

IDS POLICY BRIEFING

The latest development issues for policymakers from the Institute of Development Studies

ISSUE 26
MARCH 2006

Getting Real About Governance

How can developing countries build more effective, accountable states that are responsive to the needs of poor people? There is widespread agreement that better governance matters for growth and poverty reduction, but little consensus on how to achieve it. New research by the Centre for the Future State shows how effective public institutions evolve through a political process of bargaining between the state and organised groups in society. They cannot be constructed just by transferring institutional models from rich to poor countries. Policymakers should focus less on formal public institutions, and more on the informal arrangements and relationships that underpin them. By doing so they might be better able to identify and capitalise on opportunities for progressive change.

Chris Stouwers/Panos Pictures



There are no quick fixes, but CFS research identifies 'signposts' which could help to improve governance in developing countries.

The development community is in a bind over governance. As the UN Secretary General noted in his 1998 annual report on the work of the organisation, 'good governance is perhaps the single most important factor in eradicating poverty and promoting development in Africa or elsewhere'. But, despite the proliferation of governance reform efforts, progress has been meagre and hard to sustain.

Donors often address symptoms of bad governance rather than underlying causes. They have focused on capacity building of formal institutions and taken little account of how those institutions – including the legislature, judiciary and civil service – originally came into being. Furthermore, they have made unrealistic demands on poor countries to adopt 'best practice', even when their administrative capacity is weak, and social and political support for reform is lacking.

A multi-year research programme by the Centre for the Future State (CFS), based at IDS, offers a different approach. It suggests that the critical issue in state-building lies in striking a balance between effectiveness and accountability. Historically, this has happened through a process of interaction, bargaining and competition between rulers and organised groups in society. This has often involved violent conflict, but it can also lead to more constructive ways of managing competing interests, which then become 'institutionalised' because they are seen to serve a common purpose. For example, historically in Western Europe, citizens bargained with rulers over obligations to pay tax in exchange for basic civil and political rights.

Signposts to more effective states

- Tax really matters for accountability. It should be seen as a key governance issue, not just a fiscal matter.
- The state itself can help create incentives and opportunities for different groups to organise. The interaction of state and society over time can enhance the effectiveness of both.
- Policymakers should not be bound by preconceived models of service delivery, but should be open to building on unorthodox arrangements that work.
- External actors, including donors, can be part of the problem. They need to be alert to the adverse impacts of all their actions on local political processes that might support progressive change.

Getting Real About Governance

Many developing countries have a colonial legacy of institutions that lack legitimacy because they were not forged through a political process of state–society negotiation, and are not supported by socio-economic structures that facilitate organisation around broader, common interests. Many states are fragile and weakly rooted, which can make them coercive in their dealings with citizens.

Causes of bad governance are deep-seated and developing countries face very different contexts for state building from those experienced historically by states in Western Europe. There are no prescriptions for getting better governance, but there are some signposts, pointing to factors that might help nurture more constructive state–society engagement.

Tax and accountability

Historically, tax played a central role in the creation of representative legislatures and effective bureaucracies in Western Europe. Tax matters for governance because it has the potential to mobilise a relatively large group of citizens, who have shared interests as taxpayers in how governments spend their money and manage the economy, and some power to make their views count. Interest group politics around taxation provides an alternative to patronage politics, and can strengthen the role of legislatures. Dependence on taxpayers strengthens incentives for the state to nurture broad economic prosperity.

But in many developing countries public institutions are not underpinned by the tax relationship. There is little public debate linking revenue and expenditure, little organised, public action by taxpayers, and little legislative control over government revenue. This has negative implications for governance.

There are good reasons why the tax relationship is weak in many developing countries. A complex set of historical factors has resulted in the concentration of political and economic power. Political elites have unprecedented access to external military support, large amounts of aid, and rents from control of oil and mineral resources. All these factors limit their need to bargain with citizens over tax. Therefore, the historical experience of tax and state formation in Western European is not directly replicable in developing countries.

Nevertheless, tax still has the potential to improve governance. There are no quick fixes. The tax relationship is often coercive, especially in poor agrarian environments, and at local level. Wealthy elites can evade tax, or ensure the burden falls elsewhere. But there are reasons why tax may be rising up the political agenda.



Jan Banning/Panos Pictures

A local tax office in Bihar, India. Better tax collection is central to better governance

Tax reform has led to shifts from indirect taxes (e.g. on trade) to more direct or visible taxes, such as VAT. This, combined with more transparent, simpler tax structures and fewer exemptions could strengthen incentives for taxpayers to organise. There is growing interest in fiscal pacts (e.g. in Latin America); there are moves to increase budget transparency; and ex-Communist countries joining the EU have transformed their tax relationships. Innovative approaches are emerging to taxing the informal sector – for instance in Ghana, through franchising collection of taxes from vehicle operators to the main transport union.

Policymakers need to be much more aware of the political significance of tax. External actors in particular should be alert to the potentially negative impact of their actions on local tax relationships – for example from overdependence on aid, and access of elites to non-transparent or illegal sources of finance. More optimistically, there are ways of designing tax structures and managing collection that could contribute to more constructive relations with taxpayers. Pressure from taxpayers for more accountability and better services could be self-interested, but whether intended or not, could also benefit poor people.

Re-thinking civil society: the state creates opportunities for poor people to organise

The development community has ambitious expectations of civil society. Donors are supporting a profusion of projects aimed at strengthening the capacity of civil society to make the state more accountable. They have promoted direct popular participation as a way of giving poor people a 'voice' in matters that affect them.

However, case studies and detailed surveys from the CFS research tell a more complex story.

Firstly, how the state is organised, and how public policy is developed and implemented, can have a significant impact on the ability of poor people to organise. Public programmes can be designed and financed in ways that encourage participation of poor people, and support from key stakeholders. The Employment Guarantee Scheme in Maharashtra provides a good example of this in practice. On the other hand, sometimes state action can have unintended consequences, for example the effect of elected local government bodies on traditional village councils in Karnataka (see box 1).

“ There are no prescriptions for getting better governance, but there are some signposts, pointing to factors that might help nurture more constructive state-society engagement. ”

How the state can promote engagement and accountability

The Maharashtra Employment Guarantee Scheme was deliberately designed to stimulate the mobilisation of potential beneficiaries, by providing dedicated funding, and a legal guarantee of employment for destitute people provided that 50 of them register to demand work. This has encouraged poor people to mobilise and activists to support them in claiming their rights.

In Karnataka, the creation of formal, elected local government bodies has not supplanted traditional village institutions, as many expected. Instead, it has provided new incentives and opportunities for traditional councils, which are active in influencing elections and decisions about development projects, and monitoring performance. This could further elite interests, but there is also evidence that traditional councils provide political space for poor people, and channels for them to influence elected bodies.

Secondly, there is a need to rethink conventional ideas about civil society as an autonomous sphere, which acts independently to bring pressure on the state. For example, surveys in São Paulo, Brazil, show that it is often organisations well connected to government or political parties, with good access to information and policy networks that are giving the poor a voice in participatory budget and policy forums. Links to the state have increased the effectiveness of civil society organisations without undermining their capacity to act independently. Interaction over time between the state and organised groups can enhance the effectiveness of both.

Thirdly, much more discrimination is needed in designing participatory mechanisms, including questioning who is actually participating, and whose interests they represent. For example in São Paulo, budget mechanisms designed to allow direct participation of individuals have provided a platform for leaders of community associations. Most of these are not membership based, which raises the question of who they really speak for and how far they provide effective channels for poor people to gain access to decision makers.

An overall message for policymakers is to stop thinking about civil society as a 'sector', populated by formal associations that share a progressive agenda. Instead they should think much more broadly about the impact of all public policy interventions on the ability of different interest groups to organise and influence public policy.

New approaches to service delivery

The challenge of delivering public services to poor people is central to achieving the Millennium Development Goals. A lot of effort has gone into the search for 'best practice' arrangements to strengthen capacity and accountability, such as privatisation, contracting out and involvement of community groups.

But this approach is too limiting. It revolves around preconceived models, thus overlooking the great diversity of arrangements actually in place, some of which work well, albeit in unconventional ways. It emphasises separating and formalising relationships between

policymakers, providers and consumers. The framework offered in the 2004 *World Development Report* is an example of this approach. This underestimates the importance of politics and informal relations of accountability based on social obligations and identities, rather than formal contracts.

Case studies from the CFS research help to expand the menu of options for service delivery, including a highly unusual arrangement in Karachi for involving businessmen in policing (see box 2). The cases also offer insights into factors that make for success or failure, contrasting very different experiences of providing urban sanitation in Ghana and India. They also point to a broader range of factors affecting motivation than are captured in the principal/agent framework.

None of this is meant to suggest that unorthodox arrangements for service delivery should necessarily be encouraged or that a preference for formal institutions should not be the ultimate goal. But these may be a distant prospect in many poor countries, so unconventional arrangements based on informal practices and relations may offer the best interim solution, including benefits to poor people.

What makes for success in service delivery?

The Citizen-Police Liaison Committee in Karachi comprises a group of 40 wealthy businessmen from an ethnic minority community. The committee is directly involved in supporting core policing activities in the city. This arrangement violates basic principles of the separation of public and private interests in a very sensitive area of government business. But careful design and management, and a strong web of informal relationships (revolving around trust, reputation and shared interests) maintain accountability despite the absence of formal contractual arrangements.

In Accra and Kumasi in Ghana, successive attempts to improve the management of public toilets by contracting out to private companies and involving community groups in cleaning and maintenance, were derailed by patronage politics. Local politicians were able to gain control of both the companies and the community groups. By contrast, skilful political management, good project design, strong leadership and the presence of well-established community groups in Pune, India account for the relative success of a programme to improve slum sanitation in the city.

The motivation of front-line workers is often neglected, but can be crucial. For example, in the case of **Metro Water in Hyderabad**, the positive impact of reforms on the relationships and motivation of key stakeholders was critical to their success. In Kumasi and Accra, factors such as good working relationships, shared professional values and a feeling of being valued by the public helped to maintain the motivation of front-line workers involved in urban sanitation programmes, in spite of appalling working conditions.

Getting Real About Governance

Implications for policymakers

The challenge to policymakers – both local reformers and external actors – is to think differently about the processes involved in building more effective, accountable public authority. ‘Governance’ is not a self-contained sector, revolving around the reproduction of institutional models borrowed from OECD countries. Instead it is concerned with a complex range of state–society relations across the whole spectrum of public action.

This means that policymakers need to be much more alert to the way in which seemingly technical issues – such as tax, or the institutional design of public programmes – can influence opportunities and incentives for different interest groups to organise. This implies a shift of focus, from a preoccupation with the content of a particular policy agenda, to the political feasibility and likely impact of implementing it. External actors need to consider the impact of all their relationships – aid, trade, business, economic, diplomatic and military – on local incentives and capacity for progressive change.

Causes of bad governance are often very deep-seated: there are no short-cuts to more effective and accountable states. Countries in the global South will follow paths towards state building that may be very different from those taken historically by states in Western Europe. It may therefore be unhelpful to make formal institutions in OECD countries – that draw clear boundaries between public and private interests – the starting point for thinking about governance in poor countries. Much more realism is needed about the likely pace of institutional change: incremental approaches that respect local social and political constraints may work better than attempts at comprehensive reform.

But there are also causes for optimism. The way state institutions are designed and public programmes are implemented, can create opportunities for public action. So there

may be more room for agency than is often supposed. Reformers can make progress by careful design, well attuned to political realities.

Moreover, progress does not depend on having a full range of formal institutions in place. Recent experience in China shows how informal relations effectively substituted formal systems of property rights in the early stages of market growth. The CFS research suggests that unconventional arrangements for service delivery are emerging that deserve to be taken seriously because they work and they allow for the construction of common interests between different stakeholders.

The research has particular implications for how policymakers approach civil society. It is not an autonomous, largely virtuous force up against an over-mighty state. It is a much more complex universe of actors with different interests and capacity for action, and the boundaries between civil society, political society and the state are often quite blurred. Connections to the state and political parties can strengthen the capacity of groups to organise and need not result in co-optation. The aggregation of interests within civil society in turn influences the state’s capacity to respond.

This is very challenging for policymakers. For external actors, it implies accepting that their capacity for direct action may be more limited than is often supposed. Understanding the complexity and diversity of informal relationships is difficult, even for local policymakers. The opportunities to make a difference are there, but are often obscured by limiting options in advance to over-simplified models. Perhaps the single most important message for policymakers is to think less normatively about what ought to be happening and much more politically about what is actually happening, what works and why – and to build on that.

Further reading

‘Signposts to More Effective States: Responding to governance challenges in developing countries’, CFS, 2005

Mick Moore, ‘Revenues, State Formation and the Quality of Governance in Developing Countries’, *International Political Studies Review*, Vol 25 No 3, 2004

Anuradha Joshi and Mick Moore, ‘Institutionalised Co-production: Unorthodox Public Service Delivery in Challenging Environments’, *Journal of Development Studies*, Vol 40 No 4, 2003

Adrian Gurza Lavalle, Arnab Archarya and Peter Houtzager, ‘Beyond Comparative Anecdotalism: Lessons on Civil Society and Participation from São Paulo, Brazil’, *World Development*, 2005

Visit the CFS website to download these and other publications:
www.ids.ac.uk/gdr/cfs/

Credits

This briefing paper was written by **Sue Unsworth** and edited by **Caroline Knowles** and **Laura Turquet**. It draws on research by the Centre for the Future State, a DFID-funded Development Research Centre, based at IDS, with the following partners: Centre for Policy Research and Social Engineering (CEPRESE), Accra, Ghana; Centre for Policy Studies (CPS), Johannesburg, South Africa; Lahore University of Management Sciences (LUMS), Pakistan and Madras Institute of Development Studies (MIDS), Chennai, India.

Readers are encouraged to quote or reproduce material from *IDS Policy Briefings* in their own publications. In return, IDS requests due acknowledgement and a copy of the publication.

The full text of *IDS Policy Briefings* and more information about the Institute and its work are available on the IDS website.

© Institute of Development Studies, 2006
ISSN 1360-4724



IDS Policy Briefings are published by the Institute of Development Studies and aim to provide concise, up-to-date reviews of important development issues. To subscribe:
www.ids.ac.uk/ids/bookshop/briefs/index.html

Institute of Development Studies at the University of Sussex Brighton BN1 9RE UK
T +44 (0) 1273 606261 F +44 (0) 1273 621202 E ids@ids.ac.uk W www.ids.ac.uk