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# "Governance: What Kind of Social Contract Between Elites and Citizens?"


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# Governance: What kind of Social Contract between Elites and Citizens?

1. This paper will look at Governance not so much from a theoretical, conceptual, point-of-view but more from a practical point of view: How important is Governance for the social and economic development of developing countries? This examination will pay special attention to the experience in Asia and the practice of multilateral finance organizations such as the Asian Development Bank (ADB) and the World Bank.

2. The term "Governance" entered the international debate of development policies only in recent years. The definition of this term is quite imprecise. While this offers the advantage that different people can use definitions to suit their different purposes, the disadvantage of this confusing situation is that discussions on Governance often lead to unnecessary confrontations between different schools of thought who have entirely different concerns in mind. As an example I may refer to the development of the successful East Asian economies. Some refer to these countries as models of "good governance" because, as the results show, their leaders succeeded in setting up a policy framework which effectively promoted fast economic and social development. Others saw these countries as models of "bad governance" because of various deficiencies in their human rights performance and their democratic institutions.

3. What is "Governance"? It is interesting to note that governments which are providers of bilateral development assistance use a relatively broad concept of Governance today: For them, Governance includes the overriding concern for human rights and democracy. They take the view that protection of human rights and functioning democratic institutions are essentials of (good) Governance. In addition, they include a great variety of other important ingredients in the concept of Governance which are absoluteiy necessary to achieve effectively economic and social development and which taken together make a country operate within a general framework of a functioning legal and administrative system.

4. Such a broad concept of Governance could be addressed and promoted by development assistance efforts which could be basically of two types:

(a) promotion of specific measures (projects);
(b) political conditionalities.

5. To varying degrees bilateral and multilateral aid agencies -as well as NGOs- are today involved in activities of the first type which help to

improve the general framework within which governments and societies function, for instance through projects influencing the structure and policies of the public sector through training, assistance to legislation, and reform of public administration. Such measures would certainly fall under the heading of measures for strengthening and improving Governance and developing countries are generally ready to cooperate in such measures.

6. It is quite different when developed countries go further than this and use their power in a more direct manner to promote good Governance by attaching political conditions to their assistance or using other pressure tactics in the areas of development assistance, trade, or foreign policy. If conditionality is used in an effort to force political change in such areas as human rights or political democracy, there is a direct impact on the distribution of power and the government structure i. e. on Governance.

7. Therefore, most if not all developing countries object strongly to the term "Governance". They tend to regard the promotion of Governance by outsiders as an infringement on their sovereignty, and as a kind of neo-colonial imposition by powerful donor countries unfamiliar with their cultures and traditions. Governance in this broad sense is thus seen as a tool of the rich countries for promoting their own self-interest and comparative economic and political advantage, and even as a scheme to export unhealthy socio-political conditions prevailing in the west. In a counter-offensive, some Asian countries refer to "Asian values" in order to defend their own political systems.

8. The broad rejection of the concept of Governance by developing countries as a foreign imposed concept unfortunately gives a negative image to the concept even if it should, as a minimum, include a number of important developmental issues on which there should be unanimity among all. In the interest of promoting Governance it would be quite desirable if this term could be depoliticized. One step in this direction apparently was to replace the somewhat paternalistic term "Good Governance" by the more bland term "Governance".

9. In this context, I would like to refer again to the experience of the East Asian economies. The reasons for their success have been studied by many. However, a really satisfactory explanation is still lacking. The most prominent study by the World Bank of the East Asian "Miracle" concludes that these countries persued the right liberal economic policies, "they got their policies right". Even if true, I submit this is only a partial answer. In the first place, it can be debated how liberal the policies were which these countries persued. While they, no doubt, relied heavily on market forces and this gave them a great competitive advantage over those countries adhering to more socialist models, it cannot be denied that governments played a strong role in the development of these countries.

10. Today the high performing countries of East Asia are generally accepted as prime examples of sound economic management. Much

credit for this has to go to the role performed by their governments. These countries have not only registered high rates of economic growth on a consistent basis, they have also been effective in improving social indicators. As the World Bank put it, these countries "achieved unusually low and declining levels of inequality, contrary to historic experience and contemporary evidence in other regions."

11. The development record of the East Asia economies is clearly of general interest. Their achievement of balanced and equitable development suggests that in addition to government policies which as a minimum have to aim at (1) maintaining macroeconomic stability, (2) developing basic physical infrastructure, (3) providing public goods such as health and education, (4) preventing market failure, and (5) promoting equity, there was "good governance". Good governance then does not just mean to have right policies but to actually "deliver the goods". Governance has to do with a social and political framework which is capable of effectively implementing policies which result in the achievement of rapid economic and social progress and meeting the rising expectations of the people. In broad terms, Governance is about the institutional environment in which citizens interact among themselves and with the government. In conclusion, it could be said that Governance does not only require the establishment of an appropriate legal and institutional framework but also --and more importantly-- the necessary political and social elements which make it actually work in practice.

12. I do not want to and cannot explain how good Governance as a prerequisite for development worked in practice in a country like, for example, South Korea. The Asian Development Bank is currently developing a deeper analysis of the contribution of Governance to the success story of the East Asian economies. According to preliminary conclusions of the Asian Development Bank important factors contributing to good Governance in the East Asian Countries were: (1) accountability of public officials for performance, (2) an effective public sector - private sector interface, (3) predictable application of rules and regulations, (4) sharing of information between the government and private actors.

13. I would like to sketch out a concept of Governance which the Asian Development Bank has developed recently as a conceptual framework for its development assistance efforts and which to some extent reflects its experience in Asia. This concept should be of interest to all who are dealing with development problems and, in particular, with the question what the preconditions for development are.

14. The ADB concept of Governance: It has to be said at the outset that the ADB concept of Governance -which is similar to that of the World Bank- is more narrow than some would like and, at the same time, one that could be described as pragmatic and technocratic. The ADB attempts to separate the political dimension of Governance (e. g. democracy, human rights) from the economic dimension. Governance is

defined as "efficient management of public resources" and "the manner in which power is exercised in the management of a country's economic and social resources for development." The concept is, therefore, characterized by a believe in rationality and efficiency.

15. While it is impossible today for democratic governments to ignore the issues of human rights and democracy in their international relations, governments often have to recognize there are limits beyond which they cannot go when promoting political ideals in other countries. This becomes most apparent when such countries are large and powerful.

16. In contrast to governments, international organizations like the ADB are constrained by their basic charters or constitutions not to "interfere in the political affairs" of member countries and to base their decisions only on "economic considerations". While obviously the distinction between "political" and "economic" cannot always be made easily, the fact of the matter is that a multilateral organization even and specially if it allows majority decisions by its decision-making organs, has to be based on a general consensus of its membership. Without such a consensus -not for every decision but in general- a multilateral organization would disintegrate and could not function. However, if there is a consensus even decisions which could be regarded as political are possible although such decisions are often still described as being based on "economic considerations". As examples for such political decisions from ADB practice, reference could be made to the stoppage of assistance to Burma and the temporary interruption of assistance to China and Vietnam in the past --even if these decisions were disguised as being based on "economic considerations".

17. For the reasons given the ADB like most other similar organizations shies away from taking on the issues of democracy and human rights within the context of Governance and describes Governance in terms of more limited economic and social objectives which are clearly within its constitutional mandate.

18. When making the case for excluding purely political concerns from consideration within the context of Governance, the ADB also points out how different traditions have resulted in a diversity of regime types and institutional cultures in Asia. None of these can reasonably claim to have any comparative advantage. As a matter of fact, if reduction of poverty and an improved standard of living for the masses are important overriding goals of development policy, one has to recognize that countries which have accepted democratic political systems have sometimes fallen far short of any standards of good Governance by having failed to deliver the economic and social goods expected from them. Other countries in which parliaments appear weak or non-existent, have on the other hand sometimes done comparatively well although this could by no means be regarded as the rule. In any case, it seems one has to accept reluctantly that there is no clear correlation between democracy and development.

19. In the Asian experience there is, however, some evidence that good governance in the technocratic sense resulted in rapid economic and social development which, in turn, prepared the ground for greater political liberalization and democracy at a later stage. Economic development lead to the appearance of a growing middle class which increasingly demanded political rights in addition to the benefits of economic development. Korea, Taiwan and Thailand could be cited as cases in point where democracy emerged with considerable delay after economic take-off. The corruption trials in Korea which past leaders of the country now have to face illustrate dramatically this kind of two step development. They incidentally also cast doubt on the reality of the concept of "Asian values".

20. In view of the great variety of political and social systems, many institutional alternatives are available for managing the development process soundly. The existence of such different models is also illustrated by the reference in the Abstract for our Panel to French, Anglo-Saxon, or Swiss and German "models". When analyzing good governance and its elements, the characteristics and the situation of individual countries have to be taken into account.

21. However, Even if a country-specific approach in regard to governance is advocated, there may be elements of Governance which may be present in all or in most of these models and which may be absolutely necessary for good governance. The ADB for analytical purposes defines the following basic elements of governance and some more concrete areas of action related to these basic elements:

- accountability
  government capacity/institution building as area of action:
  --public sector management
  --public enterprise management and reform
  --public financial management
  --civil service reform

- participation
  promoting participatory development process as area of action:
  --participation of beneficiaries and affected groups
  --public sector/private sector interface
  --decentralization of public and service delivery functions
  --role of non-governmental organizations (NGOs)

- predictability
  building legal frameworks as area of action

- transparency
  helping to improve general information process as area of action