Is Good Governance a Pre-requisite for Africa's Development?

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The 2012 *African Governance Outlook*, a flagship publication of the African Development Bank, notes (p. 7):

> There is now a general consensus on the role that good governance plays in achieving equitable and sustainable development in Africa. Empirical evidence confirms that good governance is critical for sustainable economic growth as measured by high per capita income. Countries with better governance profiles tend to attract higher levels of foreign direct investment and faster economic growth rates than others. Empirical evidence also confirms the causal linkage between good governance and the decline in absolute poverty levels, infant mortality, literacy rates, gender equality, access to clean water and other Millennium Development Goals. These broad empirical findings confirm the casual wisdom that good governance does play an important role in achieving positive development outcomes.

This seems to reflect the views of influential sections of the donor community. The donor community, especially the World Bank and some OECD member governments, has been telling Africans to ensure 'good governance' since the 1980s. The agenda of good governance refers, broadly speaking, to institutional arrangements that have supposedly proven their worth in OECD countries.

Contrary to this view, leading development experts on Africa believe that 'African countries badly need to embark on processes of economic transformation, not just growth, and they are not helped to do so by insistence on prior achievement of good governance, meaning adoption of the institutional "best practices" that have emerged in much richer countries.'[1] Our views are inclined to support them. The purpose here is to highlight some problems of the influential hegemonic view which the African Development Bank refers to and is based on our recently published volume: *Is Good Governance Good for Development?*

Governance and growth: Conceptual, methodological and measurement issues

Effective government or good governance matters, but it is not obvious or clear what that means. The World Bank's Worldwide Governance Indicators (WGIs) project has attempted to define the indicators as corresponding to what the authors consider to be 'fundamental governance concepts' (Kaufmann, Kraay and Zoido-Lobato [KKZ] 1999:1). However, the definitions of the indicators have changed over time since the indicators were first introduced. The World Bank's *1997 World Development Report* advised developing countries to pay attention to 45 aspects of good governance. By 2002, the list had grown to 116 items! Even allowing for considerable synergy among these items, it seems that countries needing to improve their governance must undertake a great deal more to do so, and that the longer they wait, the more they will need to do.

The World Bank's widely used WGIs have come under severe criticism on methodological and conceptual grounds. For example, Thomas (2010) is highly critical of the definitional changes which have taken place. As she points out, there is a substantial difference between measuring something and measuring perceptions of it. For example, perceptions of crime risk have been shown to be quite different than actual crime levels. Likewise, perceptions of corruption differ from actual corruption levels, and trust in government does not necessarily match administrative performance. The changed definitions should mean discontinuation of the previous series of governance indicators, but the new indicators used confusingly bear the same names, with no qualifications offered to justify the changes in definitions while implying continuity. Meanwhile, the WGIs authors continue to interpret changes in their data as reflecting changes in governance itself, rather than as changes in perceptions of governance.

Thomas also points out that the WGIs' methodology assumes that its variables are noisy signals of unobserved governance, and questions why variables measuring perceptions should be interpreted as noisy signals of something else when perceptions are being measured. When direct measurement of observable variables is impractical, social scientists often use proxies instead. But a (proxy) measure of a construct needs to be validated – first, by showing that it correctly represents the theoretical definition of the construct, and then, by seeing whether the proposed measure has the same relationships with observable variables that the theory predicts the construct has. According to Thomas, the WGIs fail on all counts, and hence, the WGIs do not measure what they purport to measure.

Research at the World Bank itself has also raised similar doubts about the WGIs. For example, Langbein and Knack (2008) have challenged the measurement validity of the WGIs. An indicator that purports to measure an abstract concept should systematically and reliably relate to that concept (and not to other, different, concepts), regardless of how convincing the measurement may appear logically or conceptually. In other words, an indicator should measure the hypothesized abstract concept with minimal systematic (non-random) and random error. They conclude 'there is little if any evidence on the concept validity of the six WGI indexes' (p. 3). They tested whether the six governance indicators measure a broad underlying concept of 'effective governance', or whether they are separate, causally related concepts. They conclude that the indicators are consistent with both, i.e., they are causally related, separate indexes, but represent a single underlying concept. That is, the six indicators seem to say the same thing, with different words, and hence, amount to tautology.

Andrews (2008) argues that the WGIs lack acceptable definition and are *ahistorical*. They are also 'context-neutral' in the sense that they do not take into account country-specific challenges and environments which could be very different, not only among developing countries, but also among them as a group and among developed countries as a group. Essentially, the WGIs combine many different measures drawn from many different underlying theories, normative perspectives and viewpoints. Hence, this eclectic mix simply combines 'personal ideas of governance' – or prejudices – of those developing the indicators.

Andrews also notes that the authors of the WGIs identify the foundations of their good governance work as '[t]he norms of limited government that protect private property from predation by the state' (Kaufmann, Kraay and Mastruzzi [KKM] 2007:2). They also assert that government should be limited to responsibility for producing key 'inputs' to growth and development – such as education, health care and transport infrastructure. Their arguments on how such inputs should be supplied have since changed, by invoking both Weberian bureaucracy and New Public Management (NPM) arguments.

Critics of the WGIs have raised other issues, such as the limits and biases of perceptions-based subjective measures. For example, Kurtz and Schrank (2007) point out that the WGIs' reliance on perception surveys assumes that the interests of investors and those of countries are the same. Moreover, these surveys typically contain substantial biases, for example, that investor-friendly liberalization, deregulation or privatization will improve governance, as they generally down-size and weaken the effectiveness of governments. Rothstein and Teorell (2008) criticize the recent literature on 'good governance' and quality of government (QoG) for inadequately addressing the issue of what constitutes QoG in the first place. They identify at least three problems with existing definitions: they are *extremely broad*, or are *functionalist* (e.g., 'good governance' is 'good-for-economic-development'), or only deal with *corruption*. The problem with broad definitions is that if good governance or 'QoG is everything, then maybe it is nothing' (Rothstein and Teorell 2008:168). They also argue that the literature fails to distinguish between issues that concern *access* to power and those related to the *exercise* of power.

The functionalist definitions raise two problems. First, many important non-economic attributes of good governance, such as trust and subjective measures of well-being, are left out. Second, one cannot define a country's 'quality of government' level without first measuring its effects. It also does not distinguish between the *content* of specific policy programs on the one hand and governing procedures or *processes* on the other. Thus, the functionalist approach borders on tautology. As *The Economist* (June 4, 2005) noted, defining 'good governance' as 'good-for-economic-development' may generate tautological explanations and meaningless policy implications: 'What is required for growth? Good governance. And what counts as good governance? Whatever promotes growth. And what is required for growth?'

Huther and Shah (2005:40) attempt to define governance as 'a multifaceted concept encompassing all aspects of the exercise of authority through formal and informal institutions in the management of the resource endowments of a state. The quality of governance is thus determined by the impact of this exercise of power on the quality of life enjoyed by its citizens.' However, this seemingly different definition of 'quality of governance' also suffers from tautology: 'What is required for the quality of life enjoyed by citizens? Quality of governance. What is quality of governance? That which promotes the quality of life. . . .' (Rothstein and Teorell 2008:169).

The definition of governance or quality of government that focuses only on corruption, or its absence, presumes that government policy discretion and interventions necessarily lead to corruption and abuse. However, according to Rothstein and Teorell (2008), there is no empirical support for this presumption. Small governments are not synonymous with the absence of corruption, while countries with very low levels of corruption have relatively large governments, as in Scandinavia and the Netherlands. In any case, defining good governance simply in terms of the absence of corruption is not very useful. While considerable corruption is clearly antithetical to good governance, good governance implies much more than merely the absence of corruption, or even clientelism, nepotism, cronyism, patronage, discrimination, and regulatory or policy capture. Rothstein and Teorell reject the view that evidence of corruption or government failures imply that minimalist government is best for development or for eliminating corruption.

Aron (2000) did an early survey of the varied literature on growth and institutions, to assess the strong claims found in studies causally linking growth to governance. He notes methodological and measurement flaws that can overestimate the impact of governance and institutions on growth. Methodologically, most cross-country econometric studies suffer from selection bias, as African countries – where institutions are generally weak and growth performance has been poor, especially in the 1980s and the 1990s – are over represented. Secondly, most cross-country regressions use reduced-form equations where some measures of institutional or governance quality are used along with other variables, such as investment, assumed to directly affect growth. Such regressions can overestimate the impact of institutions on growth, if institutional or governance quality also affects the efficiency of investment. It is difficult to disentangle the direct effects on growth of institutional quality variables and their indirect effects – through their impact on investment.

Moreover, many institutional indices used are ordinal indices, which rank countries without specifying the degree of difference among countries, with numbers ascribed to ranking. However, to be used meaningfully in a growth regression, such an index needs to be transformed into a cardinal index, where the degree of difference matters, not just the order. There is no reason to assume a one-for-one linear conversion from an ordinal to a cardinal index. For instance, the quality of the judiciary in country A may be twice as good as that in country B, where the judiciary is three times better than in country C. But ordinal ranking on a scale, say from 1 to 10, of countries will not necessarily reflect the intensity of institutional quality differences among them. The often arbitrary aggregation of different components of many indices is also problematic as, typically, the components are simply added up or averaged with the same weights.

Reviewing some conceptual issues in the complex relations between institutions and economic development, Chang (2005) concludes that definitional issues, the failure to distinguish between institutional forms and functions, excessive focus on property rights, and the lack of a plausible, let alone sophisticated theory of institutional change are major problems of this influential literature. While it is unlikely that we will soon have a comprehensive theory of institutions and economic development that will adequately address such theoretical and methodological issues, recognizing and addressing these problems is imperative. More carefully developed key concepts and better knowledge of historical and contemporary experiences will also be necessary.

Is good governance necessary for development?

Meisel and Ould-Aoudia (2007) note that no theories of economic development support the claims of 'good governance' advocates. Nevertheless, it has to be acknowledged that the good governance agenda has defined policy reform goals for developing countries that are widely supported in some developing countries and, especially, by foreign financiers and donors. Such goals include strengthening protection of property rights, rooting out corruption, achieving accountable and democratic government, and imposing the rule of law.

However, the evidence conclusively shows that countries have only improved governance through development, and that what is termed good governance is not a necessary precondition for development (Khan 2009, 2010; also Kurtz and Schrank 2007a). All developing countries do poorly on good governance indicators, but some perform much better than others in terms of economic development. This underscores the urgent need to identify key governance capabilities that will help developing countries accelerate economic development and thus eventually improve governance more generally on a sustainable basis.

According to Sachs *et al*. (2004), many African countries are actually well governed once governance indicators are adjusted for income level. Poorer African countries do more poorly on governance measures than richer countries; after all, doing well on good governance measures requires resources. After adjusting for income levels, this conclusion also holds when countries are ranked in terms of the Corruption Perceptions Index of Transparency International or the Economic and Political Freedom Index of Freedom House.

The study also finds a weak relationship between governance improvements on the one hand and growth on the other, when all countries are considered together. It also challenges the common claim that Africa's development problems are due to poor governance. While there undoubtedly are poor African countries suffering from poor governance, the authors believe that this diagnosis is wrong and instead point to many well-governed African countries stuck in poverty.

Sachs *et al*. (2004:121-122) thus concluded, 'Africa's crisis requires a better explanation than governance alone. Our explanation is that tropical Africa, even the well-governed parts, is stuck in a poverty trap, too poor to achieve robust, high levels of economic growth and, in many places, simply too poor to grow at all. More policy or governance reform, by itself, will not be sufficient to overcome this trap'.

However, these findings could also mean that 'the governance capabilities that the good governance approach focuses on may be less important for developing countries and the governance weaknesses that African countries suffer from may be very different from the ones identified in the good governance approach' (Gray and Khan 2010). This interpretation is more consistent with the historical analyses of the governance capabilities that have enabled a few developing countries to develop from poverty to prosperity in the last half century. Kim and Jacho-Chávez (2009) find that regulatory control, reduced corruption and government effectiveness were insignificant for growth, while the empirical relationship between voice, accountability as well as political stability, and growth are highly nonlinear. Specific, targeted reforms to improve governance, rather than wholesale reform, may be more effective in accelerating economic growth.

Implicitly, many 'good governance' proponents presume a binary world in which all countries have the same set of institutional characteristics, but poor countries score badly due to pathologies that prevent them from 'catching up' with the wealthy countries, such as corruption, lack of democracy, state failures, market failures, etc. But developing countries are not simply countries that would be 'wealthy if they were not ill'. Rather, they are structurally and systemically different in many ways, and it is therefore not analytically or even practically useful to characterize development problems as 'pathologies'. Not surprisingly, the imposition of formal rules from wealthy countries in low-income countries has not worked. According to Meisel and Ould-Aoudia (2007), the universal 'good governance' prescription has actually had modest or even no impact on growth. As governance reforms may destabilize existing social and political orders, they have often engendered resistance which has often become insurmountable in the short to medium term and may also adversely affect the feasibility of other much-needed reforms and changes.

The evidence that improved or good governance accelerates growth is unconvincing. Instead, the statistical correlations using good governance measures actually suggest that growth and development improve governance, rather than vice versa. Kurtz and Schrank (2007a) note that a number of developing countries have fallen short on the most widely used World Bank good governance benchmarks, but yet have performed well in terms of growth, equity and structural transformation. Their development experiences suggest state that capacity and 'market governance' better explain their unusually high growth rates and their higher levels of education, social equality and investment rates despite their modest, compromised or even corrupt administrative capacity.

Governance may not be significant in the way proponents of good governance claim. The extremely dire conditions typically associated with failed statehood or state failure probably preclude most economic or social progress, and can lead to declining productivity and output as well as falling living standards. However, not all good governance reforms are similarly feasible or beneficial, let alone necessary or desirable in all circumstances. Contrary to the usual exaggerated claims about how much 'institutions matter', greater transparency, accountability and participation are often a consequence, rather than a direct cause of faster development (Goldsmith 2005).

The incontrovertible long-run association between good governance and high incomes provides very little guidance for appropriate strategies to induce high growth (Rodrik 2008). Large-scale institutional transformation of the type entailed by the good governance agenda is hardly ever a prerequisite for getting growth going. Poor countries suffer from many constraints, and effective growth accelerating interventions address the most binding among them. According to Andrews (2010), countries with more effective governments grew at an average annual rate of less than 2 per cent between 2000 and 2006, whereas countries with 'ineffective' governments (scoring below zero) actually grew by an average rate of about 4 per cent annually, despite facing much more daunting challenges, such as higher population growth.

According to Fukuyama (2008), even if economic growth is not underpinned by a strong developmental state, it would require 'just enough' development-accelerating governance capacity. He thus disagrees with the good governance orthodoxy of the World Bank and other donors which continue to presume that since good governance accelerates growth, comprehensive institutional reform is a pre-requisite for development. Growth accelerations can and have occurred under a wide variety of institutional and policy regimes (also see Hausmann, Pritchett, and Rodrik 2004). Fukuyama (2008) notes that virtually every country and region in the world experienced higher growth during 2003-2007.

Corruption and economic growth

Corruption can adversely affect development in many different ways, especially if it diverts resources that would otherwise be invested productively, if it deters investments by increasing uncertainty. However, the historical evidence does not show a significant role of anti-corruption measures in accelerating economic growth. The large differences in growth rates between fast and slow growing developing countries in the 1980s and 1990s were not associated with significant differences in corruption indicators (Khan 2006). In fact, the median corruption indices for both fast and slow growing developing countries were similar in the 1980s and 1990s, with both groups scoring significantly worse than advanced countries.

There are many perspectives on the causes of corruption in developing countries. First, the most influential view is that corruption is principally due to the greed of public officials who abuse their discretionary powers in their own self interest, i.e. self-seeking bureaucrats or politicians. Second, weaknesses in enforcing legal rights, including property and contractual rights, result in higher costs for negotiating, enforcing and protecting contracts. Weakly protected property rights or poorly enforced contractual rights – and associated corruption – seem widespread in developing countries, including Africa. Anti-corruption strategies therefore require strengthening government enforcement capacities.

Third, rents can provide important incentives for innovative behaviour, often deemed essential for economic progress, which cannot be ensured simply by privatization or liberalization. Such rent creation was also important in many African development strategies prior to economic liberalization in the 1980s (Mkandawire 2001). But often, state-created rents served to augment incomes for state functionaries and politicians. The major policy challenge then is to better motivate innovative and entrepreneurial behaviour, while limiting related rent-seeking. However, the efforts to eliminate all state created rents have reduced the institutional capacity of many African governments to address market failures (Gray and Khan 2010).

Fourth, patron-client relations are often associated with 'political corruption' involving efforts by politicians and others to retain or gain power. Developing countries' governments, political parties, factions, movements, business interests and politicians may use such measures, often because the factors conducive to clientelism cannot be addressed by more conventional measures, e.g. owing to fiscal constraints. Clientelism needs to be regulated to limit its most damaging consequences; meanwhile, the ability of governments to budget and spend according to their own priorities – rather than according to those imposed through aid or debt conditionalities – should be enhanced.

In the course of economic transformation, low productivity assets and resources get re-allocated to emerging productive sectors through non-market processes as property titles are either missing, poorly defined or much contested. These non-market processes can be legal (such as privatization or land redistribution), quasi-legal (politically influenced market transfers) or even illegal (asset grabbing). Therefore, the relevant governance policy question for many African countries is why such accumulation persists without the consolidation of a more productive and less contested asset distribution. Would registering property titles or other more well-defined property rights be the solution? One cannot be confident in light of the very mixed experiences of the legal titling campaign in many African countries (Nyamu-Musembi 2007).

While all corruption is damaging in some way, and is hence undesirable, some types are much more damaging than others. Claiming to fight corruption in developing countries generally and in Africa in particular (by implementing a laundry list of desired governance reforms) sounds impressive and deserving of support, but such efforts often ignore more feasible and focused policies that can improve economic performance. As it is virtually impossible to address all types of corruption simultaneously, good policy should focus on the types of corruption most damaging to development such as those that waste precious investment resources. Reform priorities should respond effectively to actual challenges and circumstances. Otherwise, governance reform efforts can set unattainable targets, inadvertently causing disillusionment and reform fatigue as failure becomes apparent.

Reform implications and priorities for Africa

Many donors have instrumentalized good governance indicators as key criteria for disbursing development aid. Having become central to donor conditionality, the governance reform agenda has become the 'conventional wisdom' in much of the African development discourse. 'It taps into the popular aspirations of millions across the continent who face the burden of poor governance on a daily basis and who want their leaders to be held to account through genuinely democratic political systems' (Gray and Khan 2010). The good governance agenda is now firmly lodged in NEPAD and the AU. Thus, it is especially difficult to confront the argument for the good governance agenda in Africa. However, current understandings and measures of governance, especially in relation to economic development, are not only imperfect, but also problematic. Furthermore, no guidance exists on how to prioritize and sequence governance reforms.

Unfortunately, there is typically little guidance on appropriate prioritization, sequencing, feasibility and what can be achieved in the short term and what can only be achieved over the longer term (Grindle 2004). The good governance agenda is particularly demanding on African governments that are poor, badly organized, politically unstable or lacking in legitimacy. But reluctance to pursue any particular prescribed reforms could result in poor performance scores, likely to adversely affect support by donors (Grindle 2004).

African policymakers receive confusing signals as donor policymakers condition aid allocations on such performance standards. Compliant African governments are rewarded for good behaviour with more generous aid, while non-compliant governments are punished. But what constitutes good behaviour for donor governments, and if inappropriate, what should it be? What policies will improve governance effectiveness scores? And will such policies foster development?

The answers are unclear. Aid recipients are rewarded for pursuing policies that are not coherent, including stabilizing polities, deregulating markets, lowering tax rates, ensuring citizens' health and well-being, maintaining macroeconomic stability, providing reliable infrastructure, and guaranteeing civil servants' capabilities and integrity. What, then, should aid recipient governments do? Raise taxes to enhance fiscal space and provide better health care and education? Risk social and political stability by cutting spending? Raise living costs by liberalizing prices and eliminating subsidies? Almost every seeming solution aggravates another problem, just as many supposed good governance measures may also adversely affect economic development.

Instead, 'good enough governance' implies a more realistic, pragmatic, nuanced, better prioritized and sequenced understanding of the evolution of governance capabilities. Hence, 'good enough governance' may be more realistic for countries seeking to accelerate development. Such an approach necessarily recognizes priorities, preconditions and trade-offs in a context in which everything desirable cannot be pursued simultaneously. This implies acting on knowledge of what is most important and achievable, rather than trying to fill all supposed governance shortfalls or gaps at the same time, and designing and implementing public policy reforms mindful of conditions and context (Grindle 2004).

Similarly, Meisel and Ould-Aoudia recommend 'governance for development', a new, broader concept of governance including various institutional arrangements that inspire confidence which, they suggest, vary with the country's income level and other factors. Reform priorities should be determined by recipient countries, instead of donor requirements, while reforms should take account of context and realities. DFID (2003) suggests that better understanding of context could help policymakers avoid making superficial judgements about development performance and its determinants which aid donors make in allocating concessional finance. Donors need to avoid being overly influenced by short-term trends, or to equate 'good' performance with implementation of a favoured policy priority. The desirability of such an approach has also been recognized by the African Governance Initiative (AGI). Many now agree that institutional reforms in Africa should not aim at compliance with global 'best practices', but at a 'good fit' with countries' needs and potential.

History provides a useful longer term perspective on good or poor government, and on ways to improve it (Khan 2010). It also provides useful insights into processes of change, including inter-connections among the economic, social, political and institutional dimensions of development, as well as for improving government. However, such historical insights do not lead to easy solutions or simple formulas for better government or economic development, but nevertheless suggest small, but important ways to enhance the cumulative development effects of policy reform efforts.

Regardless of their political structure, successful developing countries have had high levels of political corruption, typically necessary for political stabilization through patron-client networks (Gray and Khan 2010). Hence, adapting governance capabilities to the specific conditions of African countries is very different from the exclusive focus on democratization, decentralization or anti-corruption that the good governance approach espouses. Besides emphasizing country context or political economy, this implies significantly shifting away from telling African countries what they should do to eliminate poverty, to support instead the changes required for accelerating development. This would imply being less preoccupied with implementing a specific policy or institutional reform agenda while better understanding what seems to work in particular circumstances, and why.

Note

1. *The political economy of development in Africa: A joint statement from five research programmes*, April 2012. The five research programmes are: Africa Power and Politics Programme; Developmental Leadership Programme; Elites, Production and Poverty: A Comparative Analysis; Political Economy of Agricultural Policy in Africa; Tracking Development. The statement is available from http://differenttakeonafrica. files.wordpress.com/2012/04/joint-statement.pdf

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