



Assessing the Evidence of the Impact of Governance on Development Outcomes and Poverty Reduction

Issues Paper

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Executive Summary

Overview

This paper synthesises academic and donor research on the impact of governance work on poverty reduction and development outcomes. There is a large body of work on the critical importance of good governance in developing countries which argues that good governance has both intrinsic and instrumental developmental value. Our introduction charts the historical emergence of ‘the good governance agenda’ from the early 1990s to the present day, through narrow technical understandings of governance reform, to the concept of ‘good enough governance’, and on to current wider emphases on political economy approaches to governance. The individual chapters give overviews of research on the developmental impact of different areas of governance work: democratisation, justice and rule of law, corruption, decentralisation, public administration reform and public financial management. Given the broad consensus on the importance of governance for development, these chapters present a mixed picture, showing that governance reforms have not always resulted in the expected improvements in development outcomes and poverty reduction. This is often argued to be because the success of governance reforms is often conditional on political factors. Other clear messages from the research are that bad governance impacts negatively on the poor and institutions matter for growth and poverty reduction. Policy implications from the research are that donors must take a long-term perspective as change to governance institutions takes place over long time horizons. Donors should also give more attention to the demand-side of governance, rather than focusing exclusively on top-down approaches to reform, as results have often been promising where citizens have been brought into governance interventions.

Democratisation

Democratic states are neither the best nor the worst performers when it comes to economic performance and poverty reduction, and there is evidence to show that democratic systems prevent the worst humanitarian crises from occurring. Over long timeframes, it would seem that consolidated democratic regimes enjoy higher quality governance, are able to promote greater levels of economic growth and institute pro-poor social policies.

Justice and rule of law

The literature widely acknowledges the negative impact on the poor of a weak rule of law, in particular inadequate property rights and dispute resolution mechanisms. However, there is little conclusive evidence that ‘supply-side’ rule of law promotion by donors has had an impact on poverty levels. On the ‘demand-side’ there are some positive case studies of attempts to improve poor people’s access to justice that might suggest that these can be a way of reducing poverty.

Corruption

To date, very little empirical evidence has been generated on the impact of anti-corruption initiatives on poverty levels, or development more widely. The main focus in the literature is on the link between corruption and economic growth, where the impact on poverty reduction is implicit and/or indirect. Many anti-corruption initiatives have yet to demonstrate significant success.

Decentralisation

There is a wealth of material that argues that decentralisation can have a very positive effect on development by improving state efficiency, responsiveness, accountability and citizen voice. However, there is a lack of robust empirical research to support these claims and many academic studies are negative about the overall developmental impact of decentralisation.

Throughout the literature there is a strong emphasis on the importance of the political context in determining success.

Public administration reform

There is general consensus in the donor and academic literature that there is a strong link between improvements in the efficiency and accountability of public institutions and developmental outcomes. However, the potential of reform has not always been realised due to contextual factors and to poor design of interventions. There are, however, a few examples of reform impacting on development and some evidence of donor impact in this area.

Public financial management

Improving public financial management is important to enable countries to reach their developmental goals. However, the impact of PFM on poverty ultimately depends on the quality and pro-poor focus of government objectives and policies themselves. The link between PFM and development is therefore often argued for intuitively, rather than using empirical evidence. However, there are case study examples where PFM reform has furthered the MDGs, for example via improvements in budgetary allocations to the social sectors. In the past PFM reforms have been criticised for relying on technical solutions when the primary problems are often political. However, there is recent evidence that PFM reform is improving in developing countries.

A note on definitions of development outcomes and poverty reduction

Poverty reduction and development are broad concepts that are difficult to define. Poverty can either be defined narrowly as income poverty, or it can be defined broadly as a lack of social, political and economic opportunities and freedoms. As this paper is a collection of literature reviews, our focus has been determined by what is available across the various literatures. However, we have deliberately taken as broad a view of development as possible, for example including research on economic growth, human development, service delivery, gender equity, conflict and participation.

Introduction: The Emergence of the Good Governance Agenda

The importance of governance

The good governance agenda has been in the ascendant in the field of international development since the mid-1990s. The term 'governance' is broad and far-reaching, and the achievement of 'good governance' is premised on improvements to 'virtually all aspects of the public sector' (Grindle 2004: 525). Promotion of the good governance agenda will involve engagement with a wide range of institutions, from,

[those] that set the rules of the game for economic and political interaction, to decision-making structures that determine priorities among public problems and allocate resources to respond to them, to organizations that manage administrative systems and deliver goods and services to citizens, to human resources that staff government bureaucracies, to the interface of officials and citizens in political and bureaucratic arenas. Getting good governance at times implies changes in political organization, the representation of interests, and processes for public debate and policy decision making (Grindle 2004:525).

Despite this huge challenge, recent policy statements from bilateral and multilateral donors stress the importance of good governance, both as a desirable end or component part of development itself, and as a means through which to achieve greater economic growth which will in turn contribute to development. This position can be seen in a recent governance publication from DFID that states that,

Without 'good', or at least 'good enough', governance the fight against poverty cannot be won. Whether states are effective or not – whether they are capable of preventing violent conflict, fulfilling human rights obligations, helping business grow, and delivering essential public services to their citizens – is the single most important factor that determines whether or not successful development takes place (DFID 2007:2).

As Mick Moore (2001: 386) notes, 'bad governance' has been identified by international development agencies as a major obstacle to economic growth and to improved welfare in poor countries, and these agencies are therefore putting significant resources behind governance interventions. Bad governance is seen to be a particular problem in Africa and the Middle East (Moore 2001) – the need to get governance systems right, and improve capacity to design and deliver policies are central pillars of the report by the Commission for Africa (2005), as is the promotion of more accountable government. This policy position is supported by academic research also. Paul Collier, for example, has recently categorised bad governance as one of the four 'development traps' that he discusses in *The Bottom Billion*. Analysing the recent history of 58 small countries that are home to the 'bottom billion' (classified as countries that are falling behind the rest of the developing world in terms of economic growth and poverty reduction), he notes that 76% have 'been through a prolonged period of bad governance and poor economic policies' (Collier 2007:79). In sum, the promotion of the good governance agenda is a response to the argument that 'political underdevelopment' as represented by states that are ineffective and unaccountable, is 'a major cause of poverty and illbeing for many of the world's poorer people' (Moore 2001: 386).

Finally, beyond the instrumental and intrinsic importance of improved governance, it remains imperative for donors to address governance failings, since the way a country is governed will have significant bearing on how tax payers' aid money is spent.

Aid donor and recipient, intellectual and policymaker alike broadly have agreed that there is a set of problems of bad governance characteristic of much of the South; this

is a priority concern for donors if development assistance is to be used effectively (Moore 2002: 1).

Collier makes a similar point, noting that aid projects undertaken in countries with weak governance and poor policies are much more likely to fail (Collier 2007:118).

The history of the governance agenda

This renewed focus on the role of the state in development, that began in the mid-1990s, involved a considerable shift in approach from the preceding decades, during which the neo-liberal paradigm was dominant. Encapsulated in the Washington Consensus, this approach was driven by a deep scepticism as to the ability of the state to play a role in development (Batley 2002). However, by the mid-1990s, there was a general awareness that many of the structural adjustment programmes undertaken in developing countries that advocated the rolling back of the state had failed. Policy makers were also beginning to appreciate that the rapid development displayed by the East Asian 'tigers' had been in large part stimulated by the state's promotion of markets through active industrial and financial policies.

Hout and Robison chart the development of donor governance policy since the 1990s, identifying a first phase in the early part of the decade that, 'expressed a narrow view of governance that emphasised technocratic measures to improve government effectiveness and provide a legal framework for market-based development' (Hout and Robison 2009:2). This led onto a second phase from the mid-1990s that displayed more concern for the 'organisation of political and social life, and stressed participation and inclusion of society' (ibid:3). Hout (2009) notes that the World Bank had 'steered clear of the politics of the development process and stressed the technocratic aspects of governance' (Hout 2009:30) up until this point. However, the publication of the World Bank's World Development Report (WDR) in 1997, entitled, *The State in a Changing World*, is regarded as something of a watershed. The Report puts forward the argument that, whilst state-dominated development has failed, 'so will stateless development' and 'Development without an effective state is impossible' (World Bank 1997:25). It further argues that,

It is clear that [the state] retains a distinctive role in providing the public goods that promoted economic and social development. And market failures continue to offer powerful economic arguments for state intervention (Ibid).

Following from this, since the turn of the 21st century, many policy makers have come to give greater weight to the political-economic dimensions of governance reform, emphasising the relationship of these aspects of governance to the development process (Hout 2009). Hout and Robison (2009:3) identify a third phase 'emerging now' that is 'characterised by an increasing awareness of the importance of power, politics and social conflict in shaping development outcomes and the difficulties of addressing these through existing institutional and governance programmes'. Although DFID is regarded as being in the vanguard in promoting this more nuanced approach to governance analysis (Hout 2009), development agencies experience difficulties in translating this analysis into policy (ibid).

Political economy of governance

Other, more academic, texts from the late 1980s and 1990s, particularly on Africa, highlight the importance of in-depth political economy analysis of governance institutions for an understanding of development failings. Notable amongst these are Patrick Chabal and Jean-Pascal Deloz's *Africa Works: Disorder as a Political Instrument* and Jean-François Bayart's *The State in Africa: The Politics of the Belly*. These works challenge stereotypical and ahistorical readings of the African state, arguing that

The categories under which contemporary political thinking is organised, particularly those of democracy, authoritarianism and totalitarianism, have been drawn up, refined and discussed on the basis of historical experiences which exclude Africa (Bayart 2009 [1989]: 5).

However, these two texts also highlight the massive challenges awaiting those who would endeavour to respond to the governance problems faced by many African countries. For Chabal and Deloz, the African state has never been adequately institutionalised or 'emancipated' from society and as such is *vacuous* and *ineffectual*.

The failure of the state to be emancipated from society has profoundly limited the scope for 'good government' in sub-Saharan Africa. Equally, such a poorly institutionalized state has not had the means seriously to spur sustainable economic growth on the continent (Chabal and Deloz 1999:14).

Far from being a pre-modern state of affairs, these authors show the logic underlying the political elite's desire to maintain the informality of the state, and the overlap between the public and private spheres. These themes also come through in Bayart's work, where the metaphor of the belly is used to show how elites 'collaborate to eat and then further their interests by drawing upon the outside world (Ahluwalia 2001: 64).

'Good enough governance'

Responding to these governance problems, the 'good governance' agenda has taken off since the mid-1990s, with the list of governance indicators multiplying. As Grindle (2004:257) notes, the good governance agenda has been adopted by a broad range of stakeholders 'as a precondition for effective development and poverty alleviation' and they 'have added to the list of factors that are essential for it'. This has led to a situation, she argues, whereby,

It may be difficult to identify a desirable condition or action that is *not* conducive to good governance, suggesting that the underlying agenda is actually a search for a cure to underdevelopment (ibid).

However, in recent years, a more nuanced approach has been promoted, that has challenged the idea that certain aspects of governance are preconditions for development. This has in part been driven by the realisation that in some successful developing countries, growth has been stimulated by a small number of institutional and policy changes (Grindle 2007:559). But scholars have also put forward the argument that poor countries are simply not able to put such a large range of governance reforms in place simultaneously, and before their economies have shown signs of greater growth.

It is extremely difficult if not impossible to achieve these governance conditions in poor countries. [...] Poor economies do not have the required fiscal resources and requiring them to achieve these goals *before* economic development takes off faces a serious problem of sequencing (Khan 2007: 4).

In response, Grindle (2007:554) has pioneered the 'good enough governance' approach that advocates identifying the '*minimal* conditions of governance necessary to allow political and economic development to occur'. This approach therefore also calls for more nuanced political and economic analysis:

Priorities can be better set if there is more understanding about which actions produce more results in terms of efficiency, effectiveness, and responsiveness; which produce the most benefit for the poor; which logically precede others; which are easier to undertake or produce results in the short term; and under what conditions particular reforms are likely to have the most impact (Grindle 2004: 537).

Grindle's work has been highly influential – the DFID publication cited above makes reference to the concept of 'good enough' governance. But her advocacy of a new approach to governance implies that the good governance agenda has had a problematic history, as will now be discussed.

Areas of controversy and debate

Despite the centrality of the governance agenda within development agencies, the evidence on the impact of good governance, and governance interventions on poverty reduction and broader development goals is mixed. This is clearly illustrated in the thematic chapters of this literature review. The ambiguities surrounding the relationship between good governance and development are highlighted by the vigorous debate between scholars on the methodology used, and the inferences drawn from the data to prove this link. Particularly notable are the critiques by Khan of the work produced by Daniel Kaufmann and his colleagues at the World Bank Institute (discussed in more detail in chapters 2 and 3). This work, published under the title *Governance Matters*¹ and frequently updated, has developed six measures of governance, containing variables on government policies and regulations, rule of law and anti-corruption as well as more political dimensions of governance such as political stability, voice and accountability and absence of violence (Hout 2009). It shows that in general, developed countries score higher than developing countries across a range of governance indicators. Although Kaufmann's analysis has been highly influential and is frequently cited (including by the World Bank) to argue for the importance of governance interventions as preconditions for development, other scholars have noted that working with cross national data of countries at different levels of development has overlooked the 'history of governance and development conditions experienced by the countries in the sample' (Grindle 2007:558). This might provide a more pertinent understanding of why some countries have shown greater progress towards development. The issue of the direction of causality comes into play here: developing countries may score poorly on governance indicators but it remains unclear as to whether developed countries have better governance because they are richer, or whether economic development has brought about improved governance.

Concluding observations

Despite much of this uncertainty about the relationship between good governance and development, a number of points can be made with more certainty and are reflected in the literature discussed in the review chapters. These chapters cover (i) democratisation, (ii) corruption, (iii) access to justice/rule of law, (iv) decentralisation, (v) public administration reform and (vi) public financial management.²

1. Bad governance impacts negatively on the poor. The harmful effects of governance failings on the most vulnerable sectors of society come across in each of the thematic chapters. The poor suffer most from corruption, a lack of access to justice, insecure property rights, an inefficient bureaucracy and weak financial management.

2. A number of aspects of good governance, notably democratisation and low levels of corruption are intrinsically desirable. There is a strong moral case for promoting empowerment of poor people through political participation, and for combating corruption. As Amartya Sen (1999) has argued, political freedoms are a key component of development.

3. Institutions matter for growth and for poverty reduction. As Davis and Trebilcock (2008:60) assert, 'there appears to be an increasingly firm empirically grounded consensus that institutions are an important determinant of economic development'. In particular, they quote Kaufmann³ in stating that the effects of governance on income in the long term are very large, with an estimated 400% improvement in per capita income associated with an improvement in governance by one standard deviation. They also cite evidence from Rodrik,

¹ See <http://info.worldbank.org/governance/wgi/index.asp>

² These themes are a reflection of the way in which the literature is currently organised and where donors have been most active. They are interconnected, for example: public financial management is a requirement for delivery of public services and corruption is a cross-cutting theme.

³ Kaufmann, D. (2004) *Governance Redux: The Empirical Challenge*, World Bank: <http://siteresources.worldbank.org/INTWBIGOVANTCOR/Resources/govredux.pdf>

Subramanian and Trebbi⁴ that an increase in institutional quality of one standard deviation produces a two log points rise in per capita incomes, or a 6.4-fold difference. A recent review for DFID on core state-building functions and development concludes that in developing countries that are not resource rich, economic prosperity without good governance 'seems almost impossible' (Hudson and Mosely 2009: 137). The authors argue that for poorer countries there is a strong positive correlation between residual GDP per capita and both law and order and bureaucratic quality (ibid:18), and that 'with respect to infant mortality, we note that this strongly responds to the quality of bureaucracy' (ibid:5). Whilst Khan (2007) disputes the focus of development agencies on market-led governance interventions, he insists that carefully targeted and crafted institutional support is needed for states to achieve growth. Further, as noted in the chapter on democratisation, it is effective states, with adequate institutions in place, that are able to establish poverty-reducing growth.

4. There is a need to take the long view. As noted by Moore and Putzel (1999) amongst others, most African states are very recent (and artificial) creations. The governance institutions in the West have, by contrast, had many centuries to mature. Collier (2007) argues, further, that it takes an average of 59 years for a failing country to escape from its development traps. The chapter on democratisation highlights the long-term benefits of democracy, with positive impacts on economic growth. Similarly, time is needed to change the behaviour and incentive systems within bureaucracies and to ensure that legislative change filters through to society. It is therefore important to take into account that the fruits of much governance intervention effort may take time to materialise.

5. The demand-side of governance should not be overlooked. While much of the literature reviewed below refers to high-level interventions directed towards the apparatus of the state, it should not be forgotten that governance is ultimately about the relationship between the state and its citizens. The clear message from the literature review chapters is that where citizens have been brought into governance interventions, results have often been promising. Examples of these initiatives include citizen-led anti-corruption activities, legal empowerment and rights awareness work, scorecards on service delivery, greater participation in local government and increased interaction with public servants. This suggests that attempts to improve the accountability side of the governance relationship could be a fruitful area for further donor engagement.

6. The success of governance reforms will often be conditional on political factors. Much governance reform will be highly sensitive and contested, and will depend on a redistribution of power. This again highlights the importance of nuanced political and economic analysis to feed into good governance policy, as promoted by Grindle (2004; 2007) and Moore and Putzel (1999). In many cases, more aid is not necessarily the answer. As Collier (2007:111) bluntly puts it, 'there are severe limits to what aid can do to improve governance'. Yet he qualifies this by stating: 'We are not yet at those limits'.

Finally, much of the literature on governance improvements and interventions is concerned with their impact on economic growth, not on poverty reduction, *per se*. A more focused approach to research into governance, that examines which governance failings are most harmful for the poor, and how governance reforms can have a greater impact on poverty reduction, is therefore needed.

⁴ Rodrik, Dani, Arvind Subramanian and Francesco Trebbi (2002) Institutions Rule: The Primacy of Institutions over Geography and Integration in Economic Development, Harvard University: <http://www.hks.harvard.edu/fs/drodrik/institutionsrule.%205.0.pdf>

Chapter 1: The Impact of Democracy and Democratisation Interventions on Development Outcomes and Poverty Reduction

Overview

The literature on the connection between democracy and poverty reduction is inconclusive. Democracy does not necessarily contribute to economic growth, and democratic governments do not necessarily put pro-poor policies in place. However, donors remain committed to the promotion of political freedom, and democracy is seen by many as a development goal in itself, as well as a means to an end in the achievement of other benefits for citizens. The literature would suggest that democratic states are neither the best nor the worst performers when it comes to economic performance and poverty reduction, and there is evidence to show that democratic systems prevent the worst humanitarian crises from occurring. Over long timeframes, it would seem that consolidated democratic regimes enjoy higher quality governance, are able to promote greater levels of economic growth and institute pro-poor social policies

Democratisation and poverty reduction

Since the end of the Cold War, development aid has often promoted and rewarded democratisation (Brown 2005). Over the past two decades, democratic freedom and political participation have been seen as important components of the development project.⁵ In 2006, UNDP placed democratic governance at the heart of its strategy for the Least Developed Countries (UN-OHRLS/UNDP 2006). But despite this commitment, the academic debate on whether democratisation contributes to economic growth and poverty reduction is inconclusive. This is not to suggest that democratisation initiatives have failed to promote democracy – a report by the Committee on the Evaluation of USAID Democracy Assistance Programs (2008:26) notes that recent academic research suggests that on average ‘democracy assistance *does* matter and has a positive impact on democratic progress’. However, the record of democratic regimes’ commitment to pro-poor social policies is mixed, and there are a number of examples of authoritarian regimes that have high human development indicators and that have made impressive reductions in national poverty levels.

It should be highlighted at this point that the extent to which a positive relationship is perceived between democratisation and poverty reduction will depend on how ‘poverty’ is understood. Within a broad definition of poverty that includes lack of voice or freedom, democratisation will make a direct contribution to poverty alleviation. This view is most notably supported by Amartya Sen, who regards political freedom as having an intrinsic worth and democracy as ‘an essential component of the process of development’ (Sen 1999: 157). Sen’s contribution to theory has had an explicit impact on donor policy on democracy promotion, as can be seen in the Human Development Report of 2002: ‘Democratic participation is a critical end of human development, not just a means of achieving it’ (UNDP 2002: v).⁶ There is also much written on the positive impacts of the greater participation and higher levels of citizen voice that are associated with ‘deep democracy’ (Appadurai 2001). However, an examination of this literature is beyond the scope of this chapter, which will

⁵ Since September 11th, efforts to support democratisation have become tainted by US ‘hard’ foreign policy and support for regime change. The impact of the Bush administration on democracy promotion is discussed at length by Carothers (2007).

⁶ Sen’s view on democracy is contested by Ottaway, who argues that although opinion polls show citizen support for respect of human rights and the option to choose among competing parties and candidates, they stop short of supporting outright democratic change. This leads her to believe that ‘liberal democracy is an ideology that appeals most to intellectual elites and to people whose basic needs for food, shelter and security have been satisfied’ (Ottaway 1006).

examine the impact of democracy on economic growth, income poverty reduction and broader human development indicators.

Does development lead to democracy?

Although now largely discredited, modernisation theory posited the emergence of democracy as a consequence of the transformation of the class structure, with the growth of the bourgeoisie, as well as economic development and increasing urbanisation. Theorists such as Lipset (1959) believed that democracy was more likely to emerge in countries with higher levels of socio-economic development. Once a country reaches a certain level of economic development, it was argued, people would be 'more inclined to believe in democratic values and [...] support a democratic system' (Doorenspleet 2002: 49).

More recent research has highlighted the greater incidence of stable democracy among higher income countries. UNDP (2002:56) notes that 42 of the 48 high human development countries are democracies. UNDP (ibid) further reports that,

[w]ith just two exceptions, all of the world's richest countries – those with per capita incomes above \$20,000 (in 2000 purchasing power parity) – have the world's most democratic regimes.

However, correlations between democracy and economic growth or human development do not prove causality. Work by Przeworski et al. that examines 135 countries between 1950 and 1990, shows that there are no trade-offs between democratisation and development. The authors comment "we did not find any shred of evidence that democracy need be sacrificed on the altar of development. The few countries that developed spectacularly during the past 50 years were as likely to achieve the feat under democracy as under dictatorship. On average, total incomes grew at almost identical rates under the two regimes... (2000:271) The observed rates of growth were 4.42 under dictatorships and 3.95 under democracies, but when countries were matched for exogenous conditions, the growth rates under the two regimes were almost the same" (2000:273).⁷ Further, the 'third wave' of democratisation, that saw middle and low-income countries across the world move towards democratic political regimes in the late twentieth century, has shown that there are no structural preconditions for the emergence of democracy. The consensus now is that economic development *per se* is neither a necessary nor a sufficient condition for the emergence of democracy, although it may help to sustain democracy. As UNDP (2002) reports, democracies are more likely to survive in higher income countries.

Democracy and economic growth

The literature on the contribution of democracy to economic growth, development and poverty reduction is inconclusive. Gerring et al. (2005: 323) state that the predominant view is that 'democracy has either a negative effect on GDP growth or no overall effect'. However, they also find that the longer a country has had a functioning democratic system, the more likely it is to have a strong record of economic growth, '[l]ong-term democracy leads to stronger economic performance' (Ibid: 356). Tavares and Wacziarg (2001:1) demonstrate the complex nature of the relationship:

⁷ Przeworski et al also comment that "If the theory according to which the emergence of democracy is a result of economic development is true, transitions to democracy should be more likely when authoritarian regimes reach higher levels of development. In fact, dictatorships survive almost invariably in the very poor countries, those whose per capita incomes are under \$1000, or at least they succeed one another and the regime remains the same. They are less stable in countries with incomes between \$1001 and \$4000, and even less so between \$4001 and \$7000. But if income reaches the level of \$7000, the trend reverses and they become more likely to survive... Economic development seems to destabilize dictatorships in countries at intermediate levels of income, but not in those that are poor nor in those that are wealthy" (2000: 92)

[r]esults suggest that democracy fosters growth by improving the accumulation of human capital and, less robustly, by lowering income inequality. On the other hand, democracy hinders growth by reducing the rate of physical capital accumulation and, less robustly, by raising the ratio of government consumption to GDP. Once all of these indirect effects are accounted for, the overall effect of democracy on economic growth is moderately negative. Our results indicate that democratic institutions are responsive to the demands of the poor by expanding access to education and lowering income inequality, but do so at the expense of physical capital accumulation.

Other scholars are more positive about the impact of democracy on economic growth, and point out the indirect connections. For example, it can be argued that democracy tends to create political stability and make conflict less likely, which are good preconditions for development. Halperin et al. argue that as the number of democracies in the world has been increasing, the number of major armed conflicts (including civil wars) has declined sharply. From a peak of 36 countries engaged in war in 1991, this number fell by two-thirds, to 13 in early 2003 (2005:12, 95). Also, democracies are less likely to initiate military confrontation, with democracies typically instigating conflict less than one time in five. Halperin et al also argue that democracy has an impact on the likelihood of civil war in developing countries – of the 49 low-income countries facing civil conflict between 1990 and 2000, only 8 were democracies. In contrast, the 25 low-income autocracies were engaged in civil conflict nearly one quarter of the time (2005:96). Scholars also see value in the way that democracy wards off economic disasters: Przeworski et al. (2000) show that democracy tends to reduce the variance in economic growth, in the process lowering the chance of disasters – as well as miracles. In terms of broader development goals, the authors have shown that democracy reduces fertility rates. From 1950 to 1990, the observed rates of population growth were 2.42% per annum for dictatorships and 1.46% for democracies (2000:274). As well as having important implications for female well-being, lower fertility rates can have an impact on GDP per capita, simply because populations do not grow as fast under a democratic regime (Przeworski et al. 2000).

Country case studies by Saha (2009) place a different angle on the relationship between democracy and economic growth. Unpicking the concept of 'democracy', he examines how systems of political representation and the way that legislatures are composed can impact on poverty reduction. He notes that in Ethiopia, economic growth has contributed to poverty reduction and attributes this to equitable parliamentary representation that has ensured pro-poor legislative institutions and pro-poor administration. He arrives at similar conclusions for the parliamentary systems and poverty reduction in Burundi and Gabon. A recent study by Chauvet and Collier (2009) presents econometric analysis from eighty developing countries that shows that a higher frequency of elections (if they are free and fair) improves policy and governance. They deduce from this that honest elects increases accountability and disciplines government, leading to improvements in economic policy and governance.

Whilst there has been considerable research on the relationship between democracy and economic growth, the latter should not be seen as a proxy for poverty reduction. As Varshney points out:

[s]urprising as it may seem, not enough is known about the relationship between democracy and poverty. Instead, a great deal of literature is available on the relationship between democracy and economic growth. Unless it is incorrectly assumed that what is good for economic growth is necessarily good for poverty reduction, the implications of the theoretical literature on economic growth are not straightforward. Inferences can only be drawn with appropriate caution (Varshney 2000:720).

Varshney continues by stating that democracies themselves do not remove poverty, it is economic strategies that do. He concludes therefore that attention should be given to determining which economic policies work best at alleviating poverty and, crucially, whether democracies tend to adopt these policies and why (Ibid: 721).

Democracy and human development

In theory, the key institutional features of democratic systems are essential in limiting the abuse of executive power and providing a system of rewards and punishments. This is why democracies are unlikely to experience famine (Sen, 1999) as people will not vote for governments that allow huge swathes of the population to starve. Diamond (2004) argues that theoretically, where there are large numbers of poor people, democracy will increase the chances of pro-poor policies. In a similar vein, Sen (1999: 157) identifies the instrumental contributions of political freedom to well-being – democracies are very likely to have some form of social service provision and safety nets, for example.

In practice, however, the link between democracy and the promotion of pro-poor policy should not be overstated. Diamond (2004) acknowledges that there is no consensus amongst empirical research that human development is improved by democracy, and that some studies find the opposite. For example, Kudamatsu (2006) argues that democratisation in sub-Saharan Africa has reduced infant mortality and attributes this to improvements in public health provision rather than increases in affluence. In a survey of 28 countries, Kudamatsu shows that infant mortality falls by 1.8 percentage points (18% of the sample mean) after democratisation. The reduction is greater for babies from disadvantaged groups. However, Ross (2006) states that democracy ‘does not matter’ for infant and child mortality rates. In comparing infant mortality rates of all 44 states that transitioned to democracy during 1970 and 1999, infant mortality collectively fell by 7.4% during the first five years after their transitions, but fell by 10.7% during the five years before their transitions.

One positive experience of the impact of democracy on social spending comes from Uganda, where Stasavage notes that the return to multicandidate political competition in 1996 prompted the incumbent president, Museveni, to promise the abolition of primary school fees. It is widely believed that his strong performance in the elections was partly due to his commitments to universal primary education (UPE). He notes that,

[s]ince 1996, democratic politics have also helped increase incentives for the Ugandan government to successfully implement UPE, because it has been perceived that government performance would be judged on this basis. [...] Recent Ugandan experience shows that electoral competition can prompt African governments to improve basic public services (Stasavage 2005: 71).

Stasavage goes on to caution that success is dependent on a number of factors, notably the way that the political system is designed in Uganda. A democratic system where voting was based on regional lines would be unlikely to have the same kind of impact. This finding, on the importance of institutional design, tallies with the work of Saha, discussed above.

However, in general, the experience of countries in the developing world that made the transition to democracy in the latter half of the twentieth century provides a mixed picture. It would seem that newly achieved political and civil rights do not necessarily lead to improvements in material well-being for those in the bottom quintiles, and while democracies may increase social spending, this may not reach the poorest groups in society (Ross 2006).

Even countries that are considered success stories in terms of democratisation and economic growth, such as Botswana and Chile, have failed to address the question of inequality. Botswana is widely considered to be an island of political stability and economic growth in a continent beset by problems of governance. However, Hillbom (2008) has argued that the country’s success is based upon ‘pre-modern growth without development’. The country has experienced ‘a massive increase in capital, primarily from diamond exports’ (Ibid: 210) and although it is largely seen to have avoided the ‘resource curse’, its income inequality is one of the highest in the world. Chile is regarded by orthodox economists as a ‘miracle model’ due to its almost uninterrupted growth over the past three decades (Murray et al. 2009). It has also put policies in place which have shown ‘remarkable’ results in reducing absolute poverty:

In Chile, following the restoration of democracy in 1990 there has been a concerted effort to move beyond the harsh neoliberalism of the military dictatorship, to tackle the ‘social debt’ that was created between 1973 and 1990. Central to this has been a

concerted effort by successive governments to reduce poverty through economic growth, institutional reform and more progressive social policy (Murray et al. 2009: 128).

However, income distribution has remained virtually unchanged since the early 1990s, leaving Chile another of the most unequal societies on earth.

Extremely high levels of inequality can compromise the citizenship of the poor, as has been discussed frequently in relation to Brazil (Mainwaring 1995). Although its recent experiments with cash transfers for the poorest have been widely praised, Brazil is another example of a highly unequal democracy. For Hunter and Sugiyama (2009), 'Brazilian democracy has given rise to forces that help ensure a minimum level of social protection' and they thus agree with Sen, that democracies can help prevent the worst disasters from occurring. Yet the transition to democracy in Brazil has not reduced the privileges of the politically powerful. Further, Hunter and Sugiyama argue that democracy has 'in some ways strengthened the forces that impose a low ceiling on living standards and human capital development among people with marginal levels of income and education' (Ibid:49). These examples illustrate Rocha Menocal's (2007) conclusion that in many developing countries, democratisation has not been associated with redistribution.

Authoritarian regimes and poverty reduction

A number of scholars have sought to explain the fact that many democracies continue to display low levels of human development and/or inequality. One explanation that has been posited is the relative lack of 'true' democracy (if this can exist anywhere). Although many developing countries were once regarded as undergoing a transition to democracy, Carothers points out that in some cases this transition has no end in sight, with a number of countries in the developing world fairly static in a type of 'grey zone' between democracy and dictatorship. He argues that there are two broad types of regime, 'feckless pluralism' and 'dominant power systems'. Central to these two types are the self-interested or corrupt behaviour of elites and the very limited participation of citizens in the political process (Carothers 2002). For Carothers, prominent among the short-comings of political institutions in developing countries are problems with political parties:

In a well-functioning democracy, parties represent citizens' interests before the state (the terms *interest articulation* and *aggregation* are often used on this point), engage and involve citizens in democratic participation, structure the political choices that citizens have in elections, and form the governments and take responsibility for governing (Carothers 2006).

But in practice parties tend to be corrupt, self interested, lacking a focus on policy, are beholden to individuals or factions and are unable to represent citizen interest (Carothers 2006).

Diamond sees similar problems with the quality of democracies in developing countries, which he believes helps to explain the disconnect between democracy and development:

There are several reasons why democracy often fails to do much to improve the lot of the poor. These derive not from the intrinsic limitations of democracy as a political system, but rather from the fact that democracy functions in a limited, shallow, illiberal fashion (Diamond 2004:9).

He goes on to refer to 'pseudodemocracies' or 'electoral authoritarian regimes' (ibid). Halperin et al. (2005) note that in the past, some scholars have regarded democracy to be too fractured, prone to abuse and time-consuming to promote rapid development. This line of argument is also used to explain the success of a number of authoritarian regimes in the reduction of poverty, notably South Korea, Taiwan and Singapore. Rocha Menocal summarises it thus:

The core of this argument is that development requires a strong, centralised, highly autonomous government, especially when poor countries need to play 'catch-up', and that democratic politics are simply too messy and unpredictable to provide such a structure (Rocha Menocal 2007: 7).

In an authoritarian system, leaders also have a much longer time-frame to work towards development goals, without having to worry about electoral competition. The success of a number of developmental states in Asia has been put down to their ability to 'promote developmental goals, without being 'captured' by particularistic interests, while remaining 'embedded' in society through a concrete set of social ties that binds the state to society' (ibid:8). However, there are, of course, also many examples of anti-developmental or non-developmental authoritarian states and authoritarian states where insulated, centralised policies have played a major role in triggering serious economic crises (ibid:9).

The fact that both democratic and authoritarian states have managed to reduce poverty and promote human development has led a number of scholars to conclude that effective development does not depend on regime type, but on the character of the state. As Leftwich argues:

Only effective states and preferably developmental ones – whether democratic or not – are capable of elaborating the institutions which will establish poverty reducing growth and associated welfare regimes (Leftwich 2008:3).

As Rocha Menocal (2007:4) concludes, a democracy should not be expected to produce better socio-economic outcomes simply because it is a democracy.

Conclusion

The literature on the impact of democracy and democratisation interventions is therefore deeply divided. No consensus is offered on the impact of democracy initiatives on economic growth, pro-poor policy making or poverty reduction.

Chapter 2: The Impact of Justice and Rule of Law Interventions on Development Outcomes and Poverty Reduction

Overview

The literature widely acknowledges the negative impact on the poor of a weak rule of law, in particular inadequate property rights and dispute resolution mechanisms. However, there is little conclusive evidence that rule of law promotion by donors has had an impact on poverty levels. This may be because donors have tended to support bureaucratic solutions when the key issues are intensely political and contested. In general, research has concentrated on the link between economic growth and the rule of law. Although richer countries tend to have a stronger rule of law, the idea that western-style property rights and judicial systems are a prerequisite for economic development has been challenged by a number of scholars. This chapter also briefly considers efforts to improve the 'demand-side' of the rule of law, often referred to as 'legal empowerment'. There are some positive case studies of attempts to improve poor people's access to justice that might suggest that these can be a way of reducing poverty.

Defining the rule of law

Carothers has defined the term 'rule of law' as follows:

The rule of law can be defined as a system in which the laws are public knowledge, are clear in meaning, and apply equally to everyone. They enshrine and uphold the political and civil liberties that have gained status as universal human rights over the last half-century. In particular, anyone accused of a crime has the right to a fair, prompt hearing and is presumed innocent until proved guilty. The central institutions of the legal system, including courts, prosecutors, and police, are reasonably fair, competent, and efficient. Judges are impartial and independent, not subject to political influence or manipulation. Perhaps most important, the government is embedded in a comprehensive legal framework, its officials accept that the law will be applied to their own conduct, and the government seeks to be law-abiding (Carothers 2004:122).

Given the broad meaning of the term, efforts to improve the rule of law can involve a wide range of initiatives in a number of different policy areas. A thorough examination of all the elements that make up the rule of law is beyond the scope of this assignment. As such, this chapter will focus on macro-level initiatives on legislative and judicial reform. It also examines more micro-level work on improving access to justice for the poor. Often referred to under the banner of 'legal empowerment', these initiatives can include (Grandvoinet 2001: 169):

- Clear communication and elimination of language barriers
- Decentralisation of the justice system
- Free legal advice and legal representation
- Alternative dispute resolution mechanisms
- Legal literacy campaigns
- Support for legal advocacy NGOs as an intermediary between the law and the poor.

DFID has recently commissioned a couple of literature reviews that cover this thematic area in greater detail and that should be read in conjunction with this chapter to get a fuller picture of the impact of justice / rule of law / security on development. Ismail and Hendrickson (2009) synthesise the literature on the impacts of insecurity on poverty and the potential achievement of the MDGs. They cite Picciotto, who claims that the average cost of a civil war is 2 ½ times the value of the country's GDP at the time the conflict starts. They also quote evidence from Collier who argues that one year of conflict reduces a country's growth rate by an average of 2.2% and that on average, by the end of a war, incomes are 15% lower, and about 30% more people are living in absolute poverty, than would otherwise have been the case (2009:6). Cox

(2008) also provides a comprehensive overview of the development returns of security and justice that includes coverage of property rights and crime, and the gendered dimensions of access to justice. In particular, the report cites evidence from two major econometric studies which, the author argues, are frequently referenced across the literature. Firstly, Acemoglu, Johnson and Robinson (2001)⁸ who show that income levels across countries are closely associated with the security of property rights, and that a crucial factor in attracting foreign direct investment (which is important for growth in developing countries) is a stable, consistent, fair and transparent legal system. Secondly, Cox cites Kaufmann and Kraay (1999)⁹ who use a combination of cross-country investor surveys and polls of experts to capture data on 6 governance indicators, including the rule of law. They find that an increase of one point on their 6-point rule of law index is associated with between a 2½ and 4-fold improvement in *per capita* incomes and infant mortality, and a 15-25% increase in literacy (Cox 2008:4).

It should also be noted that the literature reviewed here often refers to the 'rule of law' in a generic manner. Where applicable, this review will mirror this usage.

There are a number of ways in which the rule of law can have indirect impacts on poverty reduction and broader development goals. Firstly, improved rule of law can have an impact on economic growth: scholars have been making the link between the rule of law and a functioning market economy since the 19th Century (Anderson 2003). Secondly, the rule of law is seen as central to the democratic project: 'the rule of law makes possible individual rights, which are at the core of democracy' (Carothers 2004:4). Beyond these instrumental reasons, the rule of law is also seen to be desirable for its own sake (Suyitno 2008), and the rule of law is often posited by academics and policy makers to be a key component of development. Donor efforts to improve legal systems in the developing world date back to the 'Law and Development' movement of the 1960s. According to Messick (1999), this initiative was based on the wholesale export of the US-style judiciary without consideration of local context. Although it was deemed to have failed within ten years, the 1990s saw a renewed impetus by donors on legal and judicial reform, and general rule of law promotion initiatives. Considerable amounts of donor funding have been invested in this type of work. This can be understood as a response to the emergence of fledgling democracies in former Communist and Soviet countries after the collapse of the USSR, and as part of the overall good governance agenda launched by the World Bank in the mid-1990s.

The rule of law and poverty reduction

Given the perceived importance of the rule of law for the working of a liberal market economy, it is not surprising that there is considerable literature on the link between functioning legal and property rights systems and economic growth. The American Bar Association, for example, takes this relationship as a given (ABA 2007). Statistical analysis has shown that the better the rule of law, the richer the nation, and as Suyitno (2008) notes, radical legal changes required by Central European and Baltic countries to join the EU improved their economies as well as their judicial systems. Conversely, weak protection of property rights and inefficient mechanisms for dispute resolution are believed to provide a less than conducive environment for economic growth. A summary of this argument is given by Carothers:

If a country does not have the rule of law [...] it will not be able to attract substantial amounts of foreign investment and therefore will not be able to finance development (Carothers 2003:6).

Similarly, with reference to justice, a DFID issues paper notes that:

⁸ Acemoglu, D., S. Johnson and J. Robinson (2001) 'The colonial origins of comparative development: an empirical investigation', *American Economic Review* Vol. 91, 2001, pp. 1369-1401.

⁹ Kaufmann, Daniel, Aart Kraay and Pablo Zoido-Lobaton (1999) *Governance matters*, World Bank Institute, Policy Research Working Paper 2196.

States with poorly functioning legal systems and poor crime control are unattractive to investors, so economic growth also suffers (DFID: 3).

Hudson and Mosely (2009), in a review of the impact of core state-building functions on sustainable development argue that 'law and order' is one of the most important governance variables for economic growth. There is therefore a body of thought that makes an implicit link between improved rule of law and poverty reduction, as it is believed developing countries will experience faster economic growth with secure property rights and dispute resolution systems. On the other hand many also recognise that an imperfect rule of law is almost inevitable in most poor countries (one reason is that countries lack the resources to support the necessary institutions) and so deeper political economy factors determine growth and development outcomes.

Beyond linking rule of law with economic growth, the World Bank argues that the law can make a contribution to equity and thus to prospects for social development and poverty alleviation by combating discrimination, protecting the socially weak and contributing to the distribution of opportunities in society (World Bank 1994: 23). Grandvoinet makes a similar case:

Access to legal information and to the court system is necessary for the reduction of poverty, in that it [...] diminishes the poor's vulnerability to exploitation or deception. Such access may enable them to take advantage of economic opportunities. However, access to the law is generally restricted to the educated, and usually urban sectors of the population (Grandvoinet 2001:161).

Examining the negative side of the relationship, a number of scholars have highlighted how poverty can be exacerbated by a weak rule of law, and lack of access to justice. Anderson makes the case that the poor suffer most when the authorities do not adhere to the law:

The poor are most at risk from the abuse of political power, and are least able to protect themselves against the injury and economic loss consequent upon such abuse. In countries all over the world, the poor are more likely to be victims of police violence than the rich (Anderson 2003:2).

The poor are also negatively affected by weak protection of property rights. A DFID Issues Paper notes that poor farmers are more likely to invest in their land if land disputes can be easily resolved (DFID 2001). Suyitno (2008) would agree, citing the cases of Brazil, Indonesia, the Philippines and Thailand where the value of rural land increased when people were given title deeds, because owners were willing to invest in their land.

However, whether or not improved rule of law will impact on poverty reduction is a moot point. The argument that rich countries have better rule of law does not provide evidence of causality. Further, there are a number of specific country examples that contradict the orthodox interpretation of the link between rule of law and economic growth: China is growing fast and "is the world's largest recipient of foreign investment, yet it has... nothing that most Westerners would recognise as a rule of law tradition" (Suyitno 2008). Carothers also concludes that, "there is a notable lack of proof that a country must have a settled, well-functioning rule of law to attract investment" (2003: 6). He has therefore queried massive donor spending on rule of law promotion.

Assessing the link between improved rule of law and poverty reduction is further problematised by a lack of research in this area. As Anderson notes, 'there has been little systematic exploration of the role that the rule of law plays in ameliorating poverty' (Anderson 2003:2). For Buscaglia (2001) the links between access to justice and poverty reduction have been 'scarcely explored'. Carothers also regards the area as outside the scope of much academic research:

If aid organizations are themselves not sponsoring the kind of applied policy research that would build knowledge in the rule-of-law promotion domain, neither are political science departments or law schools. This kind of research is eminently applied in nature and thus tends not to attract scholars, who have few professional incentives to

tackle questions that arise from and relate to aid activities. Remarkably little writing has come out of the academy about the burgeoning field of rule-of-law promotion in the last twenty years. And only a small part of that existing literature is written by scholars who have had significant contact with actual aid programs (Carothers 2003:13).

Scholars who have sought a connection between rule of law and poverty reduction generally find only a weak link. Although Hasan et al. (2007) believe that stable property rights and the rule of law are prerequisites for a dynamic private sector to emerge, they are cautious as to the impact of this on income inequality, noting that the experience of today's prosperous countries

[r]eveals that market economies require much more [than stable property rights and the rule of law] if they are to function efficiently and with at least a modicum of equity (Hasan et al. 2007: 74).

For these authors, the most that can be concluded is that the rule of law matters for poverty reduction through its impact on economic growth. Son and Kakwani (2007) investigate the link between rule of law and specifically pro-poor growth, which they define as growth that benefits the poor proportionally more than the non-poor. Presenting cross-country analysis of 80 countries during 237 growth spells over the period 1984-2001, they conclude that there is no association between rule of law (as measured by Kaufmann's governance indexes) and pro-poor growth.

Donor Impact

Examining the ways in which donors promote the rule of law, Carothers provides a typology of their initiatives in this area. Type 1 involves revising laws or whole codes, and often focuses on the economic domain. Type 2 focuses on making law-related institutions more competent, efficient and accountable and can include training for judges, strengthening legislatures and tax administration, as well as legal education and alternative dispute resolution. Type 3 reforms aim to increase governments' compliance with law. A key step within this is to achieve judicial independence.

Efforts by donors have to date tended to be focused on types 1 and 2. Type 3 reforms are intrinsically more complex:

[reform] that brings real change in government obedience to law is the hardest, slowest kind of assistance. It demands powerful tools that aid providers are only beginning to develop, especially activities that help bring pressure on the legal system from the citizenry and support whatever pockets of reform may exist within an otherwise self-interested ruling system (Carothers 2004:12).

As Carothers notes, large amounts of aid will not necessarily speed up this slow process. And it is a process that will require levels of interventionism, political attention and visibility that donors may not be able to apply. Part of the problem appears to be the focus by donors on technical fixes, as represented by types 1 and 2, with attention to institutions, rather than practices. Expanding on this issue elsewhere, Carothers notes that

[r]ewriting constitutions, laws, and regulations is the easy part. Far-reaching institutional reform, also necessary, is arduous and slow. Judges, lawyers, and bureaucrats must be retrained, and fixtures like court systems, police forces, and prisons must be restructured. Citizens must be brought into the process if conceptions of law and justice are to be truly transformed. The primary obstacles to such reform are not technical or financial, but political and human. Rule-of-law reform will succeed only if it gets at the fundamental problem of leaders who refuse to be ruled by the law (Carothers 2003: 4).

Carothers concludes that the primary obstacles to rule of law reform are political and human, rather than technical or financial. However, it would appear that it is precisely type 3 reforms

that are most likely to impact on the lives of the poor. It has been widely shown by scholars working in the law and society field that legislative change does not necessarily lead to social change (Scheingold 2004), as such revising legal codes and making institutions more efficient may not have notable impacts on society. Employing evidence from South Asia, in particular the discrimination suffered by lower castes and women, Grandvoininnet argues that the positive impact of the repeal of unjust laws will take decades to filter through to society. She concludes that changes in law must be accompanied by changes in social values, for marginalised groups to reap any benefits (Granvoininnet 2001).

Social change is also key to the implementation of legal changes in property rights, as noted by Khan:

The property right transformations that are the priority for any society are not likely to be implementable by purely bureaucratic measures. This is because any development, amendment or change in property rights produces winners and losers, and losers will contest the change. The likely magnitude of transition costs, the determinants of transition costs and political and institutional measures to reduce transition costs have to play a significant role in any analysis informing policy in this area (Khan 2009a:94).

The need for specific, contextual analysis to guide donor efforts in this area is also highlighted by Cox (2008) in his review of the literature, entitled *Security and justice: Measuring the development returns*. He concludes that any impact on poverty and development resulting from investment in security and justice is highly context specific. He argues that the tools provided by security and justice programmes should be used in conjunction with other measures to address specific, observed causes of poverty.

Further questioning of the logic behind rule of law promotion arises from scholarly work that suggests that institutional and legal reforms are not necessarily of primary importance for ensuring the rule of law. These present both statistical and empirical data. For example, Feld and Voigt (2003), in a study of data on judicial independence from 56 countries, show that it is *de facto* rather than *de jure* judicial independence that has a positive impact on economic growth. Hasan et al. (2007) note that while strengthening property rights and the rule of law in an economy where these have been absent, or weak, may be instrumental in expanding investment, 'there is more than one way to establish stronger property rights and respect for the rule of law'. Contrasting experiences from Russia and China, they note that despite legislative changes in Russia, perceptions of rule of law remained low amongst investors. In China, by contrast, investors 'believe their property to be safe', even though there is an absence of a private property regime and independent judiciary. Messick reaches similar conclusions, noting that

[a] variety of studies, in settings as diverse as medieval Europe and contemporary Asia, show that informal mechanisms based on incentives provided by repeat dealings can ensure the performance of contracts that no court has the power to enforce (Messick 1999).

This conclusion tallies with work by Khan and others on how informal systems can provide a form of 'good enough' governance for investment and development to succeed. As Khan (2009b) argues, the effectiveness of private contractual arrangements always depends on the political context. Examining the successful development of a textile industry in Bangladesh, he notes that

The 'private' bargaining between employers and employees is never entirely private, and more so in a context where the overall rule of law and contract enforcement is structurally weak. In general, all sides to a conflict will attempt to mobilize broader social forces to support them.

He concludes that the resolution of labour or investment conflicts will depend on the extent to which different parties can mobilise political forces, 'to influence the effectiveness of enforcement of the relevant agencies' (Khan 2009b:42).

Micro-level approaches - Legal empowerment

In recent years, there has been a greater focus on local level initiatives that aim to bring about legal empowerment. As Banik (2008) notes:

The legal empowerment approach has become increasingly popular of late as an alternative position to the considerable focus by major international development actors (including the World Bank) on implementing rule of law reforms in developing countries.

Golub (2003) dubs the Bank's approach as part of the 'rule of law orthodoxy', that has focused on the law, lawyers and state institutions, rather than on the legal needs of the poor. As Rukare (2008) notes, in his study of the Ugandan Justice, Law and Order Sector, justice systems can be highly efficient without actually protecting the interests of the poor. He concludes, therefore, that poor countries such as Uganda, need to take deliberate measures to ensure that justice reforms have the poor at their core, and that the system is re-balanced in favour of more vulnerable groups. The legal empowerment approach attempts to address these issues, and is different from the 'rule of law orthodoxy' on four counts.

First, lawyers view the poor as partners instead of simply providing advice. Second, the poor are encouraged to directly influence public policy and priorities in order to avoid a top-down process involving governments and donors. Third, there is an emphasis on using non-judicial strategies that are often far better at addressing the concerns of the poor. Finally, the use of law is integrated into a broader package of development-related activities (Banik 2009:128).

While the legal empowerment approach is relatively new, case studies on the impact of local level initiatives are available. These examine the demand-side of the rule of law, in particular increasing access to justice through alternative dispute resolution mechanisms, and legal advisory centres. Buscaglia (2001) documents a case of Neighbourhood Councils in Colombia, which were seen to reduce outcome-related uncertainty faced by poorest segments of the sampled rural population, and lower their costs of solving disputes. Alternative Dispute Resolution (ADR) mechanisms have also been piloted in Bangladesh, using the *shalish* system. These are documented by Hossain and Lewis (2008), and according to Banik (2008:6) have "received increasing attention from development practitioners as one of the most effective access to justice initiatives pioneered and now spearheaded by NGOs in the country." A study from Bolivia illustrates the way a particular programme to support justice centres in poor rural and urban areas of the country operated to support economic activities of the poor. The idea behind the project was to use legal empowerment as a way to harness "the changes identified by small entrepreneurs and farmers to improve their access to economic advantage and improved business climate" (Mennen 2009:9). A joint UNIFEM / FAO initiative to set up 'rural task forces' in Tajikistan demonstrates how providing legal support can help facilitate and uphold women's formal ownership of land.¹⁰ It could be argued that work to support rights awareness is intrinsically valuable, as it can help to promote the empowerment and political and social participation of marginalised groups.

Conclusion

To conclude, while it is clear that the poor suffer most from the adverse effects of a weak rule of law, to date there is little evidence that donors' rule of law promotion has had an impact on poverty levels. This may be due to a donor focus on institutional and technical fixes which in themselves are unable to address the more problematic issues of ensuring governments and members of the judiciary abide by the rule of law, and that legislative change translates into social change. More recently, donors have given greater consideration to the demand-side of the rule of law, focusing on access to justice. There are a number of positive case studies of alternative dispute resolution that provides more workable systems at the local level, and legal advisory services that promote legal education and rights awareness.

¹⁰ www.unifem.org/gender_issues/women_poverty_economics/land_property_rights.php accessed 20.11.09

Chapter 3: The Impact of Anti-Corruption Initiatives on Development Outcomes and Poverty Reduction

Overview

The prevalence of high levels of corruption in some of the poorest countries of the developing world is well-documented in the academic literature. It is also widely accepted that the poor are hit hardest by corruption. As a result, policy makers and academics assert that efforts to combat corruption will lead to poverty reduction. This presumed link between anti-corruption activities and poverty alleviation is often based on the assumption that efforts to curb corruption will stimulate economic growth, which will in turn benefit all members of society, rich and poor. To date, very little empirical evidence has been generated on the impact of anti-corruption initiatives on poverty levels, or development more widely. This may be because causality runs in the opposite direction. The main focus in the literature is on the link between corruption and economic growth, where the impact on poverty reduction is implicit and/or indirect. Many anti-corruption initiatives have yet to demonstrate significant success. Some (perhaps many) such initiatives may be unfeasible, due to the extent to which they target bureaucratic reforms rather than the key political issues of contestation between elites and factions.

Corruption and Poverty

Corruption is understood, almost universally, as ‘the misuse (or abuse) of public office for private ends (or gain)’ following the World Bank and IMF’s broad and very similar definitions (Everett et al. 2007). Transparency International, the most well-known international NGO that works on corruption, defines it more loosely as, ‘the abuse of entrusted power for private gain’.¹¹ Corruption, and the need to tackle it, became central to development debates in the mid-1990s. According to Krastev, this change was led by the World Bank, which began to place greater emphasis on the need for good governance to achieve development after 1997 (Krastev 2004). Acknowledging that technical approaches alone were insufficient, the Bank overcame the ‘taboo’ attached to the more politicised areas of institutional reform (World Bank 2008). The World Bank’s website now refers to anti-corruption as ‘central to its poverty alleviation mission’.¹² Other donors have followed suit:

A body of empirical and other work done over the past decade shows the impact of corruption on investment, growth and poverty. [...] On this basis, both bilateral and multilateral development agencies have placed anti-corruption strategies at the heart of their efforts to strengthen governance in beneficiary countries (Brown 2007: x).

Corrupt activities are believed to impact on levels of poverty in various ways. Many authors concentrate on the macro level, and highlight costs for economic growth. For example, corruption can result in (Everett et al. 2007):

- loss of government revenue
- costs for businesses
- missed opportunities for non-corrupt businesses
- distortion of standards of merit
- erosion of respect for the rule of law
- higher costs and lower quality of infrastructure
- mistrust of government

Gupta et al. (1998) state that corruption contributes to income inequality, affecting distribution through impacts on budgetary revenues and expenditures. In particular, they assert that “a one-standard-deviation increase in the growth rate of corruption (a deterioration of 0.78

¹¹ www.transparency.org.uk (accessed 05.11.09).

¹² www.worldbank.org Capacity development and resource centre pages (accessed 04.11.09).

percentage point) reduces income growth of the poor by 7.8 percentage points a year. (1998:4).

Khan (2006) notes that corruption disrupts the transparency of markets, increases transaction costs and creates uncertainty for investors.

Other authors outline the more direct ways that corruption negatively affects poor people in particular:

Corruption tends to fuel poverty by subverting the normal means of distributing economic gains, only enriching the procurer of the graft and the person who commits it while impacting negatively on public spending programmes that benefit the poor, like health and education (Brown 2007:x).

At the most micro level, where petty corruption is most likely to occur, Wei notes that poor people are less able to pay bribes, and have much less political power to deal with corrupt bureaucrats (Wei 1999). He cites Rose-Ackerman's list of the more direct ways that the poor are affected by corruption: '(A) The poor will receive a lower level of social services. (B) Infrastructure investment will be biased against projects that aid the poor. (C) The poor may face higher tax or fewer services. (D) The poor are disadvantaged in selling their agricultural produce. And (E) their ability to escape poverty using indigenous, small scale enterprise is diminished' (Wei 1999:13).

Alongside the literature documenting the negative impacts of corruption on poor people, statistical analysis also appears to show that corruption affects poor countries more than richer ones. Evidence presented by Mauro based on regression analysis of corruption indicators and GDP purports to show that,

A country that improves its standing on the corruption index from... 6 to 8 (0 being the most corruption, 10 the least) will experience a 4 percentage point increase in its investment rate and a 0.5 percentage point increase in its annual per capita GDP growth rate (Mauro 1998:12).

Questions of causality

Many other scholars report similar findings to Mauro, as Khan (2006) notes. However, as Kimbro (2002) finds, it is not clear whether poverty is a cause of corruption, a consequence of it, or both. The use of corruption indexes is also regarded as problematic by some scholars, since these tend to be based on *perceptions* of corruption (it being notoriously difficult to measure this type of covert and illegal activity). As Mauro concedes, while there is a 'striking empirical finding that poorer countries are usually considered to be more corrupt... it may well be driven by the observers' perceptions' (Mauro 1998: 13).

The work of Kaufmann and World Bank colleagues is often used for statistical analysis of the link between corruption and poverty, drawing on measures and indices developed on the quality of institutions (e.g. Kaufmann et al. 2008). Weiss notes that, "the bulk of empirical studies find that, controlling for other factors, corruption tends to have a significant negative impact on both growth and investment, including FDI" (Weiss 2008: 419). The link between levels of corruption and its impact on economic growth and poverty are, however, problematic. In what has been dubbed the 'East Asian paradox', Rock and Bennett (2004) have shown that in the large newly industrialising economies of the region, namely China, Indonesia, Korea, Japan and Thailand, higher levels of corruption are strongly correlated with higher levels of growth. It has been argued that in these cases the state was able to embed itself in society through social ties that provided institutional channels for the negotiation of goals and policies. This was an exclusionary arrangement, however, that benefitted dominant groups, particularly the industrial classes (Rocha Menocal 2007). Rock and Bennett reach the difficult conclusion that whilst corruption seems bad for growth in most parts of the developing world, the East Asian countries that have recorded recent high levels of growth have higher levels of corruption.

Findings based on corruption indexes are queried by Khan (2006), who has developed a sophisticated argument around the anti-corruption agenda of development agencies. Although a large number of scholars have shown a strong relationship between governance quality and per capita income, Khan argues that it is difficult to establish the direction of causality, because it could be that higher per capita incomes and levels of development have allowed the emergence of better governance conditions. He notes that while analysis of developed and developing countries together provides a correlation between levels of corruption and economic growth, this argument is much less convincing when developed countries are removed from the equation. Developing countries that are 'converging' with developed economies, and those that are 'diverging' do not show lower and higher levels of corruption respectively. This leads him to believe that good governance is not necessarily a precondition for economic growth:

The evidence strongly suggests that there is no common set of institutions that all successful developing countries have shared. More worrying is the observation that governance and institutions in the most successful developing countries have often been starkly at variance with the good governance model that international agencies are committed to. Even the most successful developing countries have suffered from significant corruption and other governance failures during the early stages of their development (Khan 2006:1).

He further notes that development agencies have tended to associate corruption with individual greed, rather than drawing the lesson from history that corruption can prove to be a way of maintaining political stability at certain stages of a country's development. This point is also made by Wei (1999). 'Off-budget transfers through patron-client networks to powerful constituents are a remarkably common mechanism for maintaining political stability across developing countries' (Khan 2006:15). Whilst he does not deny the importance of seeking to improve governance (and clearly, as noted above, corruption can be highly damaging to a country's economic and political stability) he argues that the governance agenda may not be a precondition for development, and that anti-corruption activities are likely to fail if they do not take into account the strong structural drivers of corruption. He also sees a need for a framework that distinguishes different types of corruption, so that realistic and feasible national institutional reform priorities and anti-corruption strategies can be set.

Donor impact

As Weiss notes, donors have put policies and programmes in place that aim to respond to both the direct and the indirect ways that the poor are affected by corruption:

Corruption... is the aspect of governance that has received the most attention in donor circles in recent years. This is partly because of its assumed impact on the use of resources destined initially for the poor (so that corruption leads to weak targeting), and partly because it is assumed to lead to lower overall growth, as rent-seeking associated with corruption diverts resources from productive activity (Weiss 2008:418).

Academic experts also emphasise the need for development agencies to address the problem through anti-corruption campaigns (c.f. Gupta et al. 1998; Chetwynd et al. 2003). These anti-corruption campaigns often focus on transparency in government procurement and the management of public finances, codes of conduct for public officials, asset disclosure, protection for witnesses and whistle blowers, asset forfeiture and repatriation (Brown 2007).

Beyond Khan's questioning of the very assumptions behind anti-corruption initiatives, assessing the link between these and poverty reduction is problematised by the lack of documentation of successful interventions. Much of the literature on anti-corruption commissions, for example documents failures, or very limited successes (Lawson 2009; Doig et al. 2007; Doig et al. 2006). A recent report by the GSDRC on money-laundering noted the

challenges inherent in discerning a link between anti-money laundering initiatives and poverty reduction.¹³ A World Bank report from 2008 on public sector reform also notes that direct attempts over the past decade to reduce corruption, through commissions and anti-corruption laws have generally failed (World Bank 2008). There have also been attempts to reduce corruption by getting more women into public office, as women are thought to be, by nature, less corrupt than men. Although greater gender equality in government bureaucracies is to be encouraged, the logic underlying this policy has also been queried by a number of scholars (c.f. Goetz 2007; Alhassan-Alolo 2007). An overview of the evidence on anti-corruption activities provided by Bracking concludes that many of these have been ill-conceived or inadequately integrated, failing to take into account local context and entrenched norms of behaviour. There is also criticism of the failure of donor agencies to address corruption in their own ranks (Bracking 2007).

At a more local level, Weiss (2008) notes that participatory initiatives with poor people can reduce corruption in service delivery. A number of project case studies are provided in the 2004 World Development Report (World Bank 2004), including the use of scorecards in Bangalore. Evidence from Brazil would also suggest that the local oversight provided through participatory budgeting initiatives has increased transparency and led to a reduction in corruption (Shah 2007). However, there is no guarantee that when budgeting decisions are handed over to communities, that those most in need will benefit (Weiss 2008). The Bank suggests that direct measures to reduce corruption in service delivery in Bulgaria and the state of Orissa in India have helped to improve access and efficiency (World Bank 2008), although again, the impacts on poverty reduction are deduced, rather than empirically proven.

The evidence suggests that donors need to acquire a deeper understanding of political context in order to support development through better targeted interventions that have greater political traction. Corruption *per se* may not always be the best entry point. The lack of evidence for the effectiveness of many current anti-corruption initiatives points to the dangers of wasted resources and disillusionment by targeting ambitious reforms that are simply not feasible.

Conclusion

The evidence shows that poor people are most affected by corruption. However, there is limited empirical evidence, based on statistical analysis, to support the assumed link between anti-corruption work and poverty reduction. At the local level initiatives to improve accountability and quality of service provision have shown some positive results. Evidence would suggest that anti-corruption reforms must take account of the political context if they are to be successful.

¹³ <http://www.gsdr.org/go/display&type=Helpdesk&id=537>

Chapter 4: The Impact of Decentralisation on Development Outcomes and Poverty Reduction

Overview

There is a wealth of material that argues that decentralisation can have very positive developmental effects. This is because it can improve state efficiency, responsiveness, accountability and citizen voice. Unfortunately there is a severe lack of empirical evidence to support these claims. Whilst most academic studies are negative about the developmental impact of decentralisation, there are a few encouraging case study examples. Throughout the literature there is a strong emphasis on the importance of the political context in determining success, and a recognition that decentralisation reforms may not have been convincingly linked to development. This is because they have typically been executed in environments characterised by elite capture, dysfunctional central/local relations, weak administrative capacity and severe financial constraints.

What is decentralisation?

The term 'decentralisation' is used to refer to many different types of political arrangement. There are three distinct elements of decentralisation¹⁴:

- Fiscal decentralisation, entailing the transfer of financial resources in the form of grants and tax-raising powers to sub-national units of government.
- Administrative decentralisation, (sometimes referred to as deconcentration), where the functions performed by central government are transferred to geographically distinct administrative units.
- Political decentralisation where powers and responsibilities are devolved to elected local governments. This form of decentralisation is synonymous with democratic decentralisation or devolution.

Political or democratic devolution is the form of decentralisation that has been emphasised in developing countries over the last 20 years. Most of the papers reviewed below focus on this particular type. Unfortunately different people use the term decentralisation in different ways, often without clarifying exactly what they mean. As a result many of the papers reviewed do not clearly differentiate between types of decentralisation and tend to conflate the three types mentioned above.

Theoretical links between decentralisation and development

Decentralisation is seldom prompted by a concern for poverty reduction; instead it is often pursued by the centre for political or financial reasons, or due to donor pressure. However, the literature does argue that there are a number of indirect links between decentralisation reforms and development:

- Locally elected governments have greater knowledge of poor citizens' needs and priorities. They are therefore able to allocate resources more effectively to priority development areas and services.
- Citizens are more able to hold locally elected representatives to account over their actions and policies. This improves the voice of typically excluded groups such as the poor and women.
- Cost savings can be made from efficiency gains arising from decentralisation. These extra resources can be invested in development projects.

¹⁴ These definitions are taken from Robinson 2007b:7.

Unfortunately, these arguments rest on a number of assumptions, mainly that central government will benignly devolve power and adequate resources, local government will not be open to elite capture and that adequate administrative capacity will exist at a local level. The academic, empirical evidence suggests that these conditions are rarely in place.

Decentralisation and poverty reduction

There are several academic studies and donor reports that investigate links between decentralisation and poverty reduction.

In an OECD study, Jutting et al (2004) argue that the number of countries where case studies show that decentralisation has had no impact or a negative impact on poverty far outnumber instances where a positive impact on poverty has been identified. Also, "in environments with high inequalities at the outset, there is a definite risk that decentralisation will increase poverty, rather than reduce it. The ambiguous evidence suggests that the link between decentralisation and poverty reduction is not straightforward and that the outcome is largely influenced by country specificities, as well as by the process design" (Jutting 2005:2).

UNDP state that the evidence is mixed:

[i]t would be safe to say that the jury is still out on whether and to what extent decentralisation in general contributes to poverty reduction... [Decentralisation] is not synonymous with poverty reduction – and a wide range of 'external' factors (e.g. central government's political commitment to poverty reduction, overall literacy rates, the strength and effectiveness of central government institutions and functions, gender sensitivity in public expenditure management, etc.) determine whether the outcomes of decentralisation are pro-poor or not." (UNDP 2005:7)

Academic literature is generally negative about a possible link. Vedeld surveys numerous academic articles and concludes that '[a]n increasing body of literature underscores a weak connection between democratic decentralisation and poverty reduction' (Vedeld 2003:169). He presents some moderately successful case studies from Uganda, Mali, Bolivia, the Philippines and India, but concedes that "none of the cases are really highly successful, reflected by the fact that none of the cases have obtained 'substantial effects on poverty reduction'" (Vedeld 2003:195). Crook similarly states that

In none of these African countries [Nigeria, Tanzania, Ivory Coast, Ghana, Kenya and South Africa] is it likely that decentralisation will empower any real challenge to local elites who are resistant to or uninterested in development of pro-poor policies, except possibly South Africa if the regime sees a political advantage in using local government for this purpose (Crook 2003: 86).

Decentralisation and economic growth

There is little research available on the links between decentralisation and economic growth. There may be a number of indirect links, for example via improvements in service provision. In reviewing studies on the links between decentralisation and growth, Matinez-Vazquez and Rider argue that:

[...] no consistent empirical patterns emerge from these studies. Whether a direct relationship exists between the two therefore remains an unanswered question. However, there are a multiplicity of potential effects through which decentralisation could indirectly affect growth, such as the regional allocation of resources, macroeconomic stability, and corruption... For example, suppose that decentralisation leads to increased macroeconomic stability and reduces official corruption; then, such improvements in the economic environment may increase the rate of economic growth. However, these forces also may work in the opposite direction (Matinez-Vazquez et al. 2005:7)."

The arguments that are most often cited linking decentralisation with economic growth are:

- Decentralisation will increase public sector efficiency leading to improved service delivery and regulation, creating a more conducive environment for investors.
- Local officials have better local knowledge and links with local businesses and are therefore able to make more locally appropriate decisions.
- Decentralisation can reduce the opportunities for large scale corruption which is good for economic growth.

However, these arguments are deeply contested as other authors argue that decentralisation can impact negatively on public sector efficiency and service delivery because of constrained administrative capacity and elite capture at the local level. Elite capture undermines effective business development as decisions are made to benefit certain individuals rather than to promote general economic growth (Martinez-Vazquez et al. 2005 and Bardhan 2004). Local government activities that could benefit economic development, such as planning, regulation and business licensing, become ineffective in protecting the public interest and are exploited as rent-seeking activities (Devas, n.d.).

Decentralisation and service delivery

Whilst there is a plentiful supply of sectoral case studies focusing on decentralised service delivery, there is a lack of robust, systematic cross-country research studies that synthesise findings and present coherent, generalised evidence on impact. Robinson states that “the dearth of systematic, robust and comparative evidence on decentralised service delivery outcomes is a striking gap in knowledge. Existing research remains partial, limited and context specific. Knowledge on what works well, where, how and why is still fragmentary... There are fewer areas of development policy that are more in need of research (Robinson 2007a:6). Of the literature that exists, there is no clear consensus, although most resources recognise that successful impact has not been as widespread as expected and that very specific political economy conditions are necessary for reforms to make a positive impact in this area.

Robinson argues that “there are very few cases where equity or efficiency outcomes have improved as a result of decentralisation.... In most cases reported from Africa, Asia, and Latin America the quality of public services has either declined or remained unchanged as a consequence of democratic decentralisation (Robinson 2007a: 2).” Conyers emphasises this finding for Sub-Saharan Africa: “The main impression gained from the limited data on the actual impact on service delivery is that decentralisation has done little to improve the quantity, quality or equity of public services in the region” (Conyers 2007:21).

However, there are a few authors who argue that decentralisation has had a positive impact in specific country contexts. Faguet (2001) presents evidence that decentralisation in Bolivia has led to significantly increased investments in education, agriculture, urban development, water management, water and sanitation and possibly health. He argues that these investments were made according to need, demonstrating local government’s superior knowledge of and responsiveness to local needs. He also argues that fiscal decentralisation in the education sector in Columbia led to an increase in the public school enrolment rate (Faguet 2006). Similarly, Andrews et al (2003) review empirical evidence and argue that in relation to primary health care and rural roads, “decentralised arrangements can improve services.” For example, they cite the World Bank’s World Development Report 1994¹⁵ which reports that a review of 42 developing countries showed that decentralized road maintenance was associated with lower maintenance backlogs, improved condition of roads and a higher proportion of paved highway. (Andrews et al. 2003:38).

Gershberg and Winkler (2004) conclude that whilst the decentralisation of education to regional or local government has shown mixed results, delegating responsibilities to schools

¹⁵ See WDR 1994, page 75.

governed by elected school councils can improve accountability and performance. Crook also notes that positive results of decentralisation have been reported from very poor, remote areas that previously had few or no services. "In other words, where it is a question of moving from 'nothing' to 'something', decentralisation can be positive. This was certainly the case with the initial Ghanaian and Ivorian systems" of political decentralisation (Crook 2003:7).

Several authors emphasise the negative impact of elite capture on decentralised services, for example Ahmad et al. (2005) cite evidence from Indonesia and India, and Conyers (2007) identifies similar evidence from across Africa. If services are being delivered in an environment of political patronage then decisions that could benefit efficiency and equity will be corrupted, and instead be made in favour of a few elites for personal financial or political reward.

Decentralisation therefore may hold the potential to improve service delivery, but it is often unable to act as a catalyst for service improvements because of the political context. Conyers comments that

[o]ne should not blame decentralisation for the poor quality of service provision in many African countries. As most commentators point out, the problems stem from more fundamental characteristics of African states, which hamper any form of service delivery, whether centralised or decentralised... It is not fair to blame decentralisation for the poor quality of service delivery in much of the region because most of the weaknesses of local governments – including their lack of power – are a reflection of the problems of governance in general (Conyers 2007:22, 28).

Decentralisation and participation

One of the arguments in favour of democratic decentralisation is that it increases participation, thereby improving citizen voice and accountability. This is viewed as inherently valuable and developmental in itself as poor and excluded groups gain socio-political influence. However, few studies attempt to measure either the impact of decentralisation on the participation of poor and excluded groups, or the impacts of the participation of poor people via decentralised political structures on development outcomes.

Crook and Manor (1998) analyse decentralisation in Ghana, Cote d'Ivoire, Bangladesh and Karnataka (India). They argue that decentralisation increased participation in each country, although they note that enhanced participation alone is not sufficient to improve service delivery. Crook emphasises this finding in a later paper stating that "[a]lthough there are examples of decentralised government in Africa enhancing participation, there is very little evidence that it has resulted in policies that are more responsive to the 'poor' – or indeed, to citizens generally." (Crook 2003:3).

Decentralisation and conflict

The impact of decentralisation on conflict is a growing area of research, but there is still very little in the way of empirical research and even less cross-country or cross-regional comparative studies. This large research gap is widely noted (see Schou and Haug 2005, Siegle and O'Mahony 2007). The literature presents no consensus on how decentralisation impacts on conflict:

Despite a burgeoning literature on decentralisation and conflict, there has been no consensus among political economists about the relationship between these two phenomena. Bardhan, for instance has suggested that decentralisation may be a way to diffuse social and political tensions and ensure local cultural and political autonomy. However, Brancati argues that, while decentralisation may increase political participation it may also encourage a growth in regional and ethnic political parties, and thereby lead to more conflict rather than less. Treisman differs again,

arguing that generalising about the relationship between decentralisation and conflict is impossible” (Green 2008:428).

There are three conflicting positions in the literature that are predominant:

- Decentralisation reduces the risk of conflict as groups have a formal, legally enshrined, non-violent method of participating in political processes.
- Decentralisation exacerbates conflict as it accentuates difference between regions and can encourage elected representatives to mobilise ethnic identities to consolidate their power. In situations of entrenched patronage politics, the aims of decentralisation are subverted and non-democratic, non-participatory political values are reinforced, increasing the risk of conflict.
- Decentralisation can play either role depending on the implementation of reforms and the socio-political context.

Reasons for failure

Many authors list reasons for the failure of decentralisation reforms to have a pro-poor effect. The most often cited are:

- Inadequate devolution of power from the centre to the local, particularly over finance and staff
- The dominance of local elites who do not have a pro-poor agenda
- Lack of administrative capacity, characterised by vague and / or inappropriate systems and procedures and inadequately qualified, underpaid and unmotivated staff
- Financial constraints
- Political ‘interference’, corruption and abuse of power
- No culture of ‘downward’ accountability and a weak civil society
- Lack of the necessary capabilities and interests to engage amongst poor people

From this list it is easy to identify conditions necessary for success. In essence these can be summarised as a strong central state that is willing and able to devolve the necessary powers and resources (financial and human) to the local level, and a context of popular participation and accountability, with strong institutional mechanisms and a well developed civil society.

Donor impact

There are a significant number of evaluations of donor decentralisation programmes that describe best practice and identify lessons learned. However, they focus more on describing best practice and identifying lessons learned rather than analysing and robustly measuring the impact of donor decentralisation programmes on poverty outcomes. None of the case studies or articles reviewed above provided in-depth analysis that attributed improvements in poverty reduction to donor decentralisation programmes. The only repeated reference to donors made in the literature is of donor support as one of the initial incentives for governments undertaking decentralisation.

Conclusion

This chapter has highlighted the lack of evidence to support claims that decentralisation has a positive impact on poverty reduction and development. There is, however, broad recognition that decentralisation can only have pro-poor effects if reforms are implemented in a wider pro-poor political environment.

Chapter 5: The Impact of Public Administrative Reform on Development Outcomes and Poverty Reduction

Overview

There is a general consensus in the donor and academic literature that there is a strong link between improvements in the efficiency and accountability of public institutions and developmental outcomes. This point is generally argued from an intuitive point of view, although there are a number of empirical research papers that support this conclusion. However, public administrative reform across developing countries has often been viewed as a failure - the potential of reform has not always been realised due to contextual factors and to poor design of interventions. Reforms have often relied on technical solutions when the primary problems are intensely political and contested. There are, however, a few examples of reform impacting on development and some evidence of donor impact in this area.

What is public administrative reform?

Public administration reform (PAR) is broadly about strengthening the way that the public sector is managed. 'Public administration' refers to the machinery (i.e. policies, systems, structures, personnel) and the management of government, with particular focus on the 'executive' branch of government, which includes the political leadership (including the cabinet) and government departments or agencies with staff on the state payroll. PAR is sometimes referred to as 'public sector reform' (PSR), or 'civil service reform' which is, strictly speaking, just one element of public sector reform.

Several authors note that PAR has gone through several 'waves' or 'generations'. The first began in the 1980s during the period of Structural Adjustment Programmes, with an emphasis on controlling salary costs. The second wave was during the 1990s where New Public Management techniques were often advocated and reforms centred, for example, on performance assessment, monitoring, benchmarking, decentralisation and effective financial management. The current emphasis in PAR literature is on the political context and has a focus on results, particularly in the area of service delivery.

PAR includes initiatives aimed at public financial management, corruption and decentralisation. However, to avoid duplication, literature on those aspects of PAR has been included in other chapters in this report.

Macro theoretical arguments

The donor literature is unanimous in arguing that there is a clear link between PAR and development. For example:

An efficient, responsive, transparent and accountable public administration is not only of paramount importance for the proper functioning of a nation, it is also the basic means through which government strategies to achieve the MDGs can be implemented. Also, because the public administration is one of the main vehicles through which the relationship between the state and civil society and the private sector is realised, supporting PAR is a means towards achieving higher-order development goals – particularly equitable growth, poverty reduction, peace and stability" (UNDP 2003:1).

The effectiveness and efficiency of a country's public sector is vital to the success of development activities... [T]he quality of the public sector – accountability, effectiveness, and efficiency in service delivery, transparency, and so forth – is thought by many to contribute to development" (World Bank 2008: xiii).

Poverty ... is an outcome of the accountability and responsiveness of state institutions... The state will deliver more effectively to all its citizens, but to poor people in particular, if public administrations implement policies efficiently and are accountable and responsive to users, corruption and harassment are curbed and the power of the state is used to redistribute resources for actions benefiting poor people” (World Bank 2001:99).

What is the nature of the link?

It is difficult to establish a direct link between PAR and poverty reduction. The general aims of PAR initiatives are to improve the efficiency and accountability of the public sector – they are not explicitly to reduce poverty or directly impact developmental outcomes. However, donor and academic literature offer the following ways that PAR is *indirectly* linked to development outcomes and poverty reduction:

- Access to, and the quality of, public services depend largely on the performance of the public employees who provide or manage their delivery. The literature identifies improvements in service delivery as the primary way in which PAR can contribute to development.
- A more efficient and accountable public administration creates an environment that is more conducive for private sector development, which will ultimately lead to economic growth.
- The public sector is the largest spender and employer in virtually every developing country, and it sets the policy environment for the rest of the economy. If the mechanism through which the government seeks to achieve the MDGs is made more efficient then it will ultimately lead to better development outcomes.
- Modernising, down-sizing and reducing corruption can result in cost-efficiency gains which can lead to more resources being available for pro-poor service delivery.
- The public administration is the main interface for state-society relations. Reform can facilitate rights-based approaches to development and lead to increased voice and accountability for the poor, thereby increasing the chance of pro-poor policy-making.
- An effective, independent public administration underpins democratic pluralism as it allows for peaceful political succession.

Macro empirical evidence

The key question is whether there is empirical evidence to support the existence of these links. Generally, the links above are argued for on the basis of intuition, rather than on solid empirical evidence. However, there are key examples of academic studies that support the idea of a link between PAR and poverty reduction. Firstly, Evans and Rauch (1999) use cross-national data from 29 developing and middle-income countries to identify a strong positive relationship between the quality, or ‘Weberianness’, of public institutions and their record of economic growth. Building on this work, Henderson et al. investigate links between the quality of public institutions and poverty reduction. They conclude that:

there is in general a strong relation between the competence and effectiveness of public bureaucracies and their consequences for poverty reduction. While it is important to recognise that correlations are not the same as causal connections and that in the social world the latter rarely, if ever, can be empirically ‘proved’, we suggest that given a solid and sustained record of economic growth, the balance of presumption must be that the bureaucratic quality of public institutions in a given country is decisive for that country’s ability to reduce poverty” (Henderson et al. 2003:15).

As this quote indicates, it is significantly easier to determine a firm correlation between the quality of public administration and poverty reduction as opposed to proving direct causation between the two. Kaufmann and Kraay’s 1999 publication ‘Governance Matters’ supports Henderson et al.’s (2003) conclusions in that it finds a significant correlation between the capacity of the state to implement sound policies (measured as ‘government effectiveness’

and 'regulatory burden') and various development related outcomes. The authors provide evidence that a one standard deviation increase in governance indicators causes between a 2.5 and 4-fold increase in per capita incomes, between a 2.5 and 4-fold decrease in infant mortality and a 15-25% increase in literacy. Other authors support this with the conclusion that "good... government institutions [are] associated with higher income growth, national wealth and social achievements" (Schacter 2000:5). Finally Jacobs emphasises "[e]vidence from East Asia where pro-poor growth has occurred, suggest[ing] that the government can play an important role in alleviating poverty through the provision of public goods and social protection mechanisms along with the creation of institutional conditions for more inclusive and equitable development" (Jacobs 2009:219).

Case study evidence

The literature identified so far suggests that PAR can be linked, both theoretically and, to a certain extent, empirically, with poverty reduction and development outcomes. Given the extent of PAR initiatives undertaken in the last 15 years in developing countries, one would therefore expect a vast library of successful case study material showcasing an impact on development. Unfortunately, case studies of actual PAR initiatives in developing countries present a near consensus that PAR has been a failure. A UNECA paper argues

the fact remains that in spite of the efforts made by African countries, the results achieved remain somewhat poor and the socio-economic situation of many African countries that have undertaken reforms has even, in many cases, deteriorated. Budgetary deficits exist and the performance of public services has not improved owing to factors such as the politicization of the civil service, coupled with corruption and lack of accountability... Africa's efforts at modernizing its machinery of government have also been constrained by the formulation and adoption of inappropriate reforms as well as poor and ineffective implementation of the reforms" (UNECA 2004:111).

The literature cites a variety of different reasons for the widespread failure of PAR initiatives. These include:

- Overly-technocratic approach that does not take political economy analysis into account
- Donor-centric approaches resulting in low levels of local ownership
- Patronage networks and corruption which undermine reforms
- An over-reliance on training
- Weak diagnostic tools
- Lack of a coherent strategy
- Politically complex, intractable problems

The importance of the political context in undermining technical reforms is increasingly being emphasised in the literature. As Levy states "[t]he behaviour of public bureaucracies cannot be understood without attention to their politically derived objectives" and "capacities of public bureaucracies cannot effectively be built in isolation from broader systemic changes" (Levy 2004:26).

Case study success stories

However, there are a few examples of positive PAR initiatives where successful reform has been linked to development outcomes:

Ethiopia: Mengesha and Common's (2007) analysis of the Public Sector Capacity Reform Initiative in the Ethiopian Ministry of Education and the Ministry of Trade and Industry argues that there was a "notable transformation of service delivery in each organisation". Empirical evidence taken from stakeholder surveys shows that "very high levels of user satisfaction and spectacular improvements in performance" were recorded as a result of certain reforms (Mengesha et al. 2007:367).

Tanzania is currently going through its second stage of PAR, the first (running from 1991-99) having been largely labelled a failure. The second stage of reforms have so far been judged as more successful with Rugumyamheto stating that

[t]he economic, social and political transformation that has taken place in Tanzania over the past decade has been underpinned by the reforms in its public service. A decade ago there was a bloated public sector, in terms of the number of institutions and employees. There were no reliable systems and guidelines, not even manuals for public service management: indiscipline in its many facets was a common feature; 'ghost' workers were in tens of thousands in the government payroll; wage bill and other public expenditures were out of control; ministries could not produce reliable accounts on a timely basis, etc. Today, the Tanzania Public Service has turned the leaf and has a fully functioning state-of-the-art system, including ICT-based systems for payroll and human resources management and integrated public finance management" (Rugumyamheto 2004:441).

Rugumyamheto goes on to state that "[b]ecause many of the reform measures do not have a direct impact on reducing poverty or even improving service delivery it is difficult to give a straight answer" to the question of how reforms contribute to poverty reduction. In conclusion he states that "[i]nvariably the answer given is that an efficient and effective public service is a necessary condition for achieving improvements in service delivery and reducing poverty" (Rugumyamheto 2004:446).

Bangladesh: Jacobs analyses DFID's recent civil service reform programme in Bangladesh (Managing at the Top II) and presents some early anecdotal evidence on its success in creating a critical mass of pro-poor reformers at a senior level in the Bangladeshi civil service. Jacobs states that "the story is impressive and the development programme is widely praised for its rigour, depth and ability to move civil servants from reactive and essentially passive administrators in the system to proactive, reform-minded individuals" (Jacobs 2009:223). A number of pro-poor outcomes are identified, and the success of the programme in educating participants about poverty in Bangladesh is emphasised.

From these more positive case studies and other academic studies (see Polidano 2001, and Robinson 2007), it seems that PAR works best when the design is 'homegrown', innovative, has a clear incentive framework and is well integrated with other reforms. The level of 'readiness' of the public service is critical, as is leadership, political commitment, technical capacity and insulation from political pressures. Donor involvement should be kept to a minimum, existing organisations should be reformed rather than new ones created and reforms should ideally be narrow in scope and incremental.

Donor impact

As mentioned above, much of the literature emphasises that donors should have a limited role in the design and implementation of PAR programmes, in favour of country-led approaches. Schacter argues that "[d]onors cannot play a leading role, and they must not dictate the content, pace and direction of PSR. PSR is, among other things, an intensely political process that will inevitably pose a threat to important local stakeholders. Strong, relentless and well-placed local leadership is essential for overcoming the political and bureaucratic obstacles that confront a reform program" (Schacter 2000:9).

However, the positive case studies above (Ethiopia, Tanzania and Bangladesh) were all donor-financed initiatives. Whilst local leadership is key, donors still have a role to play in partnering with countries and financing PAR:

Countries such as Tanzania are so constrained in terms of finances that they can only make significant progress with the assistance of donors in the immediate and medium term. But real progress can only be attained if the leadership of the recipient countries set the agenda, ensure that trust is built and encourage flexible approaches." (Rugumyamheto 2004: 445).

Similarly in relation to Tanzania, Morgan et al find that “[t]he role of the international funding community in the public service reform was generally positive” (Morgan et al. 2007: vi).

The World Bank’s 2008 evaluation of their public sector reform programmes advised that the Bank should design PSR projects and allocate resources to them with recognition that PSR has especially complex political and sequencing issues. It also recommends being realistic about timescales, understanding the political context, identifying prerequisites to achieve objectives and focusing first on basic reforms.

Conclusion

This chapter has therefore shown that although there is evidence of a link between PAR and development, the link is often indirect and the potential for PAR to be used as an instrument of poverty reduction has been severely hampered by programme design deficiencies.

Chapter 6: The Impact of Public Financial Management Reforms on Development Outcomes and Poverty Reduction

Overview

There is broad consensus that strong public financial management (PFM) is important for facilitating countries in reaching their developmental goals. However, the impact of PFM on poverty ultimately depends on the quality and pro-poor focus of government objectives and policies themselves. PFM reform can therefore be indirectly linked with poverty reduction. The evidence for this link is often argued for intuitively, rather than using empirical evidence. However, there are case study examples where PFM reform and the introduction of tools designed to improve PFM have furthered the MDGs, for example via improvements in budgetary allocations to the social sectors, greater citizen accountability, gender-sensitivity and aid harmonisation. Unfortunately there is strong criticism throughout the literature for the way that PFM reform has been implemented in country, and many historical cases of failure. Typically reforms are criticised for not taking account of the political context, being too technically advanced and not being sequenced appropriately. Reforms have often relied on technical solutions when the primary problems are intensely political and contested.

PFM is a broad topic, encompassing many different areas, ranging from budgeting and fiscal control to taxation and audit. Literatures on macro-economic stability, debt and aid modalities are also relevant to this discussion. This brief chapter cannot fully survey all the different elements of PFM and their potential links with development – instead it gives an introductory overview of the most well researched aspects of PFM showing how they impact on poverty reduction.

Donor literature

The donor literature is unanimous in stating that there is a strong link between PFM reform and poverty reduction / development. For example:

Effective PFM systems are crucial to countries making progress in reducing poverty... partner countries increasingly recognize that problems in sectors such as health, education, and agriculture can have common origins in weak PFM. ... progress toward achieving the Millennium Development Goals (MDGs) has given additional urgency to improving PFM as an enabling condition for poverty reduction.” (World Bank 2004:1).

Good governance in PFM is critical to countries making progress in reducing poverty... If progress toward implementing the Millennium Agenda and the Millennium Development Goals is to be made, it is doubly urgent to improve PFM as an enabling condition for poverty reduction.” (OECD 2006: 58).

Reducing poverty requires strong government financial management skills, multi-year expenditure programs, and effective expenditure monitoring. The need to raise revenue for development and poverty reduction calls for good tax administration skills” (IMF 2002: online resource).

Both the OECD and the World Bank emphasise the role of the HIPC initiative in prioritising PFM reform.

Linking PFM reform and poverty reduction

There is little empirical evidence directly linking PFM with poverty reduction and wider development goals. The indirect links that are most emphasised in the literature are:

- Improvements in budgeting ensure resources are spent more efficiently and match policy priorities such as pro-poor service delivery. Various tools such as PETS and MTEFs can be useful in keeping spending aligned with intended plans and targets.
- Good budgeting facilitates strong aggregate fiscal control which enhances macroeconomic stability and thereby improves economic growth.
- Improvements in PFM can contribute to aid effectiveness as it can facilitate budget support, harmonisation, alignment, reporting to donors etc. Improved aid effectiveness then in turn leads to potential increases in resources and greater impact on poverty.
- Improvements in PFM can improve voice and citizenship if reforms focus on opening up space for citizen dialogue and accountability. Foster et al note that “[s]ome of our case study countries have gone some way towards giving people the fora they need to participate in decisions that affect them, and the information and channels to lobby and protest when they do not receive the services to which they are entitled” (Foster et al. 2002:xiii).
- Improvements in audit and procurement may bring reductions in corruption. (Please note that corruption is covered more broadly in a different chapter).

Implementing PFM reform

The literature on PFM emphasises that past reforms have largely been judged as only partial successes, or indeed failures. Over the last ten years the literature has criticised PFM reforms for the following weaknesses:

- Reforms are too technocratic in their approach and do not take the political context into account.
- Reforms are uncoordinated, for example different elements are often led by different donors. There has been frequent use of parallel systems outside government systems which adds to confusion.
- Reforms are too ambitious and fail to take low levels of local capacity into account. Programmes have, for example, rushed to introduce complicated Integrated Financial Management Systems or sophisticated budgeting approaches.
- Appropriate sequencing of reforms has not been prioritised.
- Reform has been donor driven with a lack of local ownership.
- Weak incentives for reform have undermined progress, for example a lack of performance management and low pay across the public sector.

Success factors for PFM reform are largely inversions of the above points, for example understanding of the political context, taking a coordinated approach, paying attention to sequencing and taking a slow and incremental approach. Other additional points include:

- Ensure political commitment to reform.
- Engage the Ministry of Finance as a key driver of change.
- Encourage collaboration between and within agencies.
- Include the views of government in the design of reforms.

Despite the general findings across the literature that PFM reforms have not always been implemented effectively, there are more recent encouraging signs of improvement and evidence that the above weaknesses are being addressed. For example, a 2005 IMF study of reforms found a “slight improvement” overall in PFM between 2001 and 2004 (de Renzio 2006:5). More recently, a large World Bank study of their Public Sector Reform Programmes in 2008 found that two-thirds of supported countries showed improvements in PFM. Particular progress was noted in relation to budgeting and planning, with less progress identified in more ‘downstream’ areas like procurement and audit. A 2008 NAO review found that “DFID has increased the attention given to financial management reform in developing

countries and supported successful reforms in areas such as accounting capacity, planning and procurement. But our review also showed several examples where reforms have been slower or more limited than originally expected" (NAO 2008: 16). Also, "it is difficult to obtain evidence of the impact of strengthened systems on the quality of public finance outcomes" (NAO 2008:17).

Public Expenditure and Financial Accountability Initiative (PEFA)

It is also important to note the recent progress and findings of the PEFA Initiative. PEFA assessments have been rolled out in over 60 countries since being launched in 2005. They aim to measure and analyse government PFM performance and have been found to be useful tools for improving PFM reform. Betley comments that "there is evidence that PEFA assessments have made an impact on both governments and development partners even in the relatively short elapsed time since many of these have taken place... There have been a number of cases where the PEFA assessments have led to direct change in governments' PFM reform programmes" (Betley 2008: viii). De Renzio and Dorotinsky argue that PEFA assessments have shown improvements in PFM performance when results have been compared over time. They argue that assessments show that most countries showing improvement continue to do so, and half of those deteriorating are able to reverse their course. Improvements are evident in budget classification, budget reliability and external audit. Weakness persists in internal controls, inclusion of donor funds in the budget and expenditure arrears. They conclude that the best predictors of future improvements in PEFA assessments are system condition and government commitment.

Budget reform

The area that gains most attention in the PFM literature is budget reform and the impact of associated budgetary tools. Budgeting relates to the processes for raising, allocating and spending public resources. It is therefore obviously a major factor in the achievement of public policy objectives. The IMF argues this case as follows:

In Africa just a few years ago, the difference between budgeted and actual recurrent expenditure... was as high as 30-50%. Such difficulties in forecasting mean the country's leadership cannot make the best decisions on how to spend public money. In some countries, the government had designated primary education, public health, and road maintenance as spending priorities, yet funds often ended up being allocated to other areas." (IMF 2002: online resource)

In a survey of 5 African countries, ODI concludes that "efficient and effective public expenditure management is an essential precondition for governments to be able to tackle poverty" (ODI 2004:3) and goes on to state that:

fundamental improvements in budget preparation and implementation e.g. ensuring that more of the totality of revenues and expenditures are captured in the national budget; or that expenditures are classified in formats that allow analysis of compliance with policy goals – is a fundamental precondition for ensuring that Governments can budget for poverty reduction" (Foster et al. 2002:xii).

Budget reform is therefore thought to make expenditure more efficient and policy more effective by improving planning, assisting in monitoring and evaluation, improving transparency and creating a forum for participation and greater accountability. However, it is important to emphasise that the political context is crucial and that budgets "are a technical tool that will only become truly effective if used in combination with a determination to implement pro-poor sector strategy" (Roberts 2003: x). Norton and Elson reinforce this view, arguing that a "holistic understanding of public expenditure systems – and the institutional cultures that condition them – is important in order to formulate strategies for change and improvement" (Norton et al. 2002: vi).

In OECD countries there has been a recent drive for 'results-oriented' or 'performance related' PFM which aims to make governments more accountable for their use of funds. Although this

has been attempted in developing countries there is a general feeling that it too technically sophisticated for such contexts. However, if used in the future it may help with tracing the impact of PFM reforms to poverty outcomes.

Work on linking budgeting with social goals has been undertaken in several countries, developed and developing, supported by donors and civil society. Participatory budgeting in Brazil and gender budgeting in South Africa have both been widely written about and largely considered to be 'successful' (Norton et al. 2002:ix). Gender budgeting has been used as a tool for mainstreaming gender across programmes and thereby contributes to development and the achievement of the MDGs. Norton et al. cite South Africa and Tanzania as positive examples of gender-budgeting. The Tanzania case in particular involved strong local leadership, and succeeded in raising citizen participation as well as promoting women's development. The literature shows that successful experience with participatory budgeting (PB) has been limited to Brazil, where it is "strongly embedded, very influential and spreading rapidly." Norton et al argue that "PB has improved both budgetary planning and efficiency since its introduction in Rio Grande del Sul. In relation to budget planning, the PB produced a budget that included more accurate estimates of receipts, and the state spent an amount that was closer to planned expenses. In relation to operating efficiency the proportion of health and education projects completed according to schedule improved under the PB (from 75% in 1998 to 85.7% in 1999)" (Norton et al. 2002:42).

Mid-Term Expenditure Frameworks (MTEFs)

MTEFs are a tool to improve budget execution. Some authors are very positive about their developmental impact, for example, Foster et al. argue that "Uganda (and to a lesser extent Tanzania) have shown that the MTEF can be an extremely useful tool for turning poverty rhetoric into meaningful shifts in spending priorities" (Foster et al. 2002:xii). However, the success of MTEFs has been debated.

In 2002 the World Bank carried out an assessment of MTEFs in nine different African countries. The research concludes, based on very scarce information, that "the limited quantitative evidence shows, thus far, that MTEFs are not yet unambiguously associated with their objectives... At best, then, these cases present a mixed picture" (Le Houerou 2002:24). In particular, the authors find that the data does not support a link between the MTEF and reduced fiscal deficits. This finding is, however, contested by other studies based on Uganda which find that the MTEF was instrumental in attaining macroeconomic stability (Le Houerou 2002:18). The World Bank study does find some support for the idea that MTEFs are linked with a reallocation of resources to government priorities, particularly evidenced by experience in Tanzania, South Africa and Uganda. However, the authors argue that this may simply be correlation rather than causation and note that an increase in finances to the social sectors was already underway prior to the MTEF. It could therefore be that the political and contextual factors that led to the introduction of the MTEF were also the underlying cause of the increased allocation of resources to the social sectors. Finally the study considers budgetary predictability and consistency and finds that "there is no support for the assumption that MTEFs are associated with greater discipline and less deviation" (Le Houerou 2002:24). They also mention anecdotal evidence that publication and dissemination of MTEFs have led to greater civil society participation in PFM issues, for example in South Africa, Kenya and Tanzania.

Public Expenditure Tracking Surveys (PETS)

A PETS is basically a survey which tracks the flow of funds from the treasury, through various stages, to the service delivery unit for which the money was originally intended. The PETS methodology was developed in Uganda in the 1990s and has been credited with leading to a reduction in leakage of funds intended for primary schools from around 80% to 20%.

In 1995, prior to the Ugandan PETS, only 26% of funding found its way to the primary schools. After these findings were publicised via a public information campaign, a follow up PETS in 2002 showed that over 80% of funds were now being received by the schools. This

striking success story, which shows a direct impact of PFM techniques on developmental goals when coupled with an effective public information campaign, has unfortunately not been replicated in other countries.

Sundet (2008) considers the success of PETS in Uganda in comparison with failure in Tanzania. In Tanzania a 1999 PETS found that only 43% of education funds made it to schools and around 12% of health funds made it to front line services. Similar findings emerged from a second PETS in 2001 – there had been no notable improvement. In contrast to Uganda, despite findings being shared with government and donors, no change was forthcoming. Also, a 2003 World Bank review of PETS in 8 countries presents no findings (with the exception of Uganda) that PETS have had a direct impact on the flow of resources or on any other aspect of service delivery. These case studies demonstrate that, as with other PFM mechanisms, such tools can improve efficiency or identify misallocation of funds, but they must be accompanied by a conducive political environment, possibly facilitated by public information campaigns.

Aid effectiveness and General Budget Support (GBS)

For donors to be able to consider channelling aid through government systems there must be a basic level of competence and transparency in relation to financial management. Good PFM performance, or the likelihood of PFM improvements, are pre-conditions for HIPC relief and also for donor GBS. It is therefore relevant to investigate whether improved PFM, by facilitating GBS, ultimately leads to poverty reduction and development.

The evidence is relatively mixed. In a multi-country study of GBS, IDD and Associates conclude that “[i]n all but two cases, the overall assessments by the country studies were clearly positive” (IDD et al. 2006:S3). Although the authors argue that it was too soon for the ultimate effects of Partnership GBS (PGBS) on poverty reduction to be ascertained and it was not possible to trace distinct (separately identifiable) PGBS efforts to poverty impact indicators, the study still suggests that PGBS supported increases in PRSP priority expenditure, contributed to greater alignment of aid, reinforced pre-existing macro-economic stability and led to expanded basic services, especially in education and health. Similarly, an ODI Tanzania study finds that the link between GBS and poverty reduction is “indirect and long term” (Lawson et al: 7) but argues that GBS has been critical in facilitating positive poverty reducing progress in Tanzania. However, de Renzio surveys other GBS studies and shows mixed results: “in summary, overall existing evidence on the impact of GBS programmes and on the success of PFM reform efforts seems to at least partly undermine the case for GBS, highlighting the difficulties inherent in bringing about substantial changes in systems and patterns of public resource use in poor countries.” (de Renzio: 6).

Revenue management

There has been much interest in the links between taxation and state accountability and responsiveness in recent years. Research undertaken by Christian Michelson Institute (CMI) and the Institute of Development Studies has argued that taxation is a prerequisite for strong state-society relations. Whilst including case study material, this research has not involved large-scale cross-country empirical analysis. The OECD supports this line of argument, stating that “taxation can increase state capacity, accountability and responsiveness” and arguing that “tax relationships have also helped to underpin broad-based growth and state efficiency in some East Asian developmental states” (2008a:1). They also assert the opposite hypothesis that “governments who do not need to tax their citizens have little incentive to be accountable, responsive or efficient” (OECD 2008b:9).

A successful example of donor support to revenue management is DFID’s support to the Rwandan Revenue Authority which resulted in a significant increase in domestic revenue. In 1998, prior to reform, domestic revenue contributed only 9% of GDP. Following DFID support it increased to 14.7% in 2005 (OECD 2008a:3). It is, however, important to note that increases in government revenue will only have a beneficial impact on poverty reduction and development if the government itself has pro-poor policies in place.

Supreme Audit Institutions (SAIs)

SAIs carry out the external audit functions of public bodies. Little empirical research and few case studies are available specifically on the impact of SAIs on poverty reduction. Van Zyl et al, however, argue that “through a combination of poor financial management practices, poorly skilled service providers, and corruption, [developmental] goals are not achieved to any significant degree. Except for the allocation of funds, SAIs can play a key role in all the phases of the public resource management process. For this reason they are key actors in the development process.” (van Zyl 2009:26). However, the authors note that if SAIs are to fulfill this role they must focus not only on technical improvements to audit bodies, but also on improving political commitment to act on audit findings.

Donor impact

There is specific research and case study evidence that clearly attributes poverty reduction to donor PFM reform programmes. Norton et al. state that

[m]any successful social initiatives on the budget process in developing countries have benefitted from donor support. Sometimes this has been through support to civil society groups, sometimes through support to building capacity in government. In some cases (such as Uganda) infusions of extra money through HIPC debt relief have been important in providing new resources, since it is generally easier to bring about changes that favour poor people when expenditure is expanding. This suggests that, at least under some conditions, donor funding can make a positive difference... It may not be easy for a donor to see the immediate benefits of series of workshops to demystify government budgets for elected representatives, NGOs, CBOs and ordinary citizens, but such workshops have been the precursors of many of today's successes. Donors need to be prepared to give long term support to building the capacity of the people of a country to hold the government to account” (Norton et al. 2002:45).

The authors also emphasise the role of donors in facilitating citizen participation in budget processes, noting that most success in this area has been experienced in developing countries with strong fiscal capability, often enhanced by donors, for example Brazil, India, and South Africa. However, a 2009 DFID PFM literature review identifies the need for rigorous evaluation work to be carried out to assess the contribution of donor PFM programmes to the MDGs, and service delivery in particular (Pretorius 2009: xiv).

Conclusion

This chapter has therefore highlighted different indirect links between PFM reforms and the use of PFM techniques with poverty reduction and developmental goals. Consistent reference is made throughout the literature to the fact that PFM techniques are just tools and that their impact relies on a political environment that will implement them successfully. Ultimately, PFM improvements will only impact on poverty if the government's objectives and policies are themselves pro-poor.

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