FOCUSING AID ON GOOD GOVERNANCE:

CAN FOREIGN AID INSTRUMENTS BE USED TO ENHANCE 'GOOD GOVERNANCE' IN RECIPIENT COUNTRIES?

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Abstract

Can foreign aid be used to enhance good governance in recipient countries? This paper looks at the history of donor efforts to strengthen public institutions in developing countries, and how these have evolved in response to accumulated learning, changing fashions and donor interests. Systematic evaluation is lacking, but overall, the impact of donor assistance has been modest. In response to this finding, a new conventional wisdom is emerging among development practitioners, which recognises the need for much better understanding of political and institutional context, and more effort to nurture local ownership and demand for reform.

However, the critical question is what donors will do with these insights. Will they be absorbed into current ways of thinking (which assumed that the solution lies in capacity building of formal institutions), or will they stimulate a much more fundamental reappraisal of how to get better governance? The paper suggests that the latter would involve adopting a different working hypothesis, namely that getting more effective, accountable public institutions requires a political process of bargaining between the holders of state power and organised interest groups in society. A major cause of bad governance in many developing countries, is that incentives for the political elites to engage with local interest groups - for example over tax - is relatively weak, since they have access to external rents and support from rich countries.

Rethinking governance in this way is difficult for donors, because it highlights the scale of the challenge, the limitations of what external actors can contribute, and the lack of knowledge about how to get better governance. It would require significant changes to the way donors operate, including:

- prioritising action to restrict the access of political elites in poor countries to rents and military support, by curtailing the involvement of OECD states, businesses and individuals in corrupt business practices, and the arms trade
- getting serious about rationalisation (not just harmonisation) of donor activity. Becoming much more alert to the impact of aid, and of different aid modalities, on local incentives and capacity for progressive change
- playing a more indirect role in supporting long-term processes of change, instead of trying to set the policy agenda.

Introduction

Can foreign aid be used to enhance good governance in recipient countries? This is an important question. The prevailing view among donors is still that the quality of governance in developing countries is critical to the achievement of the Millennium Development Goals. There has been a proliferation of governance advisers and projects, accelerating from the mid 1990s, and covering a broad, increasingly ambitious range of interventions touching on virtually all aspects of the public sector. Thinking about governance is shaping donor approaches to aid delivery, through Poverty Reduction Strategy processes, budget support and current debates on conditionality. However, the question of *whether* donors can be effective in promoting 'good governance' – as opposed to the constant restless search for how to do it better - is hardly ever asked.

This may be, in part, because the question is unanswerable, at least in any definitive way, given the current state of our knowledge. There is little systematic evaluation that offers good learning above the level of individual projects. The main actors have different, often vague definitions of what they mean by good governance, though the implicit model – embodied, for example, in governance assessment frameworks - is the reproduction of Weberian norms and democratic political systems as found in OECD countries. There is a lack of agreement about measurable indicators, and often no clearly articulated working hypothesis linking inputs with outputs and higher-level objectives. Donors come with different objectives: democracy builders see this as an end in its own right, while others pursue better governance as a means to promote growth and poverty reduction, or to counter the security risks posed by collapsed or fragile states.

Nevertheless some worthwhile learning has accumulated, based on the experience of practitioners and on evaluation studies. From this has emerged some new conventional wisdom about the importance of local demand and 'ownership' of reform measures, the risks of overloading the agenda, the need for realism about timescales, and for better understanding of political economy constraints. The critical question is what donors will now do with these insights.

This paper starts by taking a brief look at the history of donor efforts to strengthen public institutions in developing countries, and at how these have evolved in response to accumulated learning, changing interests and ideas. Section III takes a closer look at the findings of recent evaluations of governance interventions. Section IV considers the inferences which development practitioners are drawing from them. It suggests that without a more fundamental re-appraisal of underlying assumptions about governance, the impact of past learning will be at best marginal. In particular there is a risk that good intentions will get derailed under pressure to make large, rapid increases in spending to meet the timetable for achieving the Millennium Development Goals.

Section V looks at what a fundamental re-appraisal would involve. It suggests that donors need to get real about the scale of the challenge confronted by poor countries seeking to build more effective, legitimate public institutions; the fundamental lack of knowledge about the processes involved; and the limitations on what external actors can contribute. That would be uncomfortable, would require significant changes to the way donors operate, and would come up against very entrenched political economy constraints. But it could offer greater clarity about priorities, open up new opportunities, and suggest ways in which donors might – often indirectly – help strengthen local political processes which are indispensable to the search for more effective and accountable government. These are explored in Sections VI and VII.

This paper does not deal with collapsed states or states engulfed in conflict, where particular considerations apply, and where priorities revolve around basic security and survival. It is concerned with a wide range of poor countries with functioning governments, but where major weaknesses in political legitimacy and administrative capacity act as significant constraints on economic and social development. It uses 'governance' to refer to how the rules, institutions and systems of the state – the executive, judiciary and legislature – operate at central and local level, and how the state relates to individual citizens, civil society and the private sector. 'Good governance' broadly equates to more democratic political systems and Weberian bureaucracies, but with the emphasis less on formal organisational structures than on how they actually work. The direction of change needed to improve governance in many developing countries would be a move from highly personalised systems where power is concentrated in the hands of a small number, to systems which are more rules-based, where power is more widely distributed, and access to assets and services is based on rights rather than patronage.

Finally, in addressing the question of whether donor interventions can enhance good governance, the paper assumes that – whether as an end in itself, or as a means to other ends – better governance has been a genuine objective. In practice, of course, donors often have to strike compromises with other parts of their own governments pursuing different, and possibly conflicting, objectives. This issue is specifically addressed in Section VII.

Insights from History

Governance as defined above came on to the donor agenda in the 1990s. But it was preceded by a long history of donor efforts to strengthen public institutions in developing countries. These included in the 1950s and 1960s interventions inspired by modernization theory, such as the Rule of Law movement supported by the US government. By the 1970s the focus had narrowed back to a pre-occupation with identifying and meeting skills gaps, especially in the public service and the judiciary, with an emphasis on training and counterpart arrangements. For example, the UK's Ministry for Overseas Development supported hundreds of 'supplemented' staff throughout the public service in the ex-colonies, conducting regular 'manpower reviews' to assess needs. By the 1980s the focus had broadened to include the organisational context, including interventions in management restructuring and job evaluation. From the mid 1980s, with the advent of structural adjustment programmes, the focus shifted again, to include broader public service restructuring, with an emphasis on cost reduction, and retrenchment of government from non-core functions. But the impact was modest, early gains proved very difficult to sustain, and there was mounting concern that reforms were damaging already weak capacity[i]. By the mid 1990s there was renewed concern with capacity building in the public service as the key to improved service delivery, supported by interventions to decentralise functions, to create more autonomous agencies, and to improve incentives and pay as well as the wider work environment.

In parallel, and accelerating throughout the 1990s, was a new preoccupation with 'good governance'. The democracy building movement took off on a wave of optimism inspired by the end of the Cold War and political opening in Eastern Europe, the Former Soviet Union, and in many parts of the developing world. There was burgeoning support for civil society, linked both to democracy promotion efforts and to movements to empower poor people and encourage their participation in the design and implementation of projects. But there was also increasing concern that weak administrative capacity, systemic corruption, and lack of 'political will' were impeding programmes for poverty reduction, especially in highly indebted and aid-dependent countries. A growing list of governance reforms was advocated for inclusion in Poverty Reduction Strategy papers (Casson 2001). There was increasing focus on the links between institutions and growth, based on the work of Douglass North and others. There was emphasis on the need for 'ownership' of policy reform, and a recognition that externally imposed conditionality was a very defective instrument in achieving it (Killick 1998). Towards the end of the decade concerns were being raised about the failure to take sufficient account of political and institutional factors, based partly on the experience of transition countries. These various trends are well reflected in a series of Target Strategy Papers published by the UK's Department for International Development between 1999 and 2001.

Why is any of this interesting in relation to the central question being addressed? Primarily because of what it tells us about the culture and political economy of donors. A positive interpretation would be that it shows serious professionals intent on learning lessons from past experience and responding to them, and there is a good deal of truth in this. But a more negative view would be of a constant, restless search for the next 'fix'; a rapid succession of new remedies, often poorly understood by harassed programme managers, and dictated more by fashions or changing preoccupations in developed countries than by a good understanding of processes of change in developing countries. Donors have set the agenda: structural adjustment, liberalisation and privatization, good governance, even (arguably) poverty reduction. It has been shaped by thinking based on research and experience in developed countries: New Public Management, New Institutional Economics, the Rights Based Approach. Most striking, perhaps, is the way in which the governance agenda has expanded to incorporate a huge range of interests and concerns, with the result that it risks becoming diffuse, incoherent and unmanageable (Grindle 2002)

Evaluation of Governance Interventions

All commentators bemoan the lack of systematic evaluation studies of governance interventions. However, there is material, which provides at least a preliminary assessment of different components of donor support for improved governance. These include democracy building, civil society assistance, public sector reform including pay reform, and anti-corruption interventions. From a sample of studies, working papers and meeting reports, some common themes emerge:

Modest Impact, Huge Challenges

Overall, the impact of external assistance has been at best modest, and the challenges are recognised as huge. "What stands out about US rule of law assistance since the mid 1980s is how difficult and often disappointing such work is" (Carothers 1999). "There are few success stories or examples of actually reducing corruption in a sustained way" (Bailey 2002). "The Bank has achieved only modest success so far in achieving durable outcomes [from anti-corruption efforts]...the unusual complexity of the task in hand, and the magnitude of the challenge, account for the gap." (OED 2004). Particular doubts emerge about top-down attempts to transfer institutions from developed countries: anti-corruption agencies, for example, have been successful in only very limited circumstances (Bailey 2002).

Success at Project Level, Lack of Impact at Sector Level

The OED 2004 country evaluation finds relatively successful outcomes for public sector management interventions at a project level, but lack of impact at a sector level. This is echoed in individual project evaluations, for example of a long-running project supported by the UK in Bangladesh to implement reforms in budgeting and expenditure control (RIBEC Evaluation 2001). This found evidence of tangible improvements at the output level in data quality and availability (budgeting, financial reporting), but a lack of demand which is constraining its use in improving resource allocation and financial management more generally. A common finding for many donor-supported projects is that over-optimistic assumptions are made at the outset about the institutional environment to support project objectives at "purpose" level[ii], with the consequence that objectives, or timescales for meeting them, often prove unrealistic.

Importance of the Political and Institutional Environment

The importance of the political and institutional environment is highlighted in many studies, and parallels World Bank findings about economic aid having a positive impact where institutions and policy are supportive. Public service reform has been relatively successful in Tanzania, with a long history of external support based on government commitment and indeed innovation. It has been much more problematic in Kenya, Zambia, and Ghana (DAC 2002). The politics of pay reform have proven especially challenging (Kiragu and Mukandala 2003). Carothers suggests that democracy assistance can help "speed up a moving train" where democratic forces are already at work, but doesn't affect outcomes in decisive or significant ways. For example, democracy assistance seems to have played a modest but useful role in recent developments in Ghana (Booth 2004). Donor assistance for the constitutional review process in Kenya in 2000- 2001 arguably contributed to the success of that movement (though the outcome is now very much in doubt). Conversely, where democracy is stagnating or sliding backwards, Carothers finds that aid has few chances of reversing the trend.

Pattern of Early Unsustainable Success

A common pattern is of early success which is not sustained – for example a DAC –sponsored review of public service reform programmes in five Anglophone African countries shows evidence of some success with "quick wins" of limited scope (e.g. in faster processing of business licences), but difficulty in sustaining broader structural reform, especially related to civil service pay. The experience with autonomous revenue authorities is decidedly mixed. The experience of Uganda is particularly poignant: it shows both how aid can have a significant positive effect where there is strong government ownership of a reform programme, but also how vulnerable hard-won gains are to reversal when political economy conditions change.

Intermediate Success Stories

On a brighter note, there are some intermediate success stories, which should not be undervalued, notably the encouragement of more open public debate about the negative effects of corruption and the development of better diagnostic tools; and getting poverty or rule of law issues onto the political agenda through the Poverty Reduction Strategy process (PRSP), or through rule of law programmes. Civil society assistance has achieved gains at the micro level, though it may have done little to encourage genuine pluralism or to support broader democratisation objectives (Ottaway and Carothers 2000).

Good Ideas: Relative Success of Home Grown Reforms

Good ideas can catch on. For example, tax reform efforts in Latin America in the 1990s, inspired by the IFIs, have achieved improvements in tax administration and some policy reform, including reducing taxes on foreign trade and lowering marginal rates on upper incomes. Unsurprisingly, efforts to broaden the tax base have been less successful, and equity issues have not been addressed. The most striking thing is perhaps the relative success of home grown reforms which have addressed local problems, including the political dimensions of tax reform (Lledo, Schneider and Moore 2004). More generally, some of the most successful initiatives – such as the right to information movement in Rajasthan - have deliberately eschewed external support.

The New Conventional Wisdom[iii]

The limited impact of many past reform efforts can in part be explained by lack of realism about higher level objectives, inadequate investment of time and resources, poor project design and implementation, failure to take account of likely opposition, and poor sequencing. But most commentators point to more fundamental concerns. They underline that all governance interventions – and indeed the broader poverty reduction agenda - are highly political, and that external interventions need to be much better informed by an understanding of local political economy factors. From this has emerged a new conventional wisdom, the main elements of which are as follows:

Better Understanding of the Political and Institutional Context

Donors need a much better understanding of the political and institutional context and incentives of key actors (DAC 2002 on anti-corruption). They need to understand the local political environment, and to take account of the underlying interests and power relations in which institutions are embedded (Carothers 1999). They need a better understanding of the political economy of reforms (OED 2004). “Corruption is grounded in political contexts and social fragmentation over which the

Bank has limited influence...a better understanding of social and political factors at a country level would enhance the quality and impact of Bank advice" (World Bank 2004). Donors need a deep understanding of local constraints, opportunities, habits and norms (Fukuyama 2004). The main constraint in most cases has been the lack of political support (DAC 2002 on public service reform).

Nurture Demand for Improved Service Delivery

There is a need to nurture demand for improved service delivery, and to broaden the constituency for public service reform (DAC 2002). Insufficient demand for institutions and institutional reform is the biggest constraint. Externally generated demand – for instance through conditionality- seldom works (Fukuyama 2004). There is a need to 'deal with the demand dilemma' by fostering demand among a wide spectrum of stakeholders (OED 2004)

Institutional development needs Time and Patience

Donors need to recognise how fundamental the challenge is (Birdsall 2004). Institutional reform and capacity building for effective governance is critical to successful outcomes but this takes time (the OED country assistance evaluation suggests "several years"...) Corruption will be most effectively addressed through long-term institutional reforms (OED 2004)

Donors: Big Part of the Problem.

This is reflected in a wide literature on the aid business as a whole (for example van de Walle 2001). Recognition of the dysfunctional effects of donor funded projects on local institutions and accountability mechanisms underpins the case for moving from projects to budget support. The DAC-sponsored evaluation of public service reform in Africa suggested that donor interests were too often dominant – they made heavy and competing demands on governments, which were difficult to fulfil. A DAC workshop on anti-corruption in 2004 called for more attention to the impact of external actors on internal incentives. Donors are said to be guilty of misguided optimism, proliferation and fragmentation of effort, stingy and unpredictable funding (Birdsall 2004).

All this has become part of the conventional wisdom in the sense that it is not seriously contested within donor agencies. Virtually everyone pays lip service to it. It provides the rationale for much mainstream donor policy and practice: to improve donor harmonisation (being addressed at ministerial level within the DAC); to nurture country ownership of poverty reduction programmes through the PRS process; to strengthen country recipient control over planning and budgeting by moving from projects to budget support; to apply conditionality in a more selective and nuanced way; and to carry out better political and institutional analysis.

However, what many donors have done is to take the insights derived from past attempts to promote governance reform, and incorporated them into an existing frame of reference. This essentially means retaining the (often unspoken) assumption that strengthening public institutions requires resources, well designed technical assistance, the 'right' policies and 'political will', but adding to it the need for more patience and more local 'ownership'. So understanding the political and institutional context is seen as important in order to better overcome obstacles to a poverty reduction or good governance agenda, and the reforms designed to promote it. The risk, however, is that political economy analysis becomes the next 'fix', limited to a narrow and fairly mechanistic kind of stakeholder analysis.

Some progress might nevertheless be made on this basis. For example, donors could make better strategic choices about options for service delivery if they employed the analytical framework set out in the 2004 World Development Report, and took more account of what was feasible in a particular political environment, given the characteristics of different services. They might have more success in strengthening institutions if they had more realistic timescales, understood more about organisational culture, and took a more differentiated approach to transferring knowledge and institutions – for example as advocated by Francis Fukuyama (2004).

But the benefits are likely to be marginal - and difficult to sustain - without a more fundamental re-appraisal of the processes of change with which donors are seeking to engage. Without that, donors are at risk of getting captured by their own rhetoric. For example, the cruder forms of conditionality may be abandoned in favour of 'partnership', and designed to support rather than buy reform – but unrealistic models of partnership will go unchallenged[iv]. Moreover, as staff in donor country offices are increasingly aware, the process of translating the broad principles of partnership and ownership into practical reality is fraught with difficulty. What is really meant by 'ownership'? whose? how can it be negotiated? How to balance the desire for more local ownership with the promotion of a pro-poor agenda? What if a budget negotiated with donors is rejected by parliament? How can the concept of partnership be sustained when it comes up against the harsh reality that the partner has few policy levers to pull, or institutional mechanisms for resolving conflicting interests peacefully? How should donors make the trade-off between the need for a predictable flow of resources, and the need for adherence to what they see as minimally acceptable standards of financial probity and human rights? Policymakers at a country level need some basis for making these choices.

The other problem with building on the conventional wisdom without a more fundamental re-appraisal of the underlying assumptions is that good intentions can be easily derailed[v]. Mounting concern about continuing poverty in sub-Saharan Africa, dismay about the social and economic consequences of AIDS, and the prospect that many countries will fail to meet the Millennium Development Goals are all adding to pressure for a large and rapid increase in aid, coupled with demands for redoubling of efforts to improve governance. The list includes promoting the rule of law, political and social rights, accountable and efficient public administration, and sound economic policies (Millennium Project Report 2005) – all things which have proved remarkably problematic over the past forty years or more. There is a similar sense of urgency emerging about speeding up processes of democratisation, especially in the Middle East. The risk is that, given the pressure for action, hard-won lessons from previous experience will be overridden.

Rethinking Governance

Implicit in that experience are some very unsettling questions about the 'good governance' agenda itself. The overwhelming nature of the agenda has prompted donors to get much more interested in scholarly debates about which governance concerns are causal to development, and which are consequences. This has revealed how little is really known about key causal linkages – between institutions and growth, growth and corruption, democracy and poverty reduction – and about which reforms to prioritise in different country circumstances. The work of Dani Rodrik and others on institutions and growth has suggested the need for a less formulaic approach (for example to property rights, drawing on experience from China). Transitional, unorthodox, bitty arrangements that target local constraints in politically compelling ways may be more effective than trying to transfer ready-made institutions from rich to poor countries. Scholars taking an historical approach (Goldsmith 2003, Chang 2002) have questioned the "governance first" model of economic development, and shown how institutions in now developed countries grew in a piecemeal way, in response to felt needs. Others have pointed out that normative approaches which seek to eliminate corruption may be ineffective or counter-productive – the challenge is to understand both the root causes and the impact of corruption in different country circumstances (Khan 2002).

Meanwhile, experience with democracy building suggests that much more is involved than building the capacity of formal institutions. Underlying structural factors, and power relationships embedded in formal and informal institutions are critical to how arrangements for political competition or accountability actually work (Carothers 2002, Ottaway 2003). Experience with trying to build public bureaucracies for service delivery that operate according to Weberian norms has revealed deep-seated problems – many of which are exposed in WDR 2004 "Making Services Work for Poor People", and in the related background papers (Pritchett and Woolcock 2002).

All this suggests the need for a different working hypothesis about what lies behind governance problems in many developing countries, how to get more effective and accountable public institutions, and what sort of improvements might be possible within the foreseeable future, given the huge challenges involved. Increasing numbers of donors are exploring these issues, including DFID's initiative on Drivers of Change (Unsworth 2003, DFID 2004), SIDA's 'power analysis' studies, and World Bank political economy studies, including work on low-income countries under stress. These studies are not as yet based on a common analytical approach, and a coherent new narrative has yet to emerge. But, together with a growing body of research, they point to a different way of thinking about governance.[vi]

The studies suggest that improving governance is not just a matter of transferring Weberian bureaucracies and democratic institutions from rich to poor countries. The obstacles are not just lack of resources, skills, knowledge and the elusive 'political will'. Constructing more effective, accountable public authority involves a political process of engagement between holders of state power and organised groups in society. For this to result in institutions that are legitimate and sustainable, the process needs, over time, to deliver positive sum outcomes – for example the creation of civil, political or economic rights in return for recognition of obligations to pay tax. While developing countries can benefit from past experience – learning from each other, as well as from institutional forms in OECD countries -

what matters is how those formal structures are used by political actors, and whether they become 'institutionalised' by proving their value in meeting felt needs.

Getting better governance involves striking a balance between the need for effective state control and capacity to act, and the need for holders of state power to be accountable for their actions. This means focusing not just on empowering civil society actors, or on 'strengthening' public institutions, but on the dynamics of the relationship between the two, and what incentives different parties have to engage in public, collective action. The process is likely to be messy, conflict-ridden, incremental, uncertain, and long-term. Moreover, many developing countries face the huge challenge of basic state building, while simultaneously trying to put in place a range of economic, social and political institutions which will allow them to function in an increasingly globalising world. No wonder 'good governance' so often proves elusive.

This way of thinking about governance provides insights into the underlying causes of bad governance, especially in sub-Saharan Africa. For example, many of the problems in Africa can be traced back to the fact that state power was forged by an outside authority, and handed over to a small dominant group at independence, with a corresponding lack of broadly based interest groups to counter the private use of public power. Political elites have had access to military assistance, including support in defence of existing international boundaries. They have also enjoyed plentiful external rents from oil and mineral resources and aid. All of this has weakened the need for states to enter into a process of constructive bargaining with taxpayers or other organised groups, and to build state capacity to respond. (Moore 2004, 2005). Political mobilisation has often been along ethnic lines rather than around economic or other interests, which would facilitate compromise over time, and provide incentives for political actors to respond. The fact that poor people, even in democracies, are often not organising around common interests which would allow them the power of numbers, has been particularly problematic from the point of view of gaining support for a pro-poor agenda.

All this is illuminating in a negative way. The governance reforms that donors commonly push – improving public expenditure management, tackling corruption, strengthening the bureaucracy – require collective action by state and societal actors. This is difficult in any circumstances – essentially because it means surrendering tangible, short term, private gains for the more uncertain prospect of sharing in wider public goods (growth, better services) (Brautigam 2000). Getting this kind of collective action is particularly problematic where governments have not established legitimacy and built capacity through negotiated relationships with organised groups in society. Large amounts of aid over long periods of time are inherently problematic for governance because they tend to weaken incentives for local collective action, including the incentives for states to engage with taxpayers. Externally imposed conditionality is problematic if it discourages or displaces action by local organised groups in pursuit of public goods, especially if it narrows or restricts the space for alternative, more politically compelling agendas to emerge.

This way of thinking about governance also helps explain why so much donor assistance to support capacity building is ineffective. For example, if MPs are not elected with the expectation that they should be watchdogs for taxpayers, then the

Public Accounts Committee and the Audit Commission will lack teeth however much technical assistance and resources they receive. If the basis of public accountability is an expectation that politicians will deliver very direct, tangible benefits on a personal basis to their supporters, with little expectation that they can provide services on the basis of universal rights, that will affect public attitudes to what might otherwise be seen as corrupt behaviour – and helps to explain why anti-corruption measures based on different assumptions often lack salience. Programmes of technical assistance to strengthen the rule of law, or to implement new formal systems of property rights have highlighted the complexities involved in trying to align formal institutional arrangements with informal institutions, expectations and social values (Carothers 2003, Faundez 2003, de Soto 2000).

This is very challenging for donors. It exposes the limits of their influence, and indeed their capacity to make a bad situation worse. It reinforces lessons from experience about the time needed to build legitimate institutions that become valued because they respond to felt needs. It emphasises the huge gap between the highly personalised, patronage based systems found in many developing countries, and the Weberian ideal of institutionalised, rules-based, autonomous public institutions which lies behind the traditional governance agenda. If, as seems likely, it is not possible in most situations to 'skip straight to Weber' (Lant Pritchett's telling phrase), donors may well be left feeling at a loss in confronting a scene of huge complexity and diversity, and being told to look for locally driven, country specific solutions without any clear road map or indeed destination in view. This risks becoming unmanageable.

So What Could Donors do about Governance?

One clear starting point is for donors to prioritise those actions over which they do have some control. These include a range of interventions which could reduce the access of political elites in poor countries to external military support and rents – by curtailing the involvement of OECD states, firms and individuals in the arms trade, corrupt business practices, the marketing of 'conflict' diamonds, and money laundering; and by encouraging initiatives such as the EITI to increase transparency over oil, gas and other revenues. These are already on the international agenda but could be pursued with greater urgency.

Donors need to get serious about the 'harmonisation' agenda – not just by improving co-ordination, but by more radical rationalisation of their programmes to limit the number of donors operating and making demands on hard-pressed governments in any one country. This is do-able, within relatively short timeframes, and could make a significant difference: not just by reducing transaction costs, but by increasing the coherence and consistency of donor behaviour, and changing perceptions in recipient countries of their motivation. This in turn could provide the basis for more honest and constructive relationships between donors and their "partners", and so start to change incentives.

Donors could also have an indirect effect on governance by doing more to improve the enabling environment for growth. Specifically they could attach much greater urgency to action (already on the international agenda) to reduce agricultural subsidies and to remove barriers to poor countries benefiting from trade and investment opportunities. Moreover a range of traditional donor interventions to build human skills, enhance livelihoods, improve communications and access to information and services, could all be important in fostering a more conducive environment for groups – including groups of poor people – to organise public action. Instead of starting with a particular economic or social policy agenda and seeing weak governance as an obstacle, it may be more productive to think about better governance as a long term endeavour integrally linked to economic and social change. That implies taking a less normative view of what constitutes good governance, and instead of a frontal assault on the symptoms of poor governance, looking for more indirect ways in which donors can engage to support (and not undermine) local processes of change. But it also means looking for (often small, incremental) ways to nurture growth, or improve services in spite of poor governance (Moore and Joshi 2004).

Given the potential for aid to distort local priorities and to weaken incentives for collective action, a very high priority for donors must be to understand the impact of different aid modalities on local institutions and political processes. This has underpinned much of the thinking on the move from projects to budget support - often accompanied by some very heroic assumptions about the scope for the latter to strengthen domestic accountability and local management of public expenditure. The risk is that impatience with the failure to achieve quick results will lead to the abandonment of these mechanisms before they have had a chance to work. Alternatively, they may get captured by donors and, far from strengthening government accountability to local stakeholders, be used instead to increase donor influence on spending priorities.

What more could donors do to adjust aid modalities in the light of rethinking governance? Here are some ideas:

- Take a more hands-off approach to the next round of PRS papers, reducing overload, increasing transparency, allowing for much more local variation and integration into national political processes, giving space for open discussion of priorities for economic and social development (Booth 2003). Take a longer-term view, and live with the implication that the results in the short term may be less directly pro-poor.

- Get serious about the need for more predictable funding, and make it a higher priority in setting and managing conditions for financial aid. Predictability could cut both ways – it could increase the moral hazard problem; but it could also provide the basis for a more objective planning process based on need and rights rather than ad hoc patronage benefits, if people believed they could plan for the longer term. This could be important not just as a way to increase efficiency of resource use; it could also help to build a different basis of political accountability.

- Make much more country-specific judgements about the likely effect of volumes and types of aid – including budget support - on local institutions and political processes – including their impact on fragile democratic processes (Booth et al 2004 on Ghana). Keep a focus on process – could a more institutionalised, rules-based process of budget formulation and monitoring, and more accessible public information, provide entry points and incentives for collective action by stakeholders – including MPs, taxpayers and business groups, as well as civil society organisations?

- Consider linking the availability of budget support to a dialogue about tax reform and local revenue-raising. (It is striking that the mechanisms embraced by donors, including PRSPs and budget support, focus on spending and beneficiaries to the exclusion of revenue raising and taxpayers). This would have to be handled with care, given the risk that fiscal targets could provoke more oppressive methods of revenue raising rather than fairer, more broadly based systems, but it is hard to see how domestic accountability can be strengthened without more public debate linking sources of revenue with spending. Think about whether aid could be designed to look more like tax – for example by a trust fund arrangement subject to rules enshrined in local legislation.

- Look at what's working and why, and where there might be potential to build on that, rather than starting with models derived from developed countries, and focusing on the gaps and deficits. DFID's attempts to work with non-state justice and security systems are one example of this kind of approach (DFID 2004). Other ideas are emerging from current IDS research into long term, innovative arrangements for 'co-production' of services between public and private sector actors, including key government functions such as policing and tax collection (Moore and Joshi 2004).

- Think about how the design of projects and sector programmes might provide incentives for bureaucrats and beneficiaries, and entry points for different groups of stakeholders to take collective action to improve services. Judith Tendler's studies of health workers in north-east Brazil, and the Employment Guarantee Scheme in Maharashtra (due to be extended to other Indian states) are well known examples of how institutional design can affect incentives. Some of the best donor-supported projects and sector programmes have also sought to align different stakeholder interests; it is important not to lose sight of this learning in the enthusiasm for a move to budget support.

- Be prepared for a radical rethink of donor language. By framing the agenda (poverty reduction and good governance) in a particular way, donors risk failing to engage with powerful groups of people – business, religious and traditional leaders, professional associations, elected politicians, social movements – who may have objectives which coincide or overlap with those of donors, but who are not inspired by the language of Millenium Development Goals or liberal democracy. Other things, including reputation, national security, prosperity, fear of social unrest or ethnic violence, ideological or religious values may have much greater salience. Historically, poor people have almost always made progress in alliance with more powerful groups, and finding a basis for accommodating different interests is critical to the democratic process. If donors insist on continuing to frame the agenda and set policy prescriptions in ways that resonate with them, they will miss out on opportunities to find common ground with local power holders and opinion formers. They could start by trying to talk in more accessible language to private businessmen.

- There is however huge scope for societies to learn from each other. One of the things external actors can do is to help provide access to experience – and resources –from elsewhere. But this could be done much less intrusively, with the emphasis on supporting local capacity for policy analysis and responding to local demand. Attempts have been made to do this – for example the multi-donor governance partnership in Indonesia, and DFID's Enabling State Programme in Nepal. There have been problems with both these mechanisms, but it is worth persevering with initiatives, which aim to be more responsive to locally generated demand.

- There may sometimes be opportunities for donors to play a catalytic role in bringing together state actors and civil society groups. These include interventions to support better arrangements for management of local conflict: for example an innovative project being supported by DFID to bring together different stakeholders in the forestry sector in Indonesia. Such projects however require both better local knowledge and more flexibility than donors are often able to muster.

- Finally there is a case for continuing with more traditional capacity building efforts, where the local environment is not too unpromising, with realistic objectives and a willingness to stay engaged over the long haul. Priorities might include public financial management and procurement systems. This is an area where good practice is fairly well agreed, and where donors have some legitimacy; but it is also of strategic importance for state – society relations, with the potential to engage taxpayer groups. The most recent assessment of the RIBEC project in Bangladesh, for instance, suggests that long term building of relationships, and better understanding of political economy incentives, are paying off, and providing entry points for dialogue about sensitive issues, including resource allocation and corruption[vii].

Is Any of This Really Do-able?

Quite a lot of the above would be do-able if donors really believed it mattered. They could get serious about restricting access to rents, improving the global environment for trade and investment for poor countries, rationalising country coverage, improving their understanding of local political and institutional context, engaging more effectively with local processes of change, and being much more flexible about the language they use and the way they frame their objectives for poverty reduction or better governance. Some of this is already happening. The importance of 're-thinking governance' is that it explains what lies behind the conventional wisdom about the need for 'ownership' of policies and programmes, and better understanding of the local political environment. Without that, the sense of urgency about changing donor behaviour will be lost.

However there are more fundamental difficulties. Donors face a whole range of bureaucratic pressures: to meet spending targets, to comply with the latest intellectual fashion or political preoccupation, to launch initiatives, to demonstrate short term success, to be seen to be 'doing something' about the vast and intractable challenges faced by developing countries. These pressures impact at the level of the organisation, but also affect the career progression of individuals. They make it very difficult to defend long term, locally driven strategies for incremental change. The internal organisation of donor agencies tends to value technical or bureaucratic skills over in-depth country knowledge. There is still surprisingly little interest in historical perspectives.

There are tensions – in the case of some countries very serious ones – between objectives of donor agencies and the preoccupation of other parts of government with different, potentially conflicting objectives, including short-term fiscal management, national security, specific foreign policy goals, and commercial considerations. Such tensions are inevitable, but they are not un-negotiable: perceptions of what best serves the national interest can and do change. Moreover, a conflict between different objectives might be easier to manage if the opposing parties at least had a common understanding of how the world works. A major potential benefit of DFID's Drivers of Change studies is a better-shared understanding with other UK government departments of the political and institutional context in developing country partners.

But the most difficult challenge derives from the fact that donors 'own' the money they supply in aid, and are accountable for it to their own taxpayers. They are therefore required to respond to demands and expectations of organised groups in their own society, which may be in tension with local realities and expectations in recipient countries. Particularly difficult issues arise in relation to conditionality linking financial aid to observance of human rights by recipient governments (see Uvin 2004). By coming in as external players with resources which have not been raised locally, donors inevitably have an impact on existing relationships between politicians, bureaucrats and civil society, and on networks of local incentives, often in a dysfunctional way. Yet building more effective institutions does require skills and resources which are desperately short in many developing countries, and which donors are able to supply. So is there a better way of managing these tensions?

There is no overall formula for doing so. But what donors might be able to do, if they really accepted the importance of engaging with local processes of change, would be to manage the trade-offs differently. So the need for some measure of conditionality attached to donor funds would not disappear, but it could be managed in a less intrusive way if donors had longer time horizons, more realistic starting expectations, a better appreciation of the constraints under which their 'partners' were operating, and a willingness to settle for second best outcomes in a far from ideal situation. They could manage the trade-offs between predictability of funding and conditionality differently if they really believed in the value of predictable funding. They might have to settle for achievements in limited areas rather than across-the board improvements. They could value a more genuine political process for PRSPs over a donor driven, more directly pro-poor agenda. They could do more to educate their own taxpayers about the huge size of the challenges faced by many poor countries. If they operated in a smaller number of countries, they might stand a better chance of building relationships with broader groups in society, and of spotting opportunities to support locally driven change. If they could get better at separating their own foreign policy objectives from their aspirations to help poor countries achieve development goals, they might be able to build relationships of trust that could have an impact on the incentives of both governments and civil society groups in poor countries to respond. They might even be surprised at how quickly things could move in some areas if local elites and broader national interests became engaged in public action for more effective, accountable governance.

They could do this if they really believed it mattered. And cumulatively, over time, it could make a difference.

Endnotes

[i] The 1997 World Development Report on the state in a changing world proclaimed: "Certainly, state dominated development has failed. But so has stateless development. Without an effective state, sustainable development, both economic and social, is impossible".

[ii] In logframe terms the purpose level denotes the main expected outcome of the intervention within the timescale of the project itself.

[iii] Donors may see this as new, but it is striking how much of it echoes earlier learning, for example from Rule of Law assistance in the 1950s and 1960s. Evaluations of these programmes identified several failings, including the lack of any theory of the impact of law on development, leaving practitioners with no way to prioritize reforms; too little participation by the lawyers and others in the target country who would have to carry out the reforms or who would be affected by them; foreign legal consultants able to dictate the content and pace of reform; and focus on the formal legal system to the exclusion of customary and other informal arrangements (Trubeck and Galanter 1974).

[iv] See, for example, 'Partnerships for poverty reduction: rethinking conditionality', a UK policy paper issued in March 2005, which assumes that 'partners' have a shared interest in poverty reduction, and capacity to address it (except in 'fragile states' where special conditions apply).

[v] See for example Killick 2004 on how traditional approaches to conditionality persist.

[vi] The following section draws on a wide range of research cited in Unsworth 2003, and in particular on current research under the Centre for the Future State at the Institute of Development Studies, University of Sussex – see www.ids.ac.uk/gdr/cfs/index html, and especially 'Signposts to more effective states: responding to governance challenges in developing countries'

[vii] Personal communication from DFID Bangladesh, November 2004

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