

**Contemporary Issues in the International Relations of the Developing World**  
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**The good governance agenda and developing countries**  
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*Multilateral Development Banks (MDBs) became engaged in the good governance agenda. However, as yet there are no universally applicable standards of good practice. Interventions designed to improve public institutions are also difficult to sustain as they are slow in producing results. Different MDBs are adopting more or less vigorous approaches, recognising that governance reforms are played out in an often unstable political arena. MDB involvement in the governance agenda also raises issues related to aid conditionality that, as yet, are unresolved. The benefits of the new MDB governance have yet to be demonstrated. A methodology to underpin governance reform design and to provide performance benchmarks would be of great value but is yet to be developed.*

The current preoccupation of MDBs with issues of governance, civil society, modernisation of the state and rule of law reform, is unprecedented. It is true that institutional strengthening of government agencies involved in IDB-funded projects goes back to the time of the inception of the bank, as was also the case with other MDBs. However, projects geared specifically to the process of governing, or with the sole end of developing the organisation of civil society, are new.

Three factors have driven the new direction being adopted by MDBs. First, the increased focus on state institutions and civil society is partly a product of the experience that MDBs have can, for example, build roads, but the road will not have much impact on the country's transportation system if the government is unable to regulate traffic safety. In fact, money spent on such a project is worse than money wasted, as it comes in the form of loans that increase the recipient country's debt burden. More generally, it has been recognised that stakeholder participation is critical to sustainable development. Second, the IDB's involvement in state reform and civil society is a response to the needs of its region. Recent democratisation in Latin America has given governments a high stake in creating public institutions, which can deliver growth and services to their citizens (even if sometimes only for the sake of survival and re-election of the government). Democratisation has also given a new voice to NGOs, thereby furthering the civil society agenda. The trend towards democratisation affects regions differentially, but its general impact is evident in several other MDBs. Third, self-interest is driving the MDBs' governance agenda: they need to show that development assistance works. It allows the hope of correcting the past failures of public institutions that contributed to the ineffective implementation of aid.

The construction of a good governance agenda, in response to the demand for more participatory projects, is not an easy task. The problem derives from the existence of many voices in the agenda-forming process. They include, for instance, the IDB's Board of Governors and the Board of Directors; that is, appointed representatives of democratically elected governments, as well as NGOs, including groups that are

critical of their governments. Individual citizens directly affected by a project, must also be heard, particularly in the context of increasing stakeholder participation. Agenda formation is also rendered difficult in the absence of any precedent. In the case of the IDB, as long as there is no policy forbidding an area of work, projects are often developed to drive policy and set precedent. This practice differs somewhat from the approach of the Asian Development Bank, where policies are defined *ex ante*. A possible explanation for this difference is a more cautious, consensus-building approach in East Asia to avoid encroachment on sovereign government territory. As a result, with a few exceptions such as the ADB and EBRD, the governance agendas of most MDBs are general and vague.

More generally, there are no standard recipes that can be applied universally to guide good practice. This is emphasised by past errors particularly under the Washington Consensus. The President of the IDB observed recently that, while there is agreement in Latin America on the pursuit of economic fundamentals, other issues 'require ad hoc responses in each country, such as the pace of commercial and financial liberalisation, how to achieve full employment and greater income equity, and the appropriate role of the state. In Latin America, there must be a conciliation on three fronts: development, equity and democracy.'

In the absence of any good practice standards and precedents, the formulation and implementation of the governance agenda runs several risks. The first problem is that programmes in state reform are particularly 'soft'. They have slow gestation periods and their expected benefits are dispersed over a large number of institutions. This makes them difficult to sustain for both governments and for MDBs, which need to see concrete results. Second, the governance agenda necessarily involves spill-overs into the political arena. Reforms fail without political support and reform, in turn, involves political costs. Many of the democracies in Latin America and the Caribbean are delicately balanced and MDB activity designed to strengthen democratic institutions may involve the risk of de-stabilisation. Traditional injunctions against political interference were not without reason. Incursions into the political realm should be undertaken only with great caution: with the permission of the government at the very least, and ideally with its enthusiastic participation.

The inseparability of reform and politics, also ties up with problems associated with conditionalities. The World Bank Group Policy Research Report, 'Assessing Aid: What Works, What Doesn't, and Why' (OUP, 1998) indicates that aid is only effective after good governance has been established. For all the criticism of the report, it raises some critical questions. One such is: should aid be conditional on good governance at all, if only political will (and not MDB assistance) can lead to good governance?

The MDBs' governance agenda must also develop indicators against which institutional performance can be judged and a methodology for redesigning reform and evaluating results. While MDBs have responded to the wave of democratisation and other factors by focusing on improving the effectiveness of public institutions, they still face the challenge of demonstrating the development impact of such projects.

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