governance programmes in the country assistance strategies, for example: accounts and audit, or revenue. However, these are often only at the federal level and do not constitute a critical mass of the nexus of interdependent institutions which rely on one another to administer the core state functions. Revenue functionality even if revived will be hampered by a dysfunctional judiciary or police and vice versa. Also, when one service group sees another advancing the inertial status quo tendency of inter-service politics become activated and returns the benefactor institution or service of a reform to original position. Therefore, it is important that for governance reform the critical mass include all the transaction cost sector institutions which can be phased and sequenced but not left out. The sector wide versus the institution specified approach often debated by current assistance practice must be dispensed with. The programme has to be national at the federal, provincial and local level. This will create the status quo threshold breaking momentum and generate results at the lower management levels where reforms are never felt.

The pricing and administration of incentives is perhaps the most important factor determining success of the framework. The pricing of the recurrent expenditure requirements must be negotiated with the department across the hierarchy for a particular function concentrating on executive management. This can not be achieved by simply stating the resource constraints and giving a minimal increment across all functions as is the current practice. The increase has to constitute a "credible commitment" and "make the market" for governance if you will by meeting the current salary expectation and other recurrent requirements of the executives for that function (department) deflated for certainty (explain the market for governance and price of governance in another note). These resources must be provided in a non-negotiable manner and cannot be hampered by other departments or services claims and counter claims.

The administration of incentives is as important as the pricing. The clearly laid down results framework and timetable as agreed with the department during negotiations must be adhered to. However, the resources accruing to the designated managers can not be hampered. If the administration of the incentives does not transmit a credible commitment the old practice will result. This has been seen in many cases including customs administration as well as police.

Public accountability cannot be viewed as a messy externality which may be sacrificed for short term results and then it will be gotten around to. It must be an integral part of the strategy and the framework from the start. This includes the standard public accounts committee type functions but also has a much wider and broader scope. Progressive direct taxation must be conditionally proportioned with aid so that citizen state accountability relations are strengthened through democratic channels at the local level. Citizen state relations must graduate from colonial bureaucratic based systems to ones which promote democratic ownership and hold political leadership and voting behaviour accountable for local service delivery outcomes as the public will increasingly have effective redress mechanisms as the transaction cost sector begins performing better. This will create the conditions for a

politically owned institutional revival and not simply another shallow administrative manoeuvre.

Diffusion and dissemination of the programme, its design, and the process through which benefits will be delivered to the public must for an integral part of the strategy. This is in addition to the typical capacity building and training type applications.

CONCLUSION

Finally, it is important to realise that in developing countries the politics of the bureaucracy still dominates the politics of democracy. The bureaucracy is under threat of loosing all credibility and integrity and therefore respect in many countries. This slow burn of the institutional structure in developing countries has successfully mutilated and molested the ethical moral system entire societies. Thus, opening the space for competition from other systems many sponsored by fundamentalist moralities and institutionalisations. The bureaucracies need international moral support and legitimacy to regularise what the governance market has already priced. Only, now the incentives must be designed and administered to create adherence to the principles and value systems of the countries' institutional structure, not destroy it.