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Book Review Article

Britain's New White Paper: Making Governance Work for the Poor

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Eliminating World Poverty: Making Governance Work for the Poor – A White Paper on International Development. By the Secretary of State for International Development. London: Her Majesty's Stationery Office, 2006. 132 pp. £24.00 pb.

1 Introduction

The promise, towards the end of 2005, of a new White Paper on governance and development was widely welcomed. 2005 had been a vintage year for coverage of aid and development issues in the British media. The March report of the Commission for Africa had a notable impact, thanks in part to the celebrity wrapping provided by Bob Geldof and Bono. The July G8 summit in Gleneagles, complete with mass marches, confrontations, and demands to 'make poverty history', was a headline grabber in its own right. But there was no expert consensus behind the pressure from the street, and from 10 and 11 Downing Street, to treat world poverty primarily as a matter of the amount of aid. Nor was there agreement about what more aid could be expected to achieve. The debate – between those advocating doubling aid and redoubling efforts at capacity-building and those warning that large and rapid increases would undermine hard-won gains to improve the quality and effectiveness of aid – was ultimately inconclusive.

The White Paper seemed to promise a serious contribution to a long overdue discussion about how development really happens. A series of speeches by the Secretary of State for International Development in February 2006, notably on 'Political Governance, Corruption and the Role of Aid' and on 'Development beyond Aid', fuelled expectations. They recognised the depth of the historical roots of governance problems in poor countries; the need to help governments to exercise real authority, as well as to become more democratic, participatory and law-regarding; the limits on the ability of aid donors to contribute to solving these problems through direct interventions; a practical grasp of the differences among a range of African countries often treated as a homogeneous mass; a genuine willingness to rethink what are known in the business as 'aid modalities'; and an awareness that many governance problems are seriously exacerbated by international factors over which rich countries have some control.

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Has the White Paper lived up to its billing? Part of our answer is that it goes a long way in the right direction. Our focus is on the main theme of governance. We applaud the message in Chapter 3 that the behaviour of governments and businesses in rich countries contributes to bad governance in poor countries, and that much more could be done to limit the damage. By contrast, we see Chapter 2 as a missed opportunity. We welcome the insight that local political processes are central to improving governance, but regret that the operational implications, both for aid relationships and for the design of programmes to promote good governance, are not pursued. We go on to suggest that the White Paper does not take sufficient account of a) the way the international context for aid is changing, notably with the growing profile of China in Africa, and b) the extent and depth of the governance challenge posed by the unprecedented combination of deep inequalities between countries and ever closer ties. We conclude with suggestions of innovative action at an international level to contain the 'drivers of bad governance', and a new role for DFID country programmes in following through on the implications for local political processes.

2 Three cheers for Chapter 3

The added value of the Paper lies, above all, in Chapter 3, 'Supporting Good Governance Internationally'. This not only reasserts that development is about far more than aid, and requires concerted international action on a wide range of policy issues affecting developing countries. It also advances the new proposition that 'incentives for good governance are heavily influenced by the international economy, the behaviour of other governments and the private sector'. In other words, the problems of bad governance in much of the global South are directly linked to the way in which rich countries manage their relationships with poorer countries.

As with the other chapters, there are no explicit intellectual underpinnings to Chapter 3. The entire White Paper is action-oriented in substance and tone. But the content of Chapter 3 represents a marked evolutionary spurt in donor thinking about the causes of and remedies for bad government in poor countries. Most donor policy statements, including previous DFID documents, more or less directly imply that bad government is rooted in 'internal' conditions within poor countries, and has to be tackled in-country. Chapter 3, by virtue of the list of operable issues it cites, suggests a very different interpretation of the problem: bad governance is often caused or exacerbated by the ways in which poor countries interact with global economic and political forces, powerful richer countries, and large transnational private enterprises. In other words, organisations and practices rooted in the richer countries are part of the problem. We should accept our share of the responsibility for solving the problem by reforming the international environment, often in ways that will benefit us too.

There is an impressive list of issues, including regulating the behaviour of transnational companies; tackling international money laundering; cleaning up illegal international trade in natural resources; encouraging national export credit guarantee agencies to strengthen their safeguards against corruption; controlling the international trade in conventional arms better; extending the principles of transparency in payments to governments from the natural resources sector (the Extractive Industries Transparency Initiative) to public procurement in health, defence and construction; and expanding the scope of the Initiative to cover the ways in which governments spend their natural resource revenues. The list is matched by some pledges about British action, including, for example, establishing by the end of 2006 a dedicated overseas corruption unit, staffed by the City of London and Metropolitan Police, to investigate allegations of bribery and money laundering (p. 39).

The ambition of this agenda, and the zeal with which it is advanced, are justified by its importance. It tackles one of the main roots of the problem of bad governance in poor countries. Moreover, unlike many more traditional donor attempts to promote good governance at the level of individual countries, the international agenda is (in principle at least) directly operable by policy-makers in rich countries.

3 Few cheers for Chapter 2

However, this clarity and vision are not carried across to Chapter 2, 'Building Effective States and Better Governance'. This displays a refreshing willingness to focus on essential attributes of governance, rather than on specific (democratic) systems, and to take a more pragmatic, less normative approach than that of many other donors. It recognises the need for states to be capable as well as accountable and responsive, and acknowledges the role of informal relationships in underpinning formal institutions. And it bravely reasserts DFID's willingness to take risks in order to work in environments – including fragile states – where governance is highly problematic. But overall, it disappoints. No coherent explanation emerges of why governance is bad in so many developing countries, or how more effective and accountable public institutions might be expected to evolve. On the one hand, we are told that building better governance takes time and has to come from within each country: outsiders cannot impose models. Good governance is 'about' how citizens, leaders and public institutions relate to each other, to make change happen. On the other hand, the emphasis seems to be on the aid relationship: the commitments made by donors in 2005 represented a 'deal' – 'a contract in which increased aid and debt relief were offered in return for a commitment to better governance'. This commitment (which extends to upholding human rights and other international obligations, improving financial management and fighting corruption) will be regularly evaluated in a new 'Quality of Governance Assessment', and can, it is suggested, be reinforced by technical assistance for capacity-building, and support for grassroots civil society and the media to help hold governments to account. The role of aid conditionality is implied, but not explicitly discussed.

This ambiguity about the role of politics in development extends to other parts of the White Paper. We are told that 'this is about politics. Politics determines how resources are used and policies are made. And politics determines who benefits. In short, good governance is about good politics.' Yet the radical implications of this message are not pursued. Chapter 5, 'Reducing Poverty through Economic Growth', says nothing about the politics of the investment climate, or about why relations between government and business so often support narrow elite interests rather than broader prosperity. The politics of service delivery go virtually unacknowledged in Chapter 6 'Investing in People'; there is, for instance, no reference to the analysis in

World Development Report 2004: Making Services Work for Poor People of the way relationships between clients, providers and policy-makers impede the delivery of services to poor people. The politics surrounding budget support – highlighted by the recent multi-donor evaluation – are not mentioned. We are told that 'it is essential that international partners avoid doing things that undermine a country's capability'. Given the account in Chapter 3 of how external actors influence local incentives for good governance, it is surprising to find no discussion of the potential risks for governance of donor proliferation, rapid increases in funding, excessive aid dependence, or the substitution of accountability to donors for accountability to citizens.

These are complex and contested issues, and the White Paper could not be expected to pursue them in any depth. But a Paper with the ambition of 'Making Governance Work for the Poor' should be underpinned by some more robust – or at least coherent – working assumptions. The Paper does not do justice to the high quality of discussion and analysis of these issues widely found within the Department for International Development, and the development community more generally. This is increasingly informed by a good basic grasp of the literature, and by the country-level political and institutional analysis being undertaken by DFID, the Swedish International Development Agency and the World Bank, among others. These studies are providing good insights into the underlying causes of bad governance and weak engagement of states with their own citizens, and the way in which long-term structural factors as well as more recent history contribute to shaping the institutional incentives to which political actors respond.

The Development Assistance Committee of the OECD has just launched a sophisticated discussion about the links between tax and accountability. This theme is missing from the White Paper, although it was touched on in the Secretary of State's February speech on political governance, when he said: 'I also think that the tax system is crucial for accountability ... Tax is at the heart of the social contract between state and citizen; when citizens pay tax, they demand services back.' Donor discussions increasingly recognise the need for a much more nuanced understanding of the dynamics involved in state-society relations, including the role that the state itself plays in creating incentives and opportunities for collective action, and the risks of reinforcing specific elements of civil society where governments have weak capacity to respond and to mediate interests. More generally, there is growing acknowledgement among donors that many poor countries cannot be expected to move at all quickly to establish formal, Weberian institutions, and that the concept of 'good enough governance' may offer a more realistic approach.

Perhaps the most disturbing aspect of Chapter 2 is its blithe neglect of all the evidence – from research and from donors' own evaluations – of how difficult in practice 'capacity-building' has proved to be. The White Paper is right to acknowledge the progress made on public financial reform: this is a legitimate area of donor engagement and deserves priority. But it fails to recognise the modest impact and limited sustainability of many past attempts to reform the civil service, implement anti-corruption measures, improve the delivery of health and education, or engage with influential elements of civil society. There is a corresponding lack of expressed interest in evaluating the impact of current and proposed activities – this despite Hilary Benn's recognition in his February speech that 'development ... does best when it listens, and learns in the light of experience'. Is this because any betrayal of doubt about the likely efficacy of donor interventions is seen as playing into the hands of the 'pessimists and cynics'? Surely it is those most supportive of increasing aid levels who should have the strongest interest in understanding what works, what doesn't work, and why?

Chapter 2 consistently underplays the difficult challenges and choices implicit in trying to balance local 'ownership' of development programmes against donor objectives. This involves balancing the need to hold partners to their commitments to respect human rights, fight corruption and prioritise poverty reduction against the need for long-term, predictable assistance for basic services. It means managing the trade-offs between safeguarding UK taxpayers' money and keeping the focus on strengthening the domestic accountability of partner governments to their own taxpayers. It means difficult choices between short-term interventions to build capacity to deliver basic services, and allowing space for local institutions to evolve through a political process. These tensions are more likely to be managed well if they are faced squarely, not glossed over.

A litmus test will be how DFID approaches the new Quality of Governance Assessment. Will this be based on 'an in-depth analysis of where the country is and what's politically feasible'? Or will it require partners to meet a set of externally imposed standards? How will the implied conditionality be managed? Will DFID be prepared to continue investing in equipping its own staff with the knowledge and skills to understand local politics and institutions?

And in any case, what difference might all this make in the real world? Assuming that pledges of significant increases in aid are honoured, donors will be trying to spend large sums of money in some of the poorest, most difficult countries for the foreseeable future. So it is clearly important to do this as effectively as possible – to maximise the gains, and minimise any potentially damaging impact. But many years of experience show how hard it is for donors really to use projects, funding, or the threat of ending funding, to change the behaviour of politicians on the receiving end of aid. Moreover, the international context for development is changing rapidly.

4 China and the new aid context

One issue that the White Paper conspicuously avoids is the rapid growth of Chinese influence, especially in Africa. As Britain has concentrated its aid funding on poverty alleviation and on poor countries, it has come to specialise in sub-Saharan Africa, which is where 14 of its largest 20 national programmes are now located. But Western aid donors seem about to lose the free rein they have enjoyed, in the period since the end of the Cold War, to tell Africa how to govern itself. China now engages with most of Africa in a major way. One estimate is that there are more than 700 Chinese state companies operating on the continent. Chinese firms dominate the new oilfields of the Sudan. Chinese banks offer large, very cheap loans to African governments. Chinese institutions are estimated to be training 10,000 African students.

The Chinese make it very clear that they want access to oil, other commodities, and markets for manufactured products. On the other hand, they will not poke their noses into 'governance' issues. Employing standard ideas about national sovereignty, they hint or declare that 'governance' in Africa is not their business – and not the business of the West, either. No surprise that, when Britain cut off aid to the government of Ethiopia, a rumour quickly sprang up that the Chinese had promised to make up the difference. India is also coming onto the scene in a similar role. Chinese and Indian state oil companies are beginning to co-operate. The Indian government recently announced that it has $1 billion to spend on infrastructure projects in West Africa in exchange for oil exploration rights. That, at current levels, equals about 16 years of British aid to Nigeria.

All this underlines the significance of the pledge in Chapter 3 of the White Paper to support good governance by action at an international level. This is designed to help restrain individuals and companies in rich countries from paying bribes, trading illegally in natural resources, and selling arms that fuel conflict in poor countries. The emphasis is on the direct impact of such action in helping to reduce opportunities for corruption, causes of conflict and mismanagement of resources in poor countries. The White Paper has less to say about the potential for international action to have an indirect impact on local political processes by changing the incentives, and therefore the behaviour, of politicians in Africa. And it perhaps underplays the extent of the problem.

5 An unprecedented challenge

It now seems clear that politicians in Africa and elsewhere govern badly, mire themselves in corruption, use coercion rather than democratic persuasion, and invest in personal armies because they face unusually strong temptations to do just those things – and not to invest in productive enterprise or become great state-builders in the tradition of Napoleon, Cavour, Bismarck, Ataturk, Chiang Kai-shek, Jawarhalal Nehru or Soekarno. Why so? Because they live in an environment very different from that enjoyed by the state-builders of the past. Their countries are very poor, in a context where the level of inequality between rich and poor nations has been rising steadily for two or three centuries, and the degree of interaction has been increasing very fast recently because of improvements in long-distance communications and rapid reductions in transport costs. What happens in Nigeria today is shaped by what happens in the rest of the world to a far greater extent than was true even for Britain in the eighteenth century, or Japan in the nineteenth. And what signals is the rest of the world now conveying to able and ambitious people in countries like Nigeria, Colombia, Haiti, Zambia, or Pakistan? The important signals derive not from what we, the rich world, say, even when that is backed by aid money. What matter much more are the behavioural incentives that we create by being so close to them while being so much richer, by not always managing our own affairs well, and by indulging in some rather costly vices of our own.

First, by being willing and able to pay such high prices for scarce commodities like oil, gas, diamonds or coltan, we signal that, if you want to get ahead in the South, you should find some way of obtaining a share in some of the very large surpluses that can be earned from extracting and exporting these kinds of products. You don't even need to drill for oil or establish an exploration services company. Exxon, Shell, CNOOC and plenty of other foreign oil companies are only too happy to do that. Just make sure you have political power and, preferably, good military backing in a country that is cursed by the gift of such resources. You and your descendants may become rich, possibly beyond your wildest dreams, and almost certainly beyond the knowledge of your fellow citizens. Since most oil companies still refuse to make public how much they pay to governments, your legislature will not even know what is coming legally into the government's coffers. Because we in the North are heavily dependent on oil, most production in the South is so profitable that governments and elites can insist on grabbing a good proportion of the proceeds while leaving enough to meet exploration and production costs and company profits.

Second, by being willing to pay well for our recreational narcotics while simultaneously making them illegal, we create a major transnational industry that depends on violence, on the corruption of governments, and on preventing the legitimate agents of government from having access to large populations and territories in the producing areas. As international narcotics trade channels change in response to ceaseless attempts to pursue the war on drugs, policemen, politicians and generals are sucked into corruption in countries far beyond the main producing areas of coca and opium.

Third, our huge technological strides in producing cheap, enormously destructive weaponry that is easy to use – even by children – provide those people who have raised, or hope to raise, a little money from oil, diamonds, coca or coltan with strong incentives to arm themselves – and therefore to pursue power through forcible means rather than peaceful political competition. Would the struggles between King and Parliament in seventeenth-century Britain have been peacefully resolved in the compromise we call the Glorious Revolution of 1688 if either side had been able to buy AK-47s from the King of France for the price of a sack of barley? Worse, suppose they had been able to exchange the excise revenues of the North Riding of Yorkshire for the support of a large private military services company, operating unregulated out of Antwerp, that commanded more firepower and fancy technology than the whole of Cromwell's New Model Army. These kinds of options are available today to the ruling elites and rebels of dozens of countries in the South blessed with oil, gas, minerals, narcotics and diamonds. If those who command these resources do not arm themselves, militarised predators are likely to move in. This is not a climate conducive to fair elections, peaceful political competition, or generous public-health budgets.

One could go on. For example, our sophisticated global financial mechanisms allow those who loot their own countries to stash the money safely abroad and to ensure that, even if things go wrong at home, their families will be financially secure for generations. The important historical point is that these things are not a residual product of the past, but the contemporary result of globalisation and of high international inequality. With the single partial exception of the Latin American gold and silver that ruined the Spanish Empire in the sixteenth century, they have no precedent in the story of state-building in the contemporary West. The practical point is that, with publication of the White Paper, the focus within DFID is now on what Britain can do to eradicate or dampen these 'international drivers of bad governance', and to encourage other countries to do the same.

6 Creative responses

As the White Paper acknowledges, the most successful programme in this field to date is the Extractive Industries Transparency Initiative (EITI), which encourages governments of resource-rich countries to publish full details of the income they receive from oil, gas and mining. Formally announced by the British Prime Minister in Johannesburg only in late 2002, the EITI is recruiting governments and transnational companies at an impressive rate. When it was launched, we knew that Shell and BP were on board, but many people doubted that American oil majors like Exxon would play ball. They were wrong. The EITI is an excellent example of what Britain can do well: primarily a British initiative, with its International Secretariat still located within DFID, it has achieved wide international buy-in. In France, it is sometimes identified with President Chirac. One of the virtues of programmes like the EITI is that they are a logical extension of the largest and most successful programme to promote good government in foreign countries that the world has ever seen: the long campaign by the European Union, in its various earlier manifestations, steadily to cajole, prod and draw Southern Europe (Greece, Portugal and Spain) into modern democratic rule in the 1970s, and then much of Central Europe and the Balkans in the 1990s.

Europe has discovered that, collectively and through its individual member states, it has a great deal of persuasive capacity. It cannot offer EU membership to much of the South, but it can use co-ordinated diplomatic and economic bargaining power to effect major changes in the incentives facing those who rule there. For example, the corruption associated with illegal logging and timber exports has long been a major concern in a number of poor countries, including Ghana which supplies under 5% of the European timber market, but depends on that market for well over half its exports. In Ghana, DFID has been stimulating interest in the EU's new Forest and Law Enforcement, Governance and Trade Regulation (FLEGT), which invites governments to agree to export to the EU only timber and certain timber products that are legally logged and bear FLEGT certification. The programme is voluntary and can be negotiated to fit local circumstances but, once agreed, it becomes binding. For the traders, this offers an inside track to secure access to their main market. For the government, the attraction is less revenue loss through illegal cutting and exporting, and less conflict as the trade develops an interest in policing itself. Supporting Ghana to apply the technology and develop the necessary monitoring and licensing systems seems a much more effective use of resources than the conventional aid project to fund an anti-corruption commission in a country that never really wanted one for anything but decorative purposes.

The White Paper covers some fairly well-trodden ground: can we do more to control the arms trade or corruption practised by British companies overseas? But more innovative ideas are also under discussion. For example, what about all those totally unregulated, private military service companies that may do an excellent job in helping to keep the peace in Sierra Leone, but also might be available to help mount a coup to grab Equatorial Guinea's new oil wealth? Many operate from London. Would not the more respectable firms co-operate to drive the wild end of the business out of business? Corruption in the procurement of drugs by government agencies is a significant political problem in many countries. It also leads to the supply of ineffective medicines. Given that a small number of large pharmaceutical companies dominate the market, can we not enlist their co-operation in cleaning up their image worldwide? As with timber trading in Ghana, it is a matter of looking for ways of working with the grain of the private sector. They do not appear to be scarce.

This approach offers DFID a much more convincing strategy for pursuing its ambitions to help improve governance at the level of individual countries. It seems clear that the ambiguity in Chapter 2 of the White Paper is largely explained by the difficulty of reconciling the proposition that governance is 'all about politics' with a conventional donor programme. DFID is uniquely well placed – as an actor on the global stage, as well as an informed observer and participant at country level – to provide the interface between the two, and to explore the way that international action shapes institutional incentives in poor countries. It can draw on the expertise of its specialist staff in country offices to help inform and prioritise international action to change policies which encourage bad governance in poor countries. Those same staff can also contribute to understanding how global factors play into local political processes, and influence the behaviour of economic and political elites. So, for example, DFID forestry advisers have been deeply engaged in helping to shape FLEGT and other international action on illegal logging. At a country level DFID forestry advisers in Ghana are using their knowledge of the sector and relationships within it to interpret the implications of the FLEGT regulation, and support the negotiation of a voluntary partnership agreement appropriate to local circumstances. They may also be able to spot potential links between changing incentives in the forestry sector and broader governance issues. For example could pressures to improve public expenditure management increase as timber merchants pay more tax? What are the implications for funding political parties as illegal sources of income disappear?

Promoting good government in this way has its hazards. The approach is indirect, and lacks the superficial appeal of more targeted programmes: to strengthen the Audit Commission or provide technical assistance to the Public Accounts Committee. The package of measures proposed in the White Paper is somewhat 'soft' and diffuse. Can we be sure the UK government will really pursue these issues vigorously? What are the chances that other powerful countries and organisations will come into line? However, in the medium term, there is probably no real alternative. Britain and the other aid donors cannot for much longer expect to influence developing countries simply because they provide grants. If they are to have constructive influence in the longer term, they will have to exercise it in more creative and diffuse ways. In leading in this direction, the new White Paper has made a real contribution.

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