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Development and governance: An uneasy relationship

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3.1 Introduction

The focus on quality of governance in developing countries that emerged during the 1990s should not be seen to reflect an interest of multi- and bilateral aid agencies in the political aspects of the development process. Rather, the emphasis on governance was a new stage in the long-term process of depoliticising development. As various authors have outlined, the World Bank and large parts of the international development community function as ‘anti-politics machine’ (Ferguson 1990; Harriss 2001). The introduction of the governance concept – along with other elements of the international development agenda, such as social capital, civil society and participation – can be seen as an attempt to ‘represent problems that are rooted in differences of power and in class relations as purely technical matters that can be resolved outside the political arena’ (Harriss 2001: 2-3). This concentration on technical aspects should not, however, obscure the fact that the governance agenda is highly political, as preferred modes of governance imply a preference for market-led development, in which the role of the state is delegitimised (Abrahamsen 2000: 49).

This chapter focuses on the conceptual change to ‘development as governance’ that resulted from the discrediting of the market fundamentalism inherent in the Washington Consensus. It was realised that structural adjustment recipes had failed in some important respects (Miller-Adams 1999: 106-8) and that issues other than market dynamisation are important for economic development. This chapter argues, however, that the attention to governance issues in the post-Washington Consensus, which has dominated the development discourse since, roughly, the mid-1990s, has remained focused largely on formal institutions (for instance, mechanisms for ‘accountability’ and ‘transparency’) and technical instruments (such as public finance management and public sector reform).

Roughly since the turn of the century, many policy-makers in the area of governance and development, who initially adopted a quite formalistic and technocratic approach to governance issues, have come to realise that the political-economic dimensions of governance reform can no longer be overlooked. Policy-makers in the World Bank and several multi- and bilateral aid agencies have started to adopt approaches that claim to encompass political-economic variables. It is argued here that the inclusion of such variables, related to power relations and interests, leads to contradictions with the pro-market preferences of the governance agenda inherent in the post-Washington Consensus. The problem is that the attempts of the World Bank and multi- and bilateral aid organisations to include political-economic variables may easily turn out to be ‘the next “fix”, limited to a narrow and fairly mechanistic kind of stakeholder analysis’ (Unsworth 2005: 8). In other words, the new political-economy approaches will likely run up against the inherent internal contradictions of a governance agenda that necessarily serves a specific set of political and social outomes. Their impact beyond the rhetorical level in policy practice will probably remain limited.

This chapter discusses these propositions in the context of the changing conceptions of governance in the international development community since the early 1990s. Section 3.2 analyses the tensions that have come to the surface in World Bank thinking on governance as a result of the realisation, at least at the theoretical and conceptual level, that a more political understanding of governance, and of the reform programmes aimed at enhancing governance quality, is required. Section 3.3 discusses the cases of two bilateral donors (the United Kingdom and the Netherlands) who have realised that a more explicit political-economic approach to governance reform is needed. This section analyses the tensions between the need for a clearer political-economic focus in assistance programmes and the predominantly formal and instrumental approach to governance characterising UK and Dutch development policies. Section 3.4 presents some conclusions on the nature of the change from ‘development as markets’ to ‘development as governance’.

3.2 The World Bank and Governance

The first signs of a profound analysis of governance in World Bank circles can be traced to a discussion paper on managing development of August 1991. In the paper, governance was defined as ‘the manner in which power is exercised in the management of a country’s economic and social resources for development’ (World Bank 1991a: 1). The Bank steered clear of the politics of the development process and stressed the technocratic aspects of on governance, arguing that 'governance may be relevant to the Bank's work if it is addressed in terms of having good order and discipline in the management of a country's resources' (World Bank 1991a: 3). The World Bank's report focused on 'four key dimensions' (World Bank 1991a: 7-13):

- *capacity and efficiency issues in public sector management*, with a focus on public expenditure management, civil service reform, and reform of public enterprises and privatisation;
- *accountability*, with an emphasis on mechanisms to ensure financial accountability, monitor the overall economic performance of governments and avoid corruption;
- *predictability and the legal framework for development*, implying that there should be a set of rules known in advance, that these rules are actually in force, there are mechanisms for the application of the rules, resolution of conflicts takes place through binding decisions of an independent judiciary, and there are procedures for amending the rules that no longer serve their purpose; and
- *information and transparency*, which would play a central role in maintaining the efficiency and competitiveness of the private sector and establishing a safeguard against corruption, wastage and the abuse of executive authority.

In the framework of concessionary lending through the International Development Association (IDA), the World Bank had been using instruments for the monitoring of country performance since the mid-1970s. Between 1977 and 1998, with the help of the so-called Country Performance Rating (CPR), IDA judged borrowing countries on their short-term and long-term economic management as well as on their poverty alleviation policies (see World Bank Operations Evaluation Department 2001: 4-10). Governance was understood as accountability, openness and predictability of government actions, community participation in programmes and projects, and the use of resources for military purposes (World Bank Operations Evaluation Department 2001: 4-5).

The CPR instrument was replaced by a different performance rating methodology at the beginning of the twelfth so-called replenishment of IDA (1999-2001). This methodology comprised the Country Policy and Institutional Assessment (CPIA), an additional measure for the quality of governance and a financially oriented portfolio performance indicator (a measure of the proportion of projects at risk in countries' borrowing portfolios).

The CPIA consists of four equally-weighted clusters, each measured by three to five indicato
rs, on a scale ranging between 1 (very strong) and 6 (very weak). The clusters and indicators are:

- *economic management:* macro-economic management, fiscal policy and debt policy;
- *structural policies:* trade policy, financial sector structure and policies, and business regulatory environment;
- *policies for social inclusion/equity:* gender equality, equity of public resource use, service delivery in health and education, social protection and labour, and policies and institutions for environmental sustainability;
- *public sector management and institutions:* property rights and rule-based governance, quality of budgetary and financial management, efficiency of revenue mobilisation, quality of public administration and transparency, and accountability and corruption in the public sector (World Bank Operations Policy and Country Services 2004).[2]

In addition to using these sixteen indicators of the CPIA, the so-called *governance factor* is applied as a corrective element to take into account the quality of governance of countries that are eligible for IDA assistance.[3] IDA argued that '[g]ood governance is being increasingly recognized as a keystone to effective development. A country's quality of governance can be seen as a proxy for its ability to effectively use additional funding, or absorptive capacity' (International Development Association 2001: 3).[4] IDA calculations estimate that the CPIA indicators on public sector management and institutions together with the governance factor have an effective weight of 66 per cent in the country performance rating (International Development Association 2006: 11).

Despite IDA's apparent attention for governance quality, the World Bank's approach to governance issue has remained quite technocratic and a-political, to the extent that it denies any link to specific socio-political outcomes. A closer look at the governance indicators makes this clear (World Bank Operations Policy and County

Services 2004: 32-40; International Development Association 2006: 5-6). Four of the six indicators (the so-called ‘procurement flag’ taken from the Annual Review of Portfolio Performance, quality of budgetary and financial management, efficiency of revenue mobilisation, and quality of public administration and transparency) are highly technically and administratively oriented: they focus on, respectively, quality, reliability and transparency of procurement administration; budgetary and financial management; tax policy and administration; and policy coordination, efficiency of service delivery and wage management.

The two indicators that have potentially the clearest relation to the functioning of the political system (property rights and rule-based governance, and transparency, accountability and corruption in the public sector) stay away from the political process and possible distortions, as an inspection of the definitions demonstrates. The indicator on property rights and rule-based governance

> assesses the extent to which private economic activity is facilitated by an effective legal system and rule-based governance structure in which property and contract rights are reliably respected and enforced. Each of four dimensions should be rated separately: (a) legal basis for secure property and contract rights; (b) predictability, transparency, and impartiality of laws affecting economic activity, and their application by the judiciary; (c) difficulty in obtaining business licenses; and (d) crime and violence as an impediment to economic activity.
>
> (World Bank Operations Policy and County Services 2004: 33)

This definition illustrates the bias of the indicator toward business and economic activities, rather than the functioning of political systems.

The indicator on transparency, accountability and corruption in the public sector is calculated on the basis of three components: ‘(a) the accountability of the executive to oversight institutions and of public employees for their performance; (b) access of civil society to information on public affairs; and (c) state capture by narrow vested interests’. Together, these are assumed to assess

> the extent to which the executive can be held accountable for its use of funds and the results of its actions by the electorate and by the legislature and judiciary, and the extent to which public employees within the executive are required to account

for the use of resources, administrative decisions, and results obtained. Both levels of accountability are enhanced by transparency in decision-making, public audit institutions, access to relevant and timely information, and public and media scrutiny. A high degree of accountability and transparency discourages corruption, or the abuse of public office for private gain.

(World Bank Operations Policy and County Services 2004: 41).

The conception of accountability that is used here has, again, a rather functional and technocratic overtone, as it rests on transparency and public audit. Political aspects, such as the accessibility of decision-making to marginalised groups and possible distortions of interest representation in the political system, are not addressed. Civil society is mentioned, but only in relation to transparency (access to information on public affairs), and not in its role of providing un- or underrepresented social groups the means to have their voice heard in the political system.

The treatment of governance in IDA's country performance assessment was criticised in a review undertaken by an external Panel of Experts in 2004. The Panel commented, among other things, that the understanding of governance in the CPIA appears one-sided; it suggested the development of 'a separate criterion for "*political* governance"' (World Bank 2004b: 3, italics added). Preparations for the fifteenth IDA round (2008-11) focused on the CPIA's role in the country performance rating, but there is no sign of inclusion of more explicitly political variables among the governance-related indicators (International Development Association 2006: 19; 2007: 21).

Interestingly, staff from the World Bank Institute, the Bank's capacity development division, have attracted much attention in academic and policy circles with the development of six empirically grounded measures of governance. Daniel Kaufmann et al.'s measures, which pay much more attention to the political dimensions of governance, have been compiled in the *Governance Matters* dataset (Kaufmann et al. 1999a, 1999b, 2006a, 2006b).

Apart from containing variables on government policies and regulations[5] and on rule of law and anti-corruption,[6] *Governance Matters* comprises a cluster of variables related to political competition and legitimacy (Kaufmann et al. 1999b: 7). 'Voice and accountability' refers to 'the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and free media'. 'Political stability and absence of violence' is a measure of political legitimacy, expressing 'perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including political violence and terrorism' (Kaufmann et al. 2006a: 4). In contrast to the widespread interest for the data among researchers, the *Governance Matters* scores have not been adopted for decision-making on allocations by the World Bank, not even as 'guideposts' in the CPIA process (cf. World Bank Operations Policy and County Services 2004: *passim*).

Many authors have commented that the evolution of thinking on governance in World Bank circles is part of a more profound change in thinking about the relative roles of the market and the state in governance. Various authors have interpreted the change as one away from the Washington Consensus to a post-Washington Consensus (Stiglitz 1998). The movement away from market fundamentalism ('development as markets') that is visible in the emphasis of governance quality in the post-Washington Consensus ('development as governance') does not, however, signal a radical change in the thinking about markets *per se*. The constant element in the thinking about development remains the functioning of markets: the post-Washington Consensus, borrowing from new institutional and information-theoretic economics, has been emphasising institutions as instruments to correct market imperfections and, along with this, the need to limit the role of the state to that of a regulator. As Ben Fine has noted:

> The pre-Washington consensus view of the state as a benign force for development has been lost in the transition to the post-Washington consensus which has adopted from the Washington consensus an understanding of the state as being subject to capture by rent-seeking agents. Consequently, whilst not accepting that the potential for rent-seeking undermines the rationale for any state intervention, the post-Washington consensus is mindful of the need to ensure that correction of market imperfections is not nullified by non-market imperfections. Interventionism should be limited to the capacity for good governance which itself becomes an object of policy.
>
> (Fine 2001: 143)

The implication is that World Bank thinking on development, despite its emphasis of the precepts of good governance, remains inherently neo-liberal in character. The difference between the Washington Consensus and the post-Washington Consensus, therefore, is one of degree, not one of kind.

The continuity in World Bank development thinking is exemplified in many recent Bank publications, most notably the flagship annual publication, the *World Development Report*. The *World Development Report 2002*, entitled 'Building Institutions for Markets', is premised on the notion that markets are the central element of development: 'income from participating in the market is the key to boosting economic growth for nations and to reducing poverty for individuals' (World Bank 2002a: 3). The main challenge appears to be essentially a micro-economic issue for the World Bank: it is about creating opportunities and incentives for poor people to make use of markets (cf. Fine 2003: 14). The *World Development Report 2002* clearly spells out its view of the role of markets and institutions:

> Markets allow people to use their skills and resources and to engage in higher-productivity activities if there are institutions to support those markets. What are these institutions? Rules, enforcement mechanisms, and organizations *supporting market transactions*. Extremely diverse across rich and poor communities and nations, they help transmit information, enforce property rights and contracts, and manage competition in markets. All market-supporting institutions do one or more of those things. And in so doing, they give people *opportunity and incentives to engage in fruitful market activity*.
>
> (World Bank 2002a: 3-4, italics added)

In the World Bank's view, the role of the state under conditions of 'good governance' is reduced to that of regulator. The *World Development Report 2002* distinguishes four elements, in particular, as main tasks of the state:

> the creation, protection and enforcement of property rights, without shich the scope for market transactions is limited ... the provision of a regulatory regime that works with the market to promote competition ... the provision of sound macroeconomic policies that create a stable environment for market activity ... the absence of

> corruption, which can subvert the goals of policy and undermine the legitimacy of the public institutions that support markets.
>
> (World Bank 2002a: 99)

This description of the role of the state as regulator focuses on its contribution to enhancing economic efficiency and the proper functioning of markets. Politics thus is defined very narrowly, in terms of the provision of institutions, while more profound aspects, which have to do with conflicts of interests and the manipulation of institutional arrangements for specific sectoral interests, lie beyond the purview of the Bank's analysis (cf. Jayasuriya and Rosser 2001: 391).

The World Bank's attempt at self-assessment in its report *Economic Growth in the 1990s* signals significant changes at the conceptual and theoretical level that seem to diverge from the techno-managerial approach that has characterised much of the Bank's approach. Interestingly, the report argues that

> Perhaps the most important lesson of the 1990s is that technocratic responses to improve governance work only in very auspicious settings – where there is committed leadership, a broadly based coalition in support of reform, and sufficient capacity to carry the reform process forward. ... Meeting the challenge requires a good understanding of the political dimensions of reform, and, in particular, of how reform can be used to identify and build constituencies that are capable of sustaining the reform momentum.
>
> (World Bank 2005f: 298)

Although the report seems to signal much greater sensitivity for political dynamics than in the past, the 'guidelines' for policy reform as formulated by the Bank remain limited to the creation of incentives for economic actors, the pursuit of growth strategies and the creation of institutional conditions for a favourable investment climate (World Bank 2005f: 262-5).

With respect to public sector governance, the World Bank report concentrates on the adoption of 'strategic incrementalism'. The report advocates a diversified reform strategy, responding to differences in targeted states, related to the degree of state capture and administrative corruption. States with low degrees of state capture and corruption would benefit from technical approaches to enhance the quality and efficiency of public service provision. In weak states, with mild state capture and a high level of corruption, the emphasis should be on mechanisms to ensure tax collection, minimal service delivery and budget execution. Captured states – characterised by a high degree of state capture and corruption and often dependent on resource extraction or a small number of valuable industries – would need the break-up of vested interests. In 'restrained' states, with a captured state but low corruption, the demand for change of leadership should be encouraged, for instance through civil-society action (World Bank 2005f: 297-9).

This approach is reiterated in the Bank's major document on governance and corruption that was tabled at the 2006 Annual IMF-World Bank meeting in Singapore. This report is adamant about the possibility of intervention: 'Improving governance means engaging with institutions outside the central government (parliament, local communities, civil society, and the media) and supporting them to complement ongoing work with central government institutions' (World Bank 2006e: 6). Such strategies are envisaged primarily with respect to countries where 'governance and corruption pose major obstacles to reducing poverty and are high in the country's own priorities' (World Bank 2006e: 8), such as Indonesia, Bangladesh and Albania. The Bank opts for 'broad interventions' to help improve governance in developing countries. Such interventions would include strengthening the capacity, transparency and accountability of state institutions; strengthening participation and oversight by civil society and the media; strengthening the private sector; and strengthening political accountability (World Bank 2006e: 13).

The World Bank's increased recognition of political factors in the governance reform process has not had a direct visible impact on the Bank's application of the CPIA. There are no signs that the allocation of loans will become less performance-based and less reliant on the technocratic and market-oriented CPIA (World Bank 2006e: 39). Further, it is not clear how the change in thinking would reflect in actual lending practices and how the awareness of political dimensions of reform would be featured into projects and programmes aimed at strengthening governance in developing countries. The advocated changes are likely to remain rhetorical and have little impact on day-to-day World Bank policy practices.

3.3 Governance Criteria and Aid Practices

Various bi- and multilateral development agencies have stressed the need to go beyond the technocratic and instrumental approach to governance that originated in the 1990s, and include more profound political-economic analyses. These development agencies, while recognising the urgency to pay attention to power and interests, have great difficulty with translating the analytical insights into policy decisions. Thus, the attention for political-economic processes has remained primarily important at the analytical and rhetorical level.

DFID and the 'Drivers of Change'

As in many other aspects of development assistance policy, the Department for International Development (DFID) in the UK has been at the forefront of adopting a more political-economic understanding of governance issues and their relationship to development. Before 2005, UK aid came with many 'conditions and milestones [that] include a range of indicators of inputs, outputs, processes and outcomes, including policy actions', but paid hardly any attention to governance issues (Mokoro 2005: 6).

A policy change that was initiated in 2005 aimed at establishing 'partnerships for poverty reduction' between the UK and aid-receiving countries. Secretary of State for International Development Hilary Benn indicated that partnerships should focus on 'shared commitment' to the Millennium Development Goals, respect for human rights and other international obligations related to peace and security, and the strengthening of financial management, accountability and administration and the fight against corruption (Secretary of State for International Development 2005: 1).

In addition to the partnership approach, the White Paper on International Development of 2006 launched a new 'quality of governance' assessment, which was intended for use alongside the monitoring of the partnership objectives. The quality of governance assessment would be used to determine how UK development assistance could be delivered. Countries whose governance quality is assessed favourably, would qualify for budget support, while countries with lower quality governance would only receive aid with more restrictions (Secretary of State for International Development 2006: 24).

Despite taking on board the observance of human rights, international obligations and governance quality, the UK's approach to governance has remained relatively instrumental and technocratic. Neither the partnership approach, nor the quality of governance assessment includes particular attention for political-economic fundamentals of governance. DFID are clearly aware of this limitation themselves: in 2001, the Department had launched the so-called 'Drivers of Change' (DoC) approach, which aims at understanding the political-economic dynamics inherent in development and poverty reduction processes. DFID argues that the implementation of 'technically sound programmes' is not in itself sufficient to induce pro-poor change in developing countries (Department for International Development 2004: 1).

The philosophy behind the Drivers of Change programme has been summarised as follows:

> 'Drivers of Change' examines 'what is driving change' in the countries where DFID is active. ... By better understanding how change occurs within specific contexts, it is hypothesised that DFID's programming decisions will be better equipped to respond to this 'how' question and help bring about pro-poor change. DoC therefore emphasises DFID's need to understand economic, political and social contexts, in other words, the application of political economy analysis to formulation of donor strategy and implementation.
>
> (Warrener 2004: 1)

By analysing three different aspects of economic, political and social contexts (agents, structural features and institutions), the Drivers of Change methodology attempts to lay bare the factors that contribute to or impede change. Agents are individuals and organisations pursuing particular interests, including political elites, the judiciary, the military, civil society organisations and the media. Structural features relate to 'deeply embedded' factors as the history of state formation, natural resources, economic and social structures, and urbanisation. Institutions are the formal and informal 'rules governing the behaviour of agents', and range from laws and official procedures to social and cultural norms (Department for International Development 2004: 1).

The Drivers of Change approach has clearly provided an answer to the criticism that insufficient awareness of the fundamental political-economic structures and processes in societies may render development interventions ineffective. Yet, various commentators have argued that its high level of abstraction does not make the Drivers of Change approach easily applicable to concrete policy decisions (e.g. Dahl-Østergaard et al. 2005: 24). An OECD-DAC report on the lessons learned indicates that Drivers of Change analyses appear to have served mainly as means to enhance the understanding of staff at DFID country offices and country specialists at headquarters (Dahl-Østergaard et al. 2005: 7). Moreover, the report indicates that

> there is a sense of growing tension – expressed by staff in all locations – arising from the pressure to increase spending, especially in Africa, and to pursue short term interventions to achieve the Millennium Development Goals. This is seen as difficult to reconcile with the emphasis of DOC studies on local political process, and longer timescales for fundamental change.
>
> (Dahl-Østergaard et al. 2005: 7)

In conclusion, the introduction of the Drivers of Change approach by DFID seems to have produced a more profound awareness of structural factors – related to history, geography, economic power and political and social institutions – and their impact on the adoption and implementation of poverty reduction strategies in developing countries. The failure to implement the lessons obtained in broad-based, structural studies of power and social relations in developing countries to the practice of development assistance, is witness to the deep-seated tensions in DFID's agenda on governance and development. As was indicated above, this agenda remains limited to predominantly formal and technical measures to improve public administration and government operations. The fundamental political-economic problems of governance highlighted in Drivers of Change analyses, which are related to issues such as the access of marginalised groups to decision-making and the institutional bias favouring certain sectoral interests, would require more direct political interventions, aimed at social, political and economic transformations in aid-receiving countries. It is highly doubtful whether such an approach would be acceptable to policy-makers in DFID or recipient governments.

The Netherlands and the Strategic Governance and Corruption Analysis

The experience of Dutch development assistance policies since the adoption of governance-based selectivity in 1998 shows a logic that is different from the UK's. Ever since the selection of 22 recipients of bilateral assistance by Minister Eveline Herfkens in 1999, policy makers have referred to countries' governance to legitimise their allocation decisions (see Hout 2007b: 50-69). Empirical analyses have revealed a clear pro-market bias in the Dutch understanding of governance: the adoption of market-friendly policies by developing countries has significantly increased their chance of selection as a preferred partner for Dutch assistance, particularly during Herfkens' tenure (1998-2002). In general, World Bank-inspired assessments (such as the CPIA ranking) appeared more important in decision-making on Dutch aid than variables related to recipients' political systems (see Hout 2002: 519-23; 2007a: 157-62; 2007b: 123-6).

In October 2007, the current Minister for Development Cooperation, Bert Koenders, announced a revision of the list of 36 'partner countries' that has previously been selected for Dutch development assistance. According to Koenders, the assessment of governance has played an important role in the revision (Minister for Development Cooperation 2007: 35). Koenders distinguishes three 'country profiles' of partner countries. The first profile relates to countries where the focus is on accelerating achievement of the Millennium Development Goals (MDG). These low-income countries are felt to have 'a reasonable level of stability and improving governance' (Minister for Development Cooperation 2007: 38), so that investment in MDG achievement is worthwhile. The second profile consists of 'fragile states', where the focus is on security and the strengthening of government legitimacy and capacity. Finally, the third profile comprises (near) middle-income countries, with which the Netherlands aims to strengthen economic ties (Minister for Development Cooperation 2007: 43-4).

Since 1994, the Dutch Ministry of Foreign Affairs has been assessing governance quality in partner countries. The so-called 'track record' instrument was developed to determine whether partner countries would qualify for macro-economic support or sectoral budget support. In case of a positive judgement, aid modalities are chosen that allow 'alignment' (integration with the policy and budget of partner countries). General speaking, fully 'aligned' aid is general budget support, while 'non-aligned' aid is assistance in the form of projects (Ministry of Foreign Affairs 2004b: 3-5). The track record analysis collects information on four clusters, each comprising two sets of issues. The clusters and issues are the following:

- *poverty reduction:* (a) adequacy of the national poverty reduction strategy, (b) political commitment to poverty reduction policies;

- *economic order:* (a) the contribution of macro-economic policy to stability of the policy environment and economic growth, (b) the contribution of structural reform policy to national business climate and economic structure;
- *good governance:* (a) quality of public finance management, (b) basic conditions of good governance;
- *dialogue:* (a) opportunities to influence the government through policy dialogue, (b) progress with regard to donor harmonisation and alignment (Ministry of Foreign Affairs 2004b: 14-16).

The emphasis of the track record is on relatively technical and managerial issues. The political commitment to poverty reduction and the basic conditions for good governance (with attention for accountability, human rights, effective government, equitable and sustainable development, government legitimacy and corruption) constitute the more political elements of the track record and, together, contribute 25 per cent to the overall judgement on the partner country concerned. The track record instrument is used primarily for technical purposes (is it for judging whether the conditions for giving budget support are met), and is not applied to assess countries' broader governance framework. Decisions on the selection of countries for a long-term bilateral aid relationship are made without reference to their track records.

Over time, it was argued that a more profound understanding of governance would be required, as the formal and rather technical assessment methods do not provide sufficient insight into the political-economic dynamics of developing countries. A first step was made by the Ministry's Good Governance Division with the publication of the *Good Governance Handbook* in 2004. The handbook stipulated, more or less in line with DFID's Drivers of Change approach, that external support of processes of change requires a proper understanding of the internal political dynamics in developing countries, most importantly of the driving forces behind reform attempts (Ministry of Foreign Affairs 2004a: 21). A more recent discussion paper, published by the Effectiveness and Quality Directorate, stressed that donors should pay more attention to the political dimensions of poverty and poverty reduction. It was argued that policy makers should 'look behind the façade' in developing countries and identify forces that might lead to reform (Ministry of Foreign Affairs 2007).

The attention for the political and political-economic realities in developing countries at the Dutch Ministry of Foreign Affairs culminated in the adoption of an instrument that promised a more profound understanding of the dynamics of reform in developing countries, most importantly with respect to their governance structures. On the basis of the so-called Stability Assessment Framework (Ministry of Foreign Affairs 2005) that had been developed by staff at the Netherlands Institute for International Relations, a Framework for Strategic Governance and Corruption Analysis (SGACA) was implemented in the course of 2007. The logic behind SGACA, which borrows from the Drivers of Change methodology, is to 'facilitat[e] a more strategic approach to analysing the context for governance and anti-corruption for each partner country' (Unsworth et al. 2007: 3). SGACA's approach is summarised as follows:

> Apart from formal factors, the SGACA aims to capture the informal, societal and sometimes intangible underlying reasons for the governance situation, which can often differ from the formal configuration of the state. Such an analysis can improve the design of donor interventions, through a better understanding of what happens behind the 'façade' of the state on the one hand and what really drives political behaviour on the other.
>
> (Unsworth et al. 2007: 3)

SGACA's centrepiece is a so-called power and change analysis, which is to be conducted by a local or international consultant in coordination with staff at Dutch embassies. This analysis focuses on the 'foundational factors' (the factors that shape the country's political system), the 'rules of the game' (in particular, formal and informal institutions of the state, civil society and the private sector) and the 'here and now' (the capacities and interests of key actors and the pressures they are responding to) (Unsworth et al. 2007: 6-15). On the basis of the power and change analysis, workshops are envisaged with embassy staff to draw conclusions on the situation in the partner country and consider the implications for the strategic choices facing the Netherlands on governance and anti-corruption policies. These should be factored into the multi-annual strategic plan that is to be worked out between the embassy and the Ministry headquarters for the partner country concerned (Unsworth et al. 2007: 22-31).

At the moment of writing (early 2008), SGACA is still in its infancy. The first assessments of the partner countries, undertaken by external consultants, are under way. It is too early to tell whether the Netherlands will be able to integrate the results of power and change analyses successfully and whether SGACA will provide the tools to get away from the quite formalistic and technocratic approach characterising governance reform. The introduction of governance-oriented selectivity in Dutch development assistance after 1998 has earlier brought me to the conclusion that new policy principles failed to have a real impact on the choices of the Ministry of Foreign Affairs: countries that had been favoured before 1998 continued to be preferred partners after the move towards selectivity (Hout 2007a: 166-7). If this recent history is anything to go by, there is every reason to be skeptical about the Ministry's ability to implement a radically different policy practice as a result of the new governance assessment instruments.

3.4 Conclusion

The change from 'development as markets' to 'development as governance' that has permeated the international development community during, roughly, the last decade has had some important consequences. Many actors have argued that governance is an important element of development. Under the influence of thinking in World Bank circles, governance has been understood primarily in function of the deepening of markets, with an emphasis on the building of formal and technical institutions. This functional and disembedded understanding of governance gradually came under attack from analysts who stressed that reform processes have an inherently political-economic character, as they impact on interests of socio-economic groups and on the relations among such groups.

This chapter has discussed several examples of the growing attention for political and political-economic dimensions of governance in the international development community, with specific attention to the World Bank and two bilateral aid donors (the United Kingdom and the Netherlands). It was argued that it is relatively easy to signal the need for a more political or political-economic approach to development and governance, but it is much more difficult to translate awareness into concrete policy decisions. In the World Bank, the technocratic assessments of governance and institutions remains unaffected by the calls for political analysis. Likewise, day-to-day British and Dutch development assistance practices remain, as yet, largely unchanged despite the adoption of political-economic assessment frameworks.

The analysis of World Bank, British and Dutch policies suggests that there are two irreconcilable logics of reform underlying the formal-technical and the political(-economic) approaches to governance. The formal-technical approach leads to measures aimed at bringing about more effective and efficient government practices. The political and political-economic approaches, however, lead to a focus on social, political and economic power and interests, and on the way these cause problems of governance. The governance reform policies that follow from the latter approaches are not limited to ways of bringing about more effective government, but are likely to suggest more fundamental interventions in the socio-economic and political realities of developing countries. As reforms of this kind will inevitably produce winners and losers – the latter being the main beneficiaries of corruption, patronage and clientelist networks – they will invoke resistance.

The paradox of governance reform seems to be that political and political-economic approaches are key to understanding the fundamental causes of bad governance, but implementation may be difficult or even impracticable. Formal-technical approaches, at the same time, may be feasible but are not likely to address the fundamental causes of bad governance, related to existing asymmetries in power and socio-economic inequalities, and therefore turn out to be self-defeating.

Notes

[1] I would like to thank Dirk-Jan Koch and Richard Robison for their comments on an earlier version of the chapter.

[2] This account is based on the current CPIA methodology that has been used since 2005. The previous methodology, comprising the same four clusters, but slightly different sets of indicators, is described in International Development Association 2003.

[3] Earlier, IDA applied the so-called governance discount (International Development Association 2001: 4).

[4] This statement seems to refer to the conclusion of the *Assessing Aid* report that aid is effective if given to developing countries with good institutions and policies (World Bank 1998: 2-4).

[5] These variables are: government effectiveness ('the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies') and regulatory quality ('the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development') (Kaufmann et al. 2006a: 4).

[6] These variables are: rule of law ('the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, the police, and the courts, as well as the likelihood of crime and violence') and control of corruption ('the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests') (Kaufmann et al. 2006a: 4).