GOVERNANCE, DEVELOPMENT AND POVERTY ERADICATION

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For over a decade now, the international policy discourse has been premised on the thesis that development equals poverty reduction or poverty eradication. This is particularly strongly stated in the United Nations´ Millenium Development Goals which target improvement in human welfare and the human condition. While two thirds toward the finish line for this bold international effort to tackle poverty on a global scale, it has also become clear that (a) development is more complex than just poverty reduction, (b) poverty reduction itself is a contested practice, and (b) governance, as the critical process variable in this context, has differential impact depending on the socio-economic, i.e. developmental, conditions of particular countries.

This paper tries to unpack the relations between governance, development and poverty eradication in ways that point both to lessons learnt and new policy considerations. It begins by showing how the understanding of the key concepts assigned for this paper has shifted in the past decade, and thus laid the ground for changes also in policy. The next section highlights how poverty manifests itself in different ways depending on whether the principal governance challenge is to manage already functioning systemic variables or bringing them about. The paper then proceeds to identify the more important lessons learnt for understanding and dealing with the governance-development nexus in relation to eradicating or reducing poverty. It ends by discussing new policy options for the future.

Shifts in understanding

Beginning with *governance* there has been a considerable change in how the international policy community understands the concept and translates it into specific assessments and practices. Ten years ago the idea was that governance is a prerequisite for development; it translates into the application of a liberal democratic model; and, it relies on elaborate comparative measurement methods to indicate where on a global ladder of "good governance", particular countries stand. The "mother" of all these indices was the Worldwide Governance Indicators produced by the World Bank Institute (e.g. Kaufmann and Kraay 2008). It was liberally used by the donor community to "name and shame" countries that failed to live up to the standards associated with this and other indices, e.g. the Corruption Perceptions Index that serves as a major input into the Global Corruption Report published annually by Transparency International.

More recently, influenced by the difficulties of converting data from these indices into specific policies and fuelled by changing perceptions of foreign aid, as confirmed in such documents as the 2005 Paris Declaration and the 2008 Accra Agenda of Action, understanding governance has moved in the direction of (a) viewing it as a political rather than a managerial challenge, (b) treating it as a country-owned rather than a global and externally driven project, and (c)

acknowledging that institutional performance is determined by underlying political economy variables (OECD-DAC 2008).

Development, ever since the early 1980s, has been interpreted through a micro-foundational model of choice, where the assumption has been that policy-makers and peasants alike act in their own interest and therefore make rational choices that aggregate into positive outcomes. The global discourse and practice have centered on getting policies right and making institutions more efficient and effective in using and allocating resources. This approach has until recently remained unhinged from the varying structural realities of the many countries in the South. It has encouraged a tendency to assume that a single policy solution fits everywhere, is a matter of right design, and is expected to produce results regardless of circumstances.

More recently, there has been a growing recognition of what the international policy community took for granted in the 1960s and 1970s: the idea that development is a historically embedded process (cf. modernization and underdevelopment theories of those days) and thus determined as much by structural factors as by rational choice. This has led a number of donor agencies to change their approach to foreign aid and its role in development. In the name of greater aid effectiveness, there is a tendency to (a) encourage greater national ownership of foreign aid by recipient countries, thus tempering the "econocratic" approach to policy design with political process considerations; (b) assess progress in trajectory terms, i.e. understanding where a country comes from and what progress it has made rather than comparing it to other countries; and (c) shift from a model-driven to a problem-driven approach to development (for an example from the World Bank, see Fritz, Kaiser and Levy 2009). This change is also evident in the critique offered by heterodox economists like Khan (2007) who believe that too much emphasis in the past has been laid on making the system more efficient at the cost of making it more effective in transforming the productive forces in society.

With regard to *poverty reduction or eradication* there has been a corresponding shift in perception and approach. During the past ten years until recently, the effort has been driven by the complementary role that reducing poverty is expected to play in the context of the macro-economic changes toward a neo-liberal model of development. It has been fuelled by international proclamations like the Millenium Development Declaration, donor-driven strategy formulation, and debt-relief funding that made it convenient for donors to set aside resources for the low-income countries of the world. Poverty reduction has been an integral part of the Official Development Assistance and its emphasis on government-to-government transfers. The state, or various government institutions, therefore, has been the principal recipient of the resource transfers for poverty reduction. In many respects the strategy adopted for poverty reduction has been an echo of the basic needs approach that dominated in the 1970s.

A number of bilateral donors have more recently shifted their priority to job creation making better use of the macro-economic gains that have been achieved in most low-income countries. Initiatives that promote economic growth have been given greater weight in the policies of

Nordic governments. An example is the Danish Africa Commission Report of 2009 that stresses the importance of job creation for the poor, especially the unemployed youth. The follow-up to this report is Danish sponsorship of a number of regional and national projects focused on poverty reduction through job creation. This does not signal a return to a complete reliance on the market as in the 1980s and 1990s but a better balance between the contributions that come through interventions by the state or through the market.

These shifts in perception and practice are part of an ever changing development narrative. They are important in the context of this Expert Gathering because they constitute in many respects a challenge to the premises underlying the poverty eradication efforts that became main stream in the early 2000s. They call for caution when the MDGs demand acceleration. They call for attention to process when the MDGs demand results. They call for appreciation of local context and ownership when the MDGs demand attention to global targets. They call for "best fit" arrangements when MDGs call for "best practice" interventions. They call for understanding structural variables when the MDGs demand fixing institutions. These juxtaposed positions are not necessarily irreconcilable but they do constitute challenges to the final phase of implementing the MDGs.
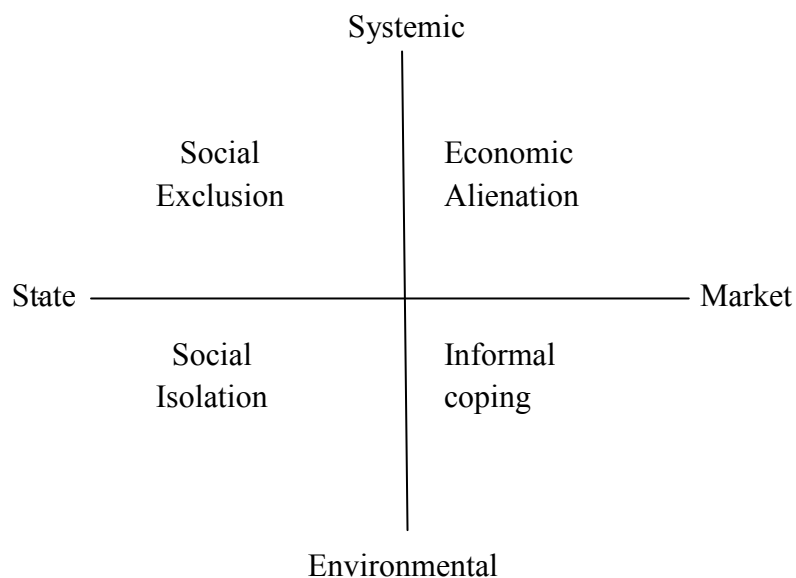
Different manifestations of poverty

Poverty exists in many forms and arises in a broad range of circumstances. The causes may be man-made and systemic or they may be environmental, meaning people may live in poverty because they are not part of a system. In other words, poverty may be the result of effective as well as ineffective policy interventions. Policies tend to be effective where interdependent systems exist, it is possible to rationally coordinate and direct collective action in a certain direction, and people are sufficiently dependent on the system to "feel the pinch". This is what is needed to redress mistakes and ensure a policy dynamic that responds to what happens to citizens in a particular country. The instrumental rationality that is required for the system to work is what helps produce the conditions under which development becomes sustainable. Countries that have emerged from low to middle income status or are already developed have all acquired this quality and used it as engine of growth as well as redistribution.

Countries that are lagging in terms of eradicating poverty are those that lack the qualities needed for systems strategies. Leaders use personal and informal relations to govern and citizens are not sufficiently captured by the market to respond in terms of rational choices that enhance their position in society. Individuals use personal connections to enrich themselves or cope with the conditions of their poverty. Human rationality, and therefore, by extension policy interventions, does not penetrate society in the same dynamic manner as in societies that have fully embraced such an approach. For example, poverty eradication policies tend to get implemented with little regard to feasibility and cost effectiveness because there is no rational feedback or citizen response that makes the system avoid similar mistakes in the future. Leaders act like chiefs, people respond as subjects, and the future is seen to lie in the hands of forces over which they

perceive themselves as having little control. Community-based projects work in these contexts but these efforts tend to become isolated islands and often falter once the external input comes to an end.

When it comes to poverty eradication and understanding the developmental context in which it is being pursued, there are from a governance perspective two basic and distinctly different scenarios: one where systems work and policies can be assessed in terms of specific gains or losses and another one where systems don´t work or are still in the making and policies therefore tend to "slip" and meaningful and sustainable results are hard to identify. These two scenarios can be further differentiated between those where state or market tends to be a prime mover when it comes to poverty eradication, as illustrated in the figure below:

Figure 1. Types of poverty manifestations depending on governance context.

Systemic rationality is modern and encourages adherence to abstract principles and rules. It creates solutions that are meant to apply universally regardless of context. Rule of law, human rights and the perception of the individual as an autonomous actor with capacity to determine his or her own destiny are among the more obvious manifestations of this type of rationality. As Giddens (1990) argues, it is "disembedded" from place and time. It is being constrained by systemic rules that make calculability possible. The effects of poverty eradication policies, therefore, are possible to measure and, if necessary, correct.

Where systemic rationality is lacking or not strong enough to decisively determine the outlook of the policy elite, environmental conditions shape the outcome of various initiatives and interventions. These conditions are typically non-modern: a belief in supernatural forces controlling human destiny; a preference for face-to-face interaction; a respect for patriarchal authority; and a reliance on particularistic rather than universalistic norms. Policy preferences

reflect differential environmental conditions. Because people do not have a sense of sharing their destiny with others outside their own community, they tend to become disappointed when government is not giving them everything they ask for because it must share scarce resources with people in other communities. This has proved to be a serious challenge in trying to effectively implement participatory or "bottom-up" budgeting aimed at empowering the poor. The point is that in these circumstances, local community priorities tend to get dropped at higher levels and the feedback from these higher levels back to the communities tends to come with only the message that "there was not enough money in the budget to include your project". In these circumstances, it is not particularly surprising that the poor try to "fast-track" their request by engaging a political patron. The phenomenon of clientelism, therefore, should not be viewed as merely driven by powerful individuals. In the context of trying to get out of poverty it is also driven from below by the poor because there is no system to really incorporate them in a civic and constructive way.

Having laid out the parameters for identifying different manifestations of poverty, the next step is to provide some empirical examples of countries that fit the descriptions in the matrix. *Social exclusion* tends to be most prevalent in two scenarios. The first is in countries that already rely on a universalized state but face challenges from groups that call into question existing norms of governing. In the case of Canada this has occurred with the growing activism on the part of indigenous people. In Europe it has occurred as a result of immigration of people from other cultures. The most apparent case is the Roma people, but it applies to other groups as well. The response has vacillated between a softer multi-cultural approach and a harder insistence on existing universal norms. France´s response to cultural challenges from its Muslim minority is a case in point. Policies aimed at correcting gender inequalities constitute yet another example of how political measures have been taken to extend universal norms to all groups in society (Narayan and Petesch 2007)..

The second scenario is in countries that are modernizing and trying to universalize norms in ways that leave certain groups outside the main stream. In Botswana, for example, where the Tswana-speaking majority has modernized the state and its system of making and carrying out policy, the Basarwa and Weyeyi groups of people in the northern part of the country have become increasingly excluded (Nyati-Ramahobo 2008). Much the same happens in other countries undergoing this process. In India, the victims tend to the tribal peoples that depend on social activists rather than the state to be part of society. Indigenous people in Latin America are yet another case in point. In many of these countries, like in the United States before, these minorities have been brought into "reserves" so as to be more easily approached by the authorities.

Economic alienation occurs when people are uprooted from their land and forced into employment either on somebody else´s land or in new social settings like industries. In the classical analysis of alienation, the process was seen as the cause of poverty and powerlessness.

This was confirmed by upheavals and revolutions in Europe in the 19th and beginning of the 20th Century but was gradually brought under control. People leaving the land by the 1950s in Europe had become a natural process of escaping poverty. Alienation, however, was also an integral part of creating the conditions for development. As part of modernization, the process had the effect of making people more dependent on a system that could be adjusted in response to market or bureaucratic failures (Kohli et al. 2003). Greece is a recent example of where the governance of the system has failed to the point where the poor have taken to the streets to protest. A similar process of economic alienation has been intensified in many parts of the world since the introduction of neo-liberal economic policies. Although it has not always crystallized into social class formation the social dynamic that stems from the penetration of the market has grown in importance. It is the disjuncture between the social differentiation in the marketplace, on the one hand, and the sluggishness of the governance sphere, on the other, that has led to the uprisings in the Arab world. In short, the operational demands of the economic system cannot be ignored. Wherever governance measures fail to respond to these demands with an eye also on their human consequences, poverty is likely to increase and with it the risk of protests going out of control.

Social isolation is different from social exclusion and occurs where social interaction is not perceived in rational and objective terms. In other words, poverty is not foremost an intentional outcome of specific policies but a consequence of particularistic preferences in resource allocation. The phenomenon of social isolation seems particularly prevalent in multi-ethnic societies. The isolation of nomadic people by sedentary groups of agriculturalists in African countries is one case in point. There are other examples not only from Africa but other regions as well where similar particularistic norms based on religion, ethnicity or race lead to social isolation and a state of poverty. The worst examples are those where the system is so inadequate in bringing people into a functioning economic system that it produces the "failed state" phenomenon. The social fragility associated with this scenario is a significant contributory factor to poverty, as the 2011 World Bank Development Report shows. Social isolation therefore stems from some people being denied the same opportunities as others and is a consequence of developmental conditions that are still infused with non-modern norms and where e.g. physical infrastructure is lacking and thus exacerbates the situation.

Informal coping occurs in situations where market institutions are inadequate in serving people. It is a manifestation of poverty because there are not enough levers to lift people out of poverty or access to them is difficult, if not outright denied. People in the informal sector may be trying very hard to succeed; many of them are entrepreneurs but their aspiration and ambition are not sufficiently supported by the system. In many African countries, this issue arises because of the continued existence of customary rules of asset ownership that limit the issue of credit. Following the initiative now several years ago by Hernando deSoto in the informal sector in Lima, Peru, efforts have been made in select African countries to work toward regularizing asset ownership in the informal sector and some progress has been made. For the majority of the poor in the informal sector, however, things have not changed and "graduating" from poverty status is

still a long way away. Micro-credit systems similar to the Grameen Bank in Bangladesh have been tried and many projects have alleviated the worst forms of poverty but few have had the effect of helping the poor to become full participants in an economic system where they can decide the future on their own. Above all, there are very few examples of collective action by the poor in response to challenges posed by the economic system, an indication that they have moved from mere coping to being willing and able to take organized steps to change the system.

Lessons learnt

Governance is relatively easy in countries with functioning economic systems because they have the mechanisms for generating development and reducing poverty. These are countries that have fully embraced modern values and norms of rationality. Even though progress is never linear, what characterizes these countries is their ability to self-propel. They respond to specific policy interventions and can correct what goes wrong.

The real challenge lies with countries where these qualities are still in short supply and thus fail to produce the systems strategy capabilities that have been referred to above. Universal policy prescriptions fail to get traction. It becomes difficult to create the sense of ownership and commitment to policy that these universal policies call for. The results expectation is not adjusted to the capabilities of the institutions of these countries. They are therefore inevitably described as "falling behind" or "failing to the reach the goal". In the name of accelerating the effort, these countries are induced to expand their social services sector to a point where there is a great risk that they cannot meet the recurrent costs of sustaining any gains made (Therkildsen and Buhr 2010).

The inclination of the international policy community to deal with these institutional capability issues has been to transfer models and practices from already functioning systems. These implants have been hard to sustain because universal, abstract models don´t work in particularistic settings. These are two distinctly different governance regimes. What has been missing in the prescriptions to date is a sense of history, notably with reference to how a state is formed and functions at different developmental stages. The prevailing assumption in the public choice model that has served to underwrite so much of policy in the past three decades is that the state is autonomous and free from corruptive private interests. In a historical perspective, it is clear that the state has never been a "neutral" instrument for good only but it has been the subject of power struggles. It is only out of such struggles that it has eventually emerged in the shape that we now use as the model of good governance. The destiny of the state has been determined by local stakeholders with an interest in improving governance. Wherever systems capabilities remain weak, the fate of poverty eradication will be determined by the extent to which modernizing social forces will grow and establish themselves as architects and builders of a self-sustaining system and governance regime. In the meantime, it is necessary to reduce the influence of particularistic norms by steering resources flows to the poor via channels that encourage professional management of funds according to universally acceptable norms.

Policy recommendations

Many of the countries that have found it difficult to meet the MDG goals are also highly aid-dependent. The responsibility for their shortcomings, therefore, must be shared by the development partners. Because the official development assistance goes through the principal treasury institution, it feeds central government institutions. Since these institutions in many countries plagued by widespread poverty do not act in a strategic and rational fashion, aid money tends to get stuck in red tape or get misappropriated. Local government institutions that are closer to addressing poverty issues are starved of funds and rarely get them on time. For example, most African governments have an 80/20 formula for sharing expenditures – four-fifths going to central government, one fifth to local governments. This is a serious misallocation of funds that has not been possible to correct despite pressure to decentralize funding and the establishment of special means to track public expenditure. This formula not only generates governance problems such as incidents of corruption but also sustains a centralized, top-down approach to development that does little to reduce poverty and fails to satisfy current principles of how aid money should be utilized. Above all, it does nothing to reduce the influence of particularistic norms in resource allocations.

A new approach is needed as part of an emerging development narrative in order to strengthen poverty reduction efforts in these countries. It should be designed in accordance with the following simple but basic principles: (a) it must be demand-driven; (b) it must cater for local institutions, governmental or non-governmental; (c) it must be independent of direct presidential or ministerial control; and (d) it must be professionally managed by an autonomous board of directors or trustees. The operational formula for such funds has been around for some time and there are examples to show that it works (Dag Hammarskjold Foundation 1995). The benefit of this approach is that it provides incentives for local stakeholders to adopt universalistic principles for managing their affairs and reduce their adherence to particularistic norms, including reliance on political patrons.

A second recommendation concerns the geographic focus of poverty reduction programs. To date, the emphasis has been on rural poverty based on the assumption that the majority of the poor live in the country-side. This, however, is rapidly changing. More and more young people, especially in African countries, are moving to the cities, in most cases triggered by the education that they have received in the village. A primary or secondary school certificate has to most youngsters become a passport to urban living. Poverty reduction programs in the rural areas therefore have helped push the poverty problem to the cities.

Building schools and health centers as well as reducing infant mortality and other related activities are the easy part of poverty eradication. They produce figures to make it possible to measure outcomes. They encourage a sense that poverty reduction is a managerial and technical task. Dealing with urban poverty is more difficult. It is more complex, messier and politically contested. Yet, it is in the cities, large and small, that the real challenges of poverty reduction lie

in the near future. Tackling urban poverty issues does not only require a different focus, but it also calls for governance measures that help overcome ethnic and other forms of particularistic conflicts that cause displacement and by extension poverty. What happened in Kenya in 2008 and more recently in the Ivory Coast, two countries that have generally been regarded as economic success stories, provide a warning that urban poverty is a potential time-bomb that can explode with disastrous consequences for development.

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