

POLICY ISSUES RELATING TO GOVERNANCE

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1. Introduction

There is near consensus on the importance of governance in economic performance of nations. Policymakers, politicians, international institutions and scholars of development studies acknowledged that the quality of governance of a country matters on economic performance. A large empirical literature suggested that the quality of governance affect the growth of per capita income, investment, inflow of Foreign Direct Investment (FDI), and other measures of economic performance (See for example, Kaufmann, Kraay and Mastruzzi 2007, Ndulu and O'Connell 1999, Olson, Sarna and Swamy 2000, Knack 2002, Gradstein 2004, Persson and Tabellini 2009; Kilishi et al 2013, among others). Empirical evidence also shows that effective government or good governance is critical for sustainable economic growth, reduction in absolute poverty, infant mortality, illiteracy rates, gender inequality, youth unemployment and so on.

Hence, the issue of governance attracted momentous attention since 1990s from all development stakeholders. Most donor agencies and international organizations such as the International Monetary Fund (IMF), the World Bank, United Nations and the United Nations Development Program (UNDP) among others incorporated governance as part of their development agenda. It is considered that improvement in the quality of governance is imperative to success of development policies and programmes. The challenges of absolute poverty, endemic unemployment, slow economic growth (stagnation or negative growth in some cases) and other economic evils in many developing countries may not be overcome without significant improvement in the quality of governance. That is, policies, programme and even external

aid/assistance that will assist poor countries achieve rapid economic growth and eradicate chronic poverty would succeed if only supported by good governance that is capable of delivering quality services to people.

Therefore, in this paper the concept of governance, how it relates to economic performance and strategies to improve its quality are discussed. Hence, the remainder of the paper is arranged in six sections, definitions and measurement of governance are in sections two and three, while sections four and five present assessment of governance quality in selected countries and the relationship between governance and economic performance respectively. Issues of policies and challenges of improving quality of governance is discussed in section six and section seven concludes the paper.

2. Definition of Governance

Nevertheless, the general agreement on the importance of governance in explaining economic performance, there is no single generally acceptable definition of the concept of governance. The definition of governance varies from one author and organization to another. The difficulty to have a single definition of governance stem from the broad nature of governance and its functions. For instance, Pierre (2000) defined governance as the “sustaining coordination and coherence among a wide variety of actors with different purposes and objectives”. These actors include civil society and interest groups; non-governmental organizations; economic agents such as investors; and political actors among others. While this definition is broadly focused on the society, Peters and Pierre (2000) gave a more state focus definition. They defined governance as the “processes in which the State plays a leading role, making priorities and defining objectives”. This definition focuses mainly on the role government/state plays in the society. Hirst (2000) defined governance more broadly as “the means by which an activity or ensemble of activities is controlled or directed, such that it delivers an acceptable range of outcomes according to some established standard”.

Institutions also differ on the definition of governance, for example Institute of Governance in Canada (2002) defines governance as “the process whereby societies or organizations make important decisions, determine whom they involve and how they render account”. In 1997 United Nations (UN) conference and summits, the United Nations Development Program

(UNDP) defined governance as “the exercise of economic, political and administrative authority to manage a country’s affairs at all levels. It comprises the mechanisms, processes and institutions through which citizens and groups articulate their interests, exercise their legal rights, meet their obligations and mediate their differences”. World Bank in 1993 defined governance as “the manner in which power is exercised in the management of a country's economic and social resources for development". In 2002 the World Bank, World Development Report Building Institutions for Markets offered another definition as "rules, enforcement mechanisms, and organizations".

The people who developed the Worldwide Governance Indicators, Kaufmann, Kraay and Mastruzzi navigated between the 1996 and 2002 World Bank definition of governance, to define governance as “the traditions and institutions by which authority in a country is exercised. This includes (a) the process by which governments are selected, monitored and replaced; (b) the capacity of the government to effectively formulate and implement sound policies; and (c) the respect of citizens and the state for the institutions that govern economic and social interactions among them.” Based on this definition they developed two measures of governance (these measures are discussed in the next section) corresponding to each of these three areas, resulting in a total of six dimensions of governance.

3. Measurement of Governance

Though, there are many measures of governance, in this paper only the Worldwide Governance Indicators (WGI) published by the World Bank is considered. The WGI is a dataset summarizing the perceptions of large number of enterprise, citizen and expert on the quality of governance in different countries of the world. WDI is exclusively perception based assessment of governance gather through nationwide surveys by over thirty data collecting bodies all over the world.

The Worldwide Governance Indicators (WGI) consist of six broad indicators which measure three different dimensions of governance. What each of these indicators measures is discussed here, but for further discussion on how the indicators are constructed see Kaufmann, Kraay and Mastruzzi (2010). The first dimension is the process by which governments are selected, monitored, and replaced, measured by Voice and Accountability (VA) as well as Political Stability and Absence of Violence/Terrorism (PSAV). Voice and Accountability captures the

extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media. While Political Stability and Absence of Violence/Terrorism captures the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including politically-motivated violence and terrorism.

The second dimension is the capacity of the government to effectively formulate and implement sound policies measured by Government Effectiveness (GE) and Regulatory Quality (RQ). Government Effectiveness measures perceptions of people on the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. Regulatory Quality captures perceptions of people on the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.

The third dimension is the respect of citizens and the state for the institutions that govern economic and social interactions among them which is measured by Rule of Law (RL) and Control of Corruption (CC). Rule of Law measures the perceptions of people on the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence. Finally, Control of Corruption captures perceptions of people on the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests.

4. Quality of Governance in Selected Countries around the World

In this section, the quality of governance as measured by the indicators of the Worldwide index of governance is assessed for selected countries from across the globe. Table 1 below presents the six indicators for selected countries.

Table 1: Governance Indicators for Selected Countries

Country Name	Control of Corruption	Government Effectiveness	Political Stability and Absence of Violence	Regulatory Quality	Rule of Law	Voice and Accountability
Algeria	38.76	31.58	12.80	11.48	29.38	22.75
Argentina	40.67	44.50	48.82	17.70	28.44	56.40
Botswana	79.43	62.20	84.83	73.21	68.25	62.56
Brazil	55.02	51.20	36.97	54.55	52.13	58.77
Burundi	2.39	15.31	9.48	21.53	14.69	21.33
Cameroon	9.57	20.57	28.44	20.10	15.17	17.54
C.A.R	14.83	0.96	3.32	12.92	0.47	6.16
Egypt	32.54	19.62	7.11	26.32	34.12	18.01
France	88.04	89.47	61.61	85.17	88.15	88.63
Ghana	56.46	50.72	47.39	55.50	56.87	60.66
Guatemala	33.97	27.27	23.70	45.45	13.27	35.55
Indonesia	31.58	45.45	28.91	46.41	36.49	48.82
Iran	27.75	28.23	10.43	5.74	17.06	4.27
Iraq	7.18	14.35	4.27	10.53	3.79	16.59
Israel	78.47	85.17	15.64	85.65	80.09	66.35
Kenya	12.92	36.84	13.74	38.76	27.96	41.23
Korea, Rep.	70.33	82.30	56.87	79.90	78.67	68.25
Malaysia	68.42	81.82	47.87	72.25	64.45	37.44
Mexico	39.23	63.16	22.75	66.99	35.07	53.55
Morocco	46.41	51.67	29.38	46.89	47.39	27.96
Namibia	65.07	60.29	77.25	54.07	59.72	59.24
Nigeria	9.09	16.27	3.79	25.36	12.32	27.49
Pakistan	17.70	23.44	0.95	24.88	20.85	24.64
Portugal	78.95	85.65	68.72	75.60	82.94	80.09
Singapore	96.65	99.52	95.73	100.00	95.26	52.13
South Africa	54.55	66.51	44.08	64.11	57.82	65.40
Spain	75.12	82.78	46.92	78.95	81.04	77.25
Sri Lanka	51.67	45.93	26.07	47.85	46.45	28.91
U.K	93.30	89.95	63.03	96.17	92.89	92.42
U.S.A	85.17	90.91	65.88	86.60	90.52	83.89
Venezuela	6.70	13.40	16.11	2.87	0.95	21.80

Source: compiled by author from World Bank Governance Indicators

The table above is extracted from the World Wide governance indicators published by the World Bank for thirty-one selected countries from different continents around the world. Six indicators are used namely, control of corruption, government effectiveness, political stability and absence of violence, regulatory quality, rule of law as well as voice and Accountability. The countries are

ranked among higher, middle and lower countries in terms of governance of the world. The index shows that the indicators are ranked from zero to hundred (0-100); in which countries with higher rank are scored (55-100), middle (45-55) and lower ranked (0-44).

For the control of corruption, thirteen countries fall among the higher ranked countries including four African (Botswana, Ghana, South Africa, and Namibia), three European (United Kingdom, Spain and France), three Asian (Korea, Malaysia and Singapore) one Middle East (Israel) and one American (Portugal) countries. Also, three countries fall among the middle ranked countries one each from North Africa (Morocco), Asia (Sri Lanka) and South American (Brazil) countries. Fifteen (15) countries fall among the lower ranked countries out of which seven are African countries including Algeria, Cameroon and Nigeria among others. One from the Caribbean (Guatemala), two from the Middle East (Iran and Iraq), two from South America (Venezuela and Argentina), one from North American (Mexico) while two countries (Indonesia and Pakistan) are from Asia. It could be seen form the above that government corruption is a worldwide phenomenon though the problem may be worst in continent like African.

In terms of Government Effectiveness, thirteen countries fall among the higher ranked countries, out of which three countries (Korea Rep., Malaysia, and Singapore) are from the Asian continent, three countries (Botswana, Namibia, and South Africa) from African continent, three from Europe, and one each from America, South America and Middle East. And five countries fall among the middle ranked countries; two each from Africa (Ghana and Morocco) and Asian (Indonesia and Sri Lanka) continents respectively and one from the North America (Brazil). Similarly, thirteen countries are among the lower ranked countries; seven African countries (Algeria, Nigeria, Algeria, Burundi, Cameroon, CAR, Egypt.), one Caribbean (Guatemala), one Asian (Pakistan) and two countries each are from the Middle East (Iran and Iraq) and South American (Argentina and Venezuela).

Also in terms of Political Stability and Absence of Violence, only eight out of the selected countries fall among the higher ranked countries constituting two countries each from Africa (Botswana & Namibia) and Asian (Korea & Singapore). This implies that such countries experience stable democratic process with little or no violence. For instance, Botswana practices uninterrupted democracy since independence in 1966. Argentina, Ghana, Malaysia, and Spain, are among the middle ranked countries of the selected countries while nineteen of the selected

countries fall among the lower ranked countries in which nine are from Africa continent (e.g. Algeria, Burundi, Egypt etc.), one from the Caribbean while three each are from Asia, the Middle East and South America respectively. Furthermore, using the Regulatory Quality as an indicator of good governance, it can be seen from the table that, twelve countries fall among the higher ranked countries in which two countries are from the African continent (Botswana and South Africa), three countries (Korea Rep., Malaysia etc.) are from the Asian continent, four countries (France, Spain etc.) are from Europe, while one country each are from American (United states of America) and the Middle East (Israel) respectively. Also, seven countries of the selected countries fall among the middle ranked countries of the world out of which three countries are from the continent of Africa (Botswana, Ghana & Namibia), two countries from Asia (Indonesia & Sri Lanka), and one each from the Caribbean and South America continents. While, twelve of the countries fall among the low ranked countries of which seven are from African countries (Algeria, Burundi Cameroon, etc.), one country from the Asian continent (Pakistan), and two of the countries each are from the Middle East and south America respectively.

In the case of rule of law, thirteen out of the countries selected fall among the higher ranked countries in which four of them are from African continent (Botswana, Ghana etc.), three countries each from Asia and European continents respectively, one country from the Middle East (Israel) while two of the countries are from the American. Also, two countries one each from Africa and Asian respectively fall among the middle ranked countries. Fifteen countries of the selected countries fall among the lower ranked countries in which, seven of the countries (Algeria, Burundi, e.t.c.), are from the continent of Africa, two countries each from Middle East and South America, one of them (Guatemala) is from the Caribbean, while three of the countries are from Asian.

Finally assessing the performance of the selected countries in voice and Accountability indicator, thirteen countries out of the ones selected fall among the high ranked countries; four countries each from Africa and Europe (Botswana, Ghana, South Africa, France, Portugal, Spain, etc.) and three countries (Argentina, Brazil, United State) from America. Also, three countries (Indonesia, Mexico and Singapore) out of which two are from Asia and one from America fall among the middle ranked countries. Equally, fifteen of the selected countries fall among the low ranked

countries whereby, eight of them came from the continent of Africa, the Asia continents has three countries (Malaysia, Sri Lanka & Pakistan) while two (Iran & Iraq) are from the Middle East and one each from the Caribbean and America respectively.

5. Governance and Economic Performance

This section show the relationship between each of the six governance indicators and economic performance measure by per capita income. Figures 1 to 6 present the relationship between government effectiveness, political stability and absence of violence, rule of law, control of corruption, regulatory quality as well as voice and accountability with economic performance for the selected countries.

All the scatter plots show positive relationship between each of the six indicators and economic performance. This implies that countries with better governance indicators are richer while countries where governance is poor are equally poorer economically. It is obvious from all the graphs that countries where good governance exist have better economic performance. However, it is not clear from the figures whether it is governance that is causing economic richness or it is richness that causes good governance. It could be that only rich countries could afford the cost of good governance. Nevertheless, it is imperative for poor countries to improve their governance qualities so as to enhance economic performance and eradicate poverty of majority of their people.

Figure 1: Government Effectiveness and GDP Per Capita

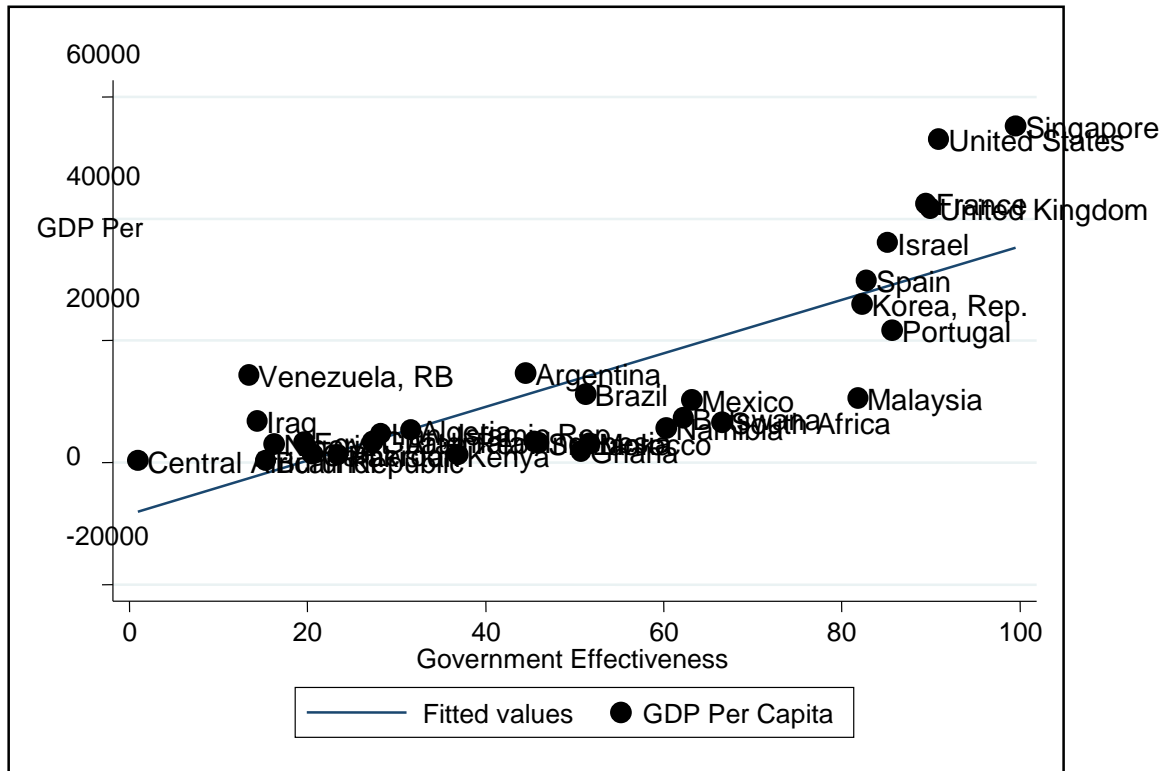


Figure 2: Political Stability & Absence of Violence and GDP per Capita

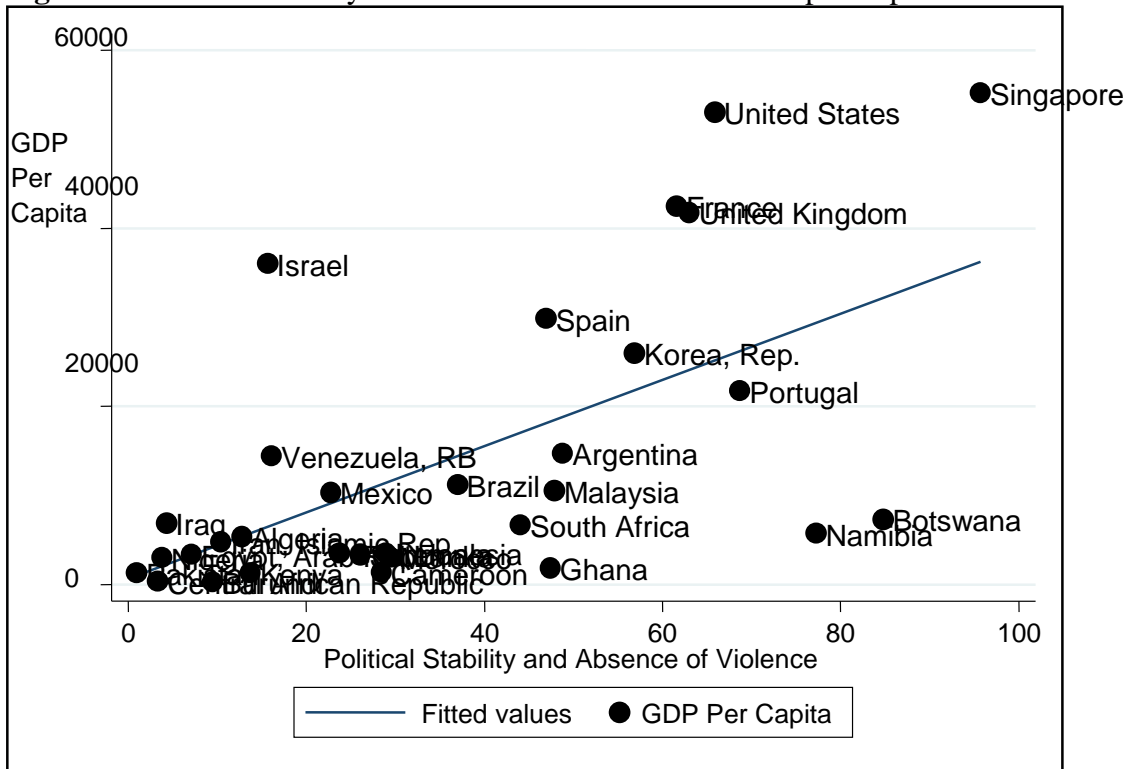


Figure 3: Rule of Law and GDP Per Capita

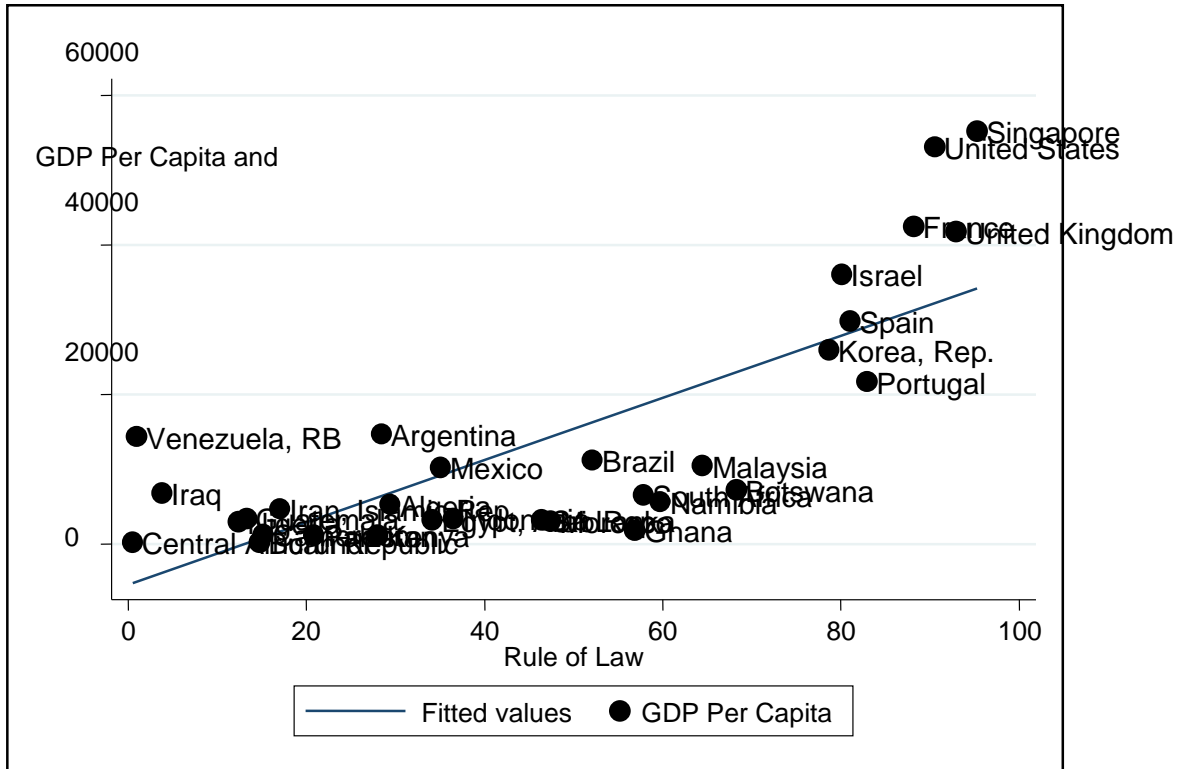


Figure 3: Control of Corruption and GDP Per Capita

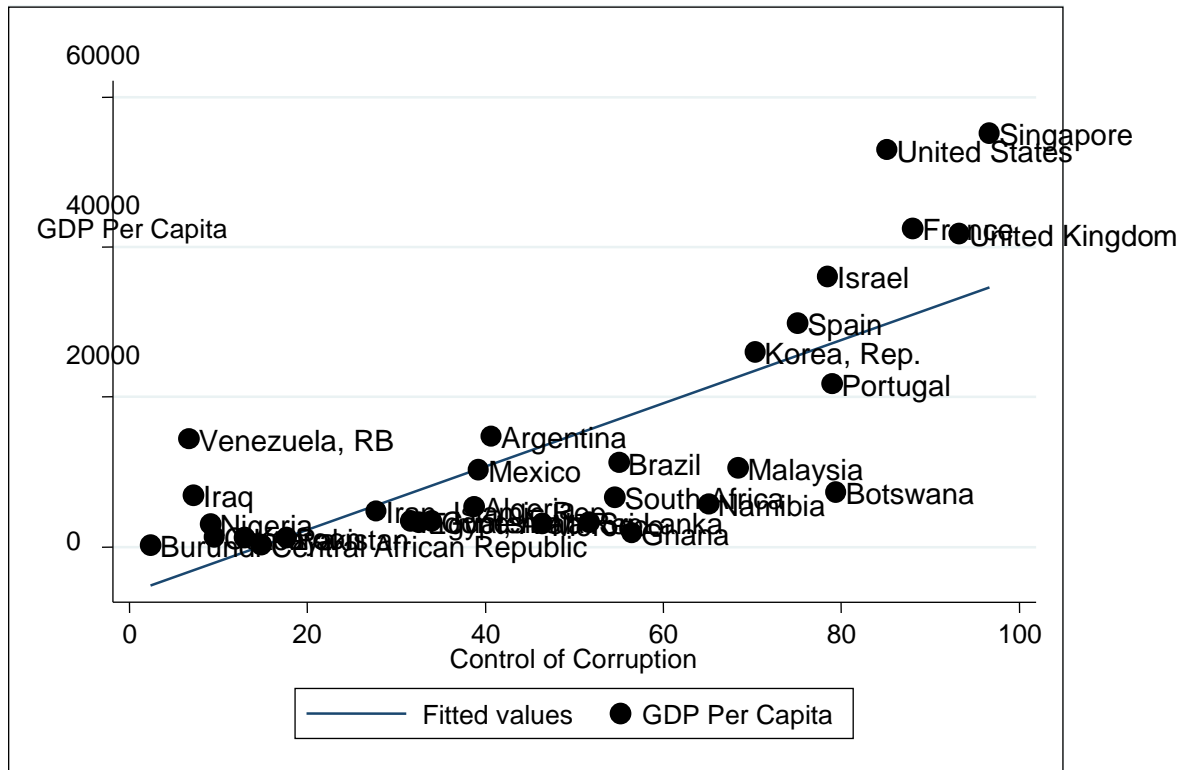


Figure 5: Regulatory Quality and GDP Per Capita

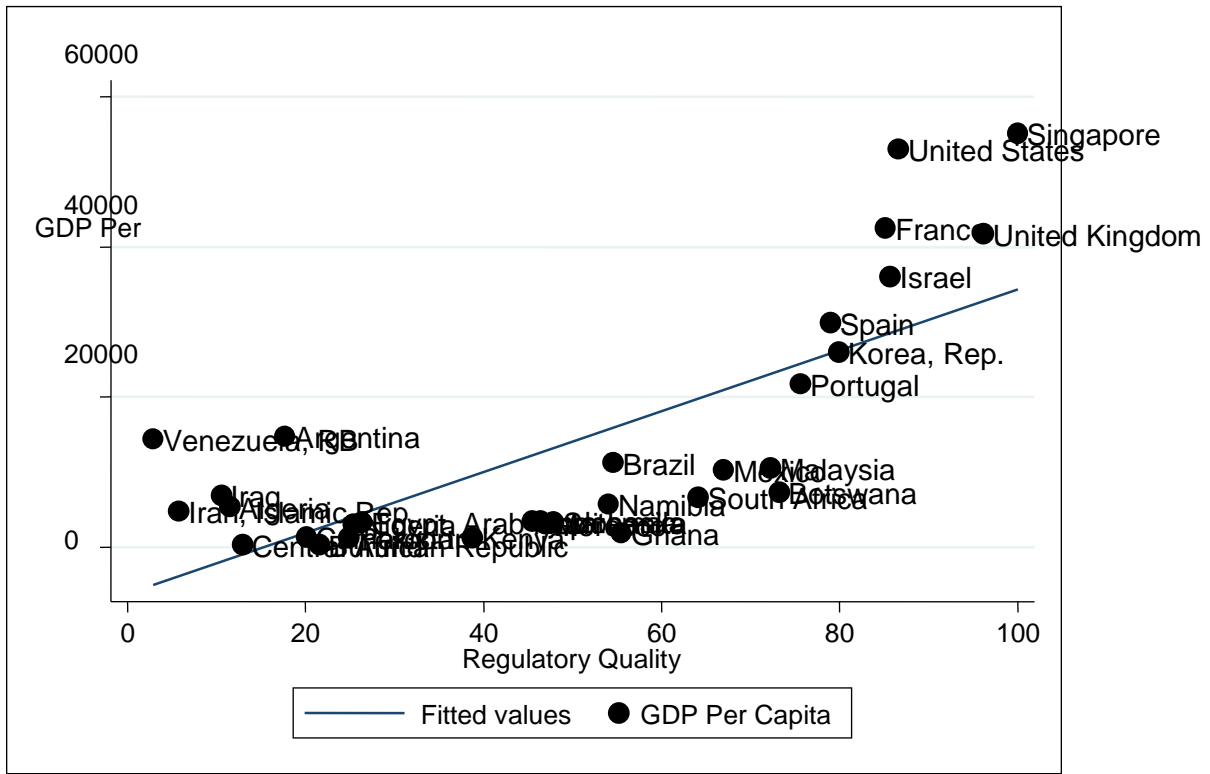
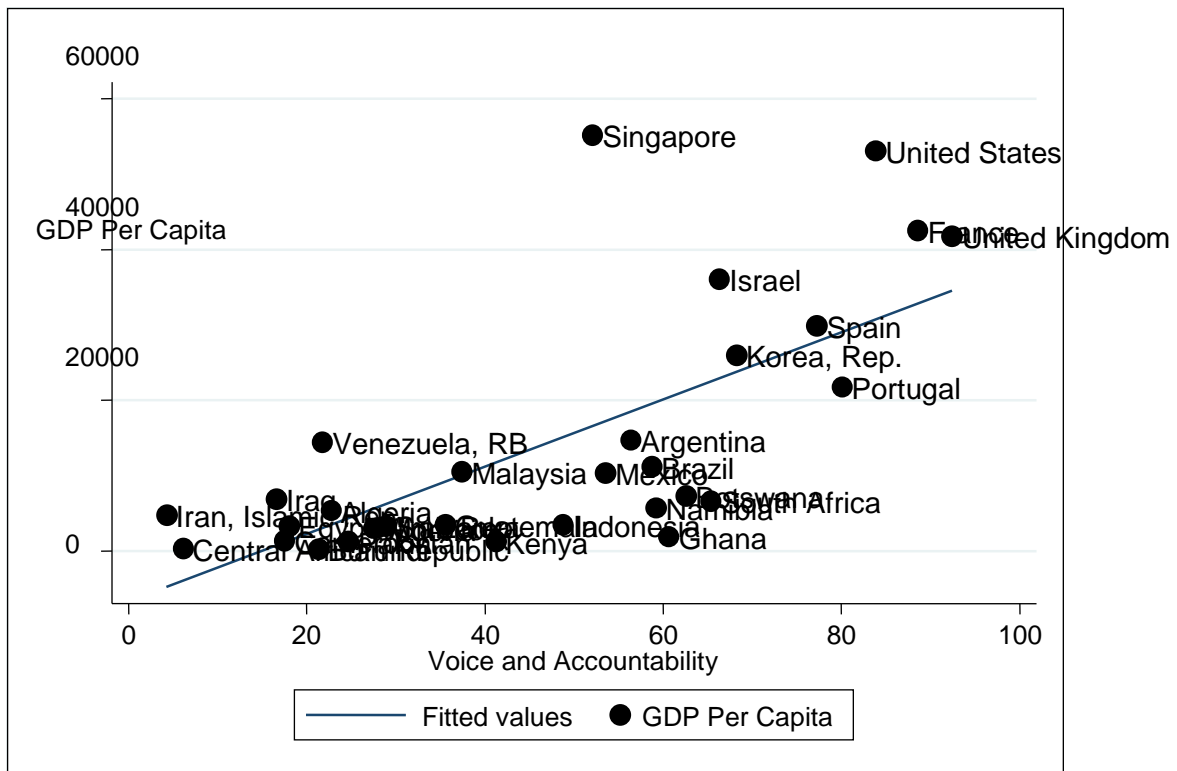


Figure 6: Voice & Accountability and GDP Per Capita



6. Improving the quality of governance

Despite the recognition of the relevance of governance and the need to improve the quality of governance, it is not clear in practice how to improve the quality of governance so as to transform bad ineffective governance into good effective governance. This is because there is no one size fit all policy framework for improving governance across countries since the institutional problems that causes weak/bad ineffective governance vary from society to society. In fact adopting the so called best practices is neither not an appropriate solution.

There is need for each country to conduct in-depth diagnostic study involving relevant stakeholders to identify key areas of reforms and their linkages. However, this is not a denier of the fact that countries can learn from other countries that succeeded in improving their governance in recent time. Using local information approaches of successful countries can be adopted and domesticated. Meanwhile, identifying policy priorities involve enormous information which in turn entails commitment of huge financial and human resources. Therefore, the real challenge is the political will and capability to gather the required information and build political consensus among all stakeholders.

The generally guiding principle is that policies should focus on: (i) to control government expenditure and cash management; (ii) to bring government decision-making, policies, and budget process to public knowledge; (iii) ensure fair, predictable, independent and stable legal system and also ensure that the procedures for amending and repealing the rules does not only exist but should equally be publicly known; (iv) allow people, civil society and all stakeholders to be involved in the formulation and implementation of government programme and project that affect them; (v) every member of the society irrespective of social–economic status should have equal opportunity to maintain or improve their well-being; and (vi) all these should be done to meet needs while making the best use of resources.

However, institutional reform is not a mechanical process rather a political process, and in this process the politicians are the key players. Thus, the incentives of politicians matter much in any reform programme. The politicians should be assured that the general societal benefits in the long-run from the reform are far more than the short–run individual benefits. Visionary

politicians who see beyond immediate personal benefits should necessarily be in office to carry out real and sincere institutional reform that will bring good governance in place.

The international donor agencies and development partners can equally include institutional reforms (good governance) as part of their conditionality for loans and other assistances.

7. Concluding Remark

The concept of governance is complex and difficult to measure. However, efforts were made to come up with a workable definition that would allow different aspects and activities of government to be measured. One of such efforts is the Worldwide Governance Index which consist of six indicators. These indicators are used to assess the progress of countries in improving the quality of governance. The assessment shows that despite the general acknowledgement of the importance of governance in economic growth and development, many countries could not make adequate progress in improving their governance quality. Though, the reasons why countries could not make adequate progress vary from country to country, the will and incentives of politicians is crucial in institutional reforms that will bring good governance in place. Countries can learn from other countries that succeeded in changing bad governance to good governance without having to adopt wholesale their policies.

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