

GF3/WS/IV-3/S1

*Global Forum III on Fighting Corruption and Safeguarding Integrity
Seoul 20-31 May 2003*

**Workshop IV. Democracy, Economic
Development, and Culture**

3. Good Governance and Its Relationship to Democracy and Economic Development

**Good Governance and Its Relationship to Democracy &
Economic Development**

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GOOD GOVERNANCE AND ITS RELATIONSHIP TO DEMOCRACY & ECONOMIC DEVELOPMENT

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I- INTRODUCTION

“Good governance is perhaps the single most important factor in eradicating poverty and promoting development.”

-UN Secretary-General Kofi Annan-

At the Millennium Summit General Assembly of the United Nations in September 2000, world leaders committed to the Millennium Declaration of the United Nations that set key objectives for the 21st century. The Declaration embodies an unprecedented consensus, outlining a common vision of peace and security, development and poverty eradication, securing human rights, and ... *DEMOCRACY AND GOOD GOVERNANCE*.¹ It includes development goals (MDGs) to be achieved by 2015 that focus on several key areas of human well-being:

Millennium Development Goals

- | | |
|---|--|
| 1 Eradicate extreme poverty and hunger | 5 Improve maternal health |
| 2 Achieve universal primary education | 6 Combat HIV/AIDS, malaria, and other diseases |
| 3 Promote gender equality and empower women | 7 Ensure environmental sustainability |
| 4 Reduce child mortality | 8 Develop a global partnership for development |

What is needed to hasten the pace of progress? Debates abound on whether it is democratic institutions, macroeconomic policy, or something more difficult to identify ‘governance’.

While controversies rage as to which must come first or which is more important, most would agree that both of these elements (democracy and economic development) are needed, that neither of these factors would be effective without improved ‘governance’ that shapes how resources are used and who has a say in those decisions.²

This paper’s main concern is in defining the concept of good governance and its understanding in the context of development, before stating different views on its existing

¹ Fukuda-Parr Sakiko and Ponzio Richard, *Governance: Past, Present, Future Setting the governance agenda for the Millennium Declaration*, (Background paper on the HDR 2002).

² *Idem*.

relationship with democracy and economic development (always within the development perspective).

It is worth noting that there exists a dilemma in the conceptual explanation of the social sciences terms including good governance, democracy, ...

Actors concerned such as scholars, governments, development assistance agencies (regional & international) confront such challenges by defining and analyzing the terms within their interests and scope of work.

Moreover, development assistance agencies with programs in developing countries can be too easily guided by theories of growth that run ahead of supporting evidence, a problem for all the social sciences. These disciplines face challenging problems in analyzing changes especially in data-weak developing countries including most of the Arab countries.

In this context, it is not surprising that there are conflicting views and evidence on defining the terms. Nevertheless, despite all this confusion, there is a consensus among all actors on the existing causal linkages between good governance, each depending on their interest and priorities.

Another impasse we will confront in this paper is the restricted awareness of the developing countries' own perception of good governance, being an element of the actors involved.

II- DEFINITION OF GOOD GOVERNANCE

1. Evolving debates on GOVERNANCE

Governance nowadays occupies a central stage in the development discourse but is also considered as the crucial element to be incorporated in the development strategy. However, apart from the universal acceptance of its importance, differences prevail in respect of theoretical formulations, policy prescriptions and conceptualization of the subject itself. Governance as a theoretical construct, separate from the theory of state, is not only in an embryonic stage, but its formulation also differs among researchers depending on their ideological convictions.

Policy analysis based empirically on the historical experiences of governance gives prominence to government failures to deliver, leading to propositions for downsizing or rightsizing, while policy prescriptions for good governance take an evolutionary view of the matter questioning relevance of public sector management of certain activities in a changed context.³

Good governance is the term that symbolizes the paradigm shift of the role of governments.⁴

Moreover, governance is not only about the 'organs' or actors as affirmed by Hasnat Abdul Hye. More importantly, it is about the quality of governance, which expresses itself through elements and dimensions, which will be listed in this study.

Nevertheless, he states that: "Just as the dancer cannot be separated from the dance, the organs or actors executing governance in their respective spheres cannot be relegated to the background".⁵

³ Abdul Hye Hasnat, *Governance: South Asian Perspective* (Oxford, 2001), p1.

⁴ Holzer Marc & Kim Byong-Joon (ed.), *Building Good Governance: Reforms in Seoul*, (National Center for Public Productivity, 2002), Preface.

According to Goran Hyden:

“Governance was never allowed to become a conceptual straight-jacket but was expected to function as a rather loose framework within which each researcher could creatively explore political issues of significance. The problem that we encounter, therefore, is not the limitations stemming from the imposition of a confining concept, but rather the opposite: The challenge of making sense of the wide range of interpretations of governance that the authors bring to the agenda”.⁶

2. Definition

It has become a truism to say that ‘good governance is essential for successful development’. This simply begs the question what is good governance?

Governance is about *processes*, not about ends. Common definitions describe governance as a process by which power is exercised without explicitly stating the ends being sought⁷. (see Annex I).

i) The United Nations Development Programme UNDP:

Given that the term "governance" means different things to different people, it is useful, therefore, for the UNDP to clarify, at the very outset, the sense in which it understands the word. Among the many definitions of "governance" that exist, the one that appears the most appropriate from the viewpoint of the UNDP is “the exercise of economic, political and administrative authority to manage a country’s affairs at all levels. It comprises mechanisms, processes and institutions through which citizens and groups articulate their interests, exercise their legal rights, meet their obligations and mediate their differences”.⁸

Good governance is, among other things, participatory, transparent and accountable, effective and equitable, and it promotes the rule of law. It ensures that political, social and economic priorities are based on broad consensus in society and that the voices of the poorest and the most vulnerable are heard in decision-making over the allocation of development resources.⁹

Particularly important in the context of countries in special circumstances, is the fact that UNDP’s definition of governance encompasses not just the state, but the private sector and civil society as well. All three are viewed as critical for sustainable human development. The role of the state is viewed as that of creating a stable political and legal environment conducive to sustained development, while civil society institutions and

⁵ Abdul Hye Hasnat, *op.cit.*, p7.

⁶ Hyden Goran & Olowu Dele (ed.), *African Perspective on Governance*(Africa World Press,2000), p.6

⁷ *Idem.*

⁸ *Governance for Sustainable Human Development*, A UNDP policy paper UNDP 1997,p 2-3

⁹ *Idem.*

organisations are viewed as a means of facilitating political and social interaction and mobilising groups to participate in economic, social and political activities.¹⁰

ii) The World Bank:

According to the World Bank, governance is "the manner in which power is exercised in the management of a country's economic and social resources for development."⁴

On this meaning, the concept of governance is concerned directly with the management of the development process, involving both the public and the private sectors. It encompasses the functioning and capability of the public sector, as well as the rules and institutions that create the framework for the conduct of both public and private business, including accountability for economic and financial performance, and regulatory frameworks relating to companies, corporations, and partnerships. In broad terms, then, governance is about the institutional environment in which citizens interact among themselves and with government agencies/officials.

*3. The elements of good governance*¹¹

A number of multilateral organizations including the United Nations Development Programme and the World Bank have reflected on the elements of good governance, and on their relation to development. As the experience of these organizations vary, so, too, do their perceptions of what constitutes good governance.

In its report, *Governance for Sustainable Human Development*, the UNDP acknowledges the following as core characteristics of good governance. (for further explanation, see annex II).

- 1) Participation
- 2) Rule of law
- 3) Transparency
- 4) Responsiveness
- 5) Consensus orientation
- 6) Equity
- 7) Effectiveness and efficiency
- 8) Accountability
- 9) Strategic vision¹²

Insofar as the World Bank is concerned, its interest in governance stems from its concern with the effectiveness of the development efforts it supports. From this perspective, sound development management, in the broadest sense of the phrase, is critical for ensuring adequate returns and efficacy of the programs and projects financed,

10 Management Development and Governance Division Bureau for Development Policy, United Nations Development Programme, *Governance in Post-Conflict Countries*
<http://magnet.undp.org/Docs/crisis/monograph/monograph.htm>.

¹¹ <http://www.adb.org/Documents/Policies/Governance/gov300.asp?p=policies>

¹² UNDP Report, *Governance for Sustainable Human Development*, 1997.

and for the World Bank's underlying objectives of helping countries reduce poverty and promoting sustainable growth. Hence, the World Bank's emphasis in recent years has shifted from its own interventions to the overall country context (i.e., the governance climate) within which those interventions take place. In doing so, it has been guided by the nature of its operations and the opportunities for action that these offer.

Accordingly, the key dimensions of governance identified by the World Bank are:

- Public sector management,
- Accountability,
- Legal framework for development, and
- Transparency and information.

4. *Good Governance for Human Rights*¹³

According to the UN High Commissioner for Human Rights, the true test of "good" governance is the degree to which it delivers on the promise of human rights: civil, cultural, economic, political and social rights. The key question is: are the institutions of governance effectively guaranteeing the right to health, adequate housing, sufficient food, quality education, fair justice and personal security?

The concept of good governance has been clarified by the work of the Commission on Human Rights. Its resolution 2000/64 expressly linked good governance to an enabling environment conducive to the enjoyment of human rights and "prompting growth and sustainable human development."

By linking good governance to sustainable human development, emphasizing principles such as accountability, participation and the enjoyment of human rights, the resolution stands as an implicit endorsement of the rights-based approach to development.

In its resolution 2001/72, the Commission on Human Rights reaffirmed its earlier resolution by consensus.

The following section builds on the ideas of democracy and democratic governance, that is, good governance relative to the development process.

III- DEMOCRACY DEFINED

1. Definition of Democracy: A Simple Concept?

Democracy can be understood as an ideology, a concept or a theory. It is an ideology in so far as 'it embodies a set of political ideas that detail the best possible form of social organization'.

¹³ <http://www.unhchr.ch/development/governance-01.html>

It can therefore be understood as an ideal. To be a democrat is to have faith in people, to believe that people have inalienable rights to make decisions for themselves, and to be committed to the notion that all people are equal in some fundamental and essential way. The meaning of democracy can be summarized as:

“A mode of decision-making about collectively binding rules and policies over which the people exercise control, and the most democratic arrangement is that where all members of the collectivity enjoy effective equal rights to take part in such decision-making directly- one that is to say, which realizes to the greatest conceivable degree the principles of popular control and equality in its exercise”.¹⁴

The last quarter of the 20th century witnessed the greatest expansion of democracy in history. If democracy: is defined in the minimal sense-as a system of government in which the principal positions of political power are filled through free, fair, and regular elections-about three of every five independent states are democracies today as illustrated in the figures below.¹⁵

¹⁴ Beetham, David ‘*Liberal Democracy and the Limits of Democratization*’, Political Studies special issue, vol.40. 1992, p.40

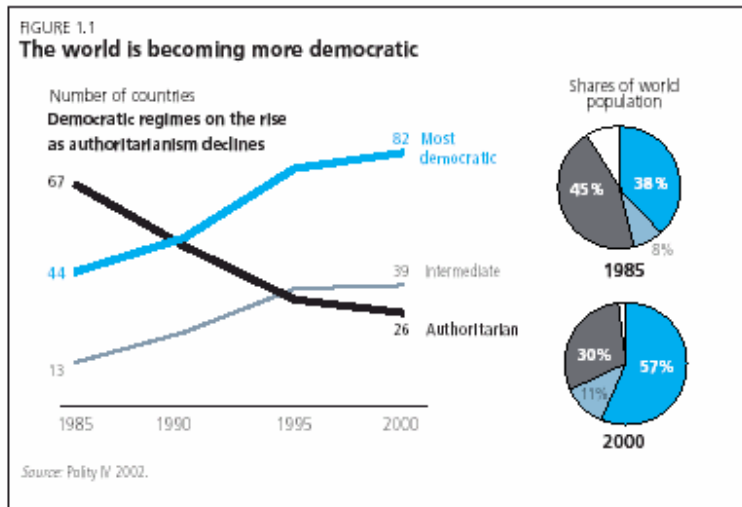


TABLE 1.1
Most people can now vote in multiparty elections, 1999

Region or country group	Number of countries with multiparty electoral systems (countries with data)	Population of countries with multiparty electoral systems (millions)	Share of regional population living in countries with multiparty electoral systems (percent)
Sub-Saharan Africa	29 (42)	464	77.2
Arab States	4 (7)	115	48.5
East Asia and the Pacific	9 (16)	401	22.0
South Asia	4 (8)	1,170	85.5
Latin America and the Caribbean	25 (26)	468	94.9
Central and Eastern Europe and CIS	21 (25)	350	88.0
OECD	30 (30)	1,120	100.0
Low human development	23 (36)	527	64.4
World	140 (189)	3,923	65.8

2. The United Nations and its Normative Contribution to Democracy:¹⁶

The Charter, the Universal Declaration, the International Covenant on Civil and Political Rights... provided a strong normative foundation for a United Nations role in promoting democracy,

Originally the Secretary-General noted that “the word ‘democracy’ does not appear in the Charter. However, with the opening words of that document ‘We the Peoples of the United Nations’, the founders invoked the most fundamental principle of

¹⁶ <http://193.194.138.190/democracy/>

democracy, rooting the sovereign authority of the Member States, and thus the legitimacy of the Organization which they were to compose, in the will of their peoples.”¹⁷

Their commitment to democracy was further reflected in the stated “Purposes” of the United Nations which include: to respect the principle of equal rights and self-determination of peoples, and to promote and encourage respect for human rights and fundamental freedoms for all without distinction.

The Universal Declaration of Human Rights elaborated on this original commitment to democracy by proclaiming that “the will of the people shall be the basis of the authority of government” and guaranteeing to everyone the rights that are essential for effective political participation.

The International Covenant on Civil and Political Rights, adopted by the Assembly in 1966, conferred binding legal status on the right of individuals to participate in the processes that constitute the conduct of public affairs, and further strengthened the protection accorded to participatory rights and freedoms.

In 1988, the General Assembly adopted for the first time a resolution on “Enhancing the effectiveness of the principle of periodic and genuine elections” and called on the Commission on Human Rights “to consider appropriate ways and means of enhancing the effectiveness of the principle of periodic and genuine elections”. Since 1988, the Assembly has adopted at least one resolution annually dealing with some aspect of democracy, not only to clarify the concept but also to elaborate on democratic principles, values, processes, institutions and mechanisms. Two are of particular importance: Resolution [2000/47](#) on “Promoting and consolidating democracy”, and Resolution [2001/36](#) on “Strengthening of popular participation, equity, social justice and non-discrimination as essential foundations of democracy”.

With these resolutions in mind, and in the light of its own efforts to stimulate dialogue among States on ways and means to promote and consolidate democracy, the Commission adopted [resolution 2001/41](#) on “Continuing dialogue on measures to promote and consolidate democracy”.

The General Assembly adopted its first explicit resolution on “Promoting and Consolidating Democracy” to provide means for consolidating democracy through:¹⁸

- a. Promoting pluralism,
- b. Promoting, protecting and respecting all human rights,
- c. Strengthening the rule of law,

¹⁷ In his report to the General Assembly at its fifty-first session.

¹⁸ UN Resolution adopted by the General Assembly A/RES/55/96 on *Promoting and Consolidating Democracy*.

- d. Developing, nurturing and maintaining an electoral system that provides for the free and fair expression of the people's will through genuine and periodic elections,
- e. Creating and improving the legal framework and necessary mechanisms for enabling the participation of all members of civil society in the promotion and consolidation of democracy,
- f. Strengthening democracy through good governance,
- g. Strengthening democracy by promoting sustainable development,
- h. Enhancing social cohesion and solidarity.

3. Democratic governance for human development: the concept

Building on the above, the UNDP Human Development Report 2002 further elaborated on the concept of 'democratic governance' that is governance that would promote human development.

Like the concept of 'good governance', democratic governance seeks efficient institutions, and a predictable economic and political environment necessary for economic growth and effective functioning of public services. But the concept of democratic governance concerns political freedom and human rights, and removal of discrimination as central objectives. A reform agenda would aim at building institutions and rules that are not just efficient but also fair, and that are developed through a democratic process in which all people have a real political voice.

Democratic governance thus incorporates into the notion of good governance for development, democratic processes and institutions, and a concern with the securing of political and civil rights and freedoms as human rights.¹⁹ (Box 1)

Box 1

Democratic governance: Good governance from a human development perspective

At its core, *democratic governance means:*

- People's human rights and fundamental freedoms are respected, allowing them to live with dignity.
- People have a say in decisions that affect their lives.
- People can hold decision-makers accountable.
- Inclusive and fair rules, institutions and practices govern social interactions.
- Women are equal partners with men in private and public spheres of life and decision-making.
- People are free from discrimination based on race, ethnicity, class, gender or any other attribute.
- The needs of future generations are reflected in current policies.
- Economic and social policies are responsive to people's needs and aspirations.

¹⁹ In fact, good governance and human rights go together hand in hand. For further details aiming at verifying the sequence of human rights and good governance please refer to Annex III.

- Economic and social policies aim at eradicating poverty and expanding the choices that all people have in their lives.

Source: UNDP, Human Development Report 2002

Democratic governance differs from the concept of 'good governance' in recognizing that political and civil freedoms and participation have basic value as developmental ends in themselves and not just means for achieving socio-economic progress.

Democratic governance is built on the concept of human development in its full sense of the term, which is about expanding capabilities people have, to be free and able to lead lives that they would choose to. The capability to be free from threats of violence, and to be able to speak freely is as important as being literate for a full life. While the range of capabilities that people have is huge and almost infinite, several key capabilities are fundamental in human life and are universally valued, not only those in the 'socio-economic sphere' such as health and survival, education and access to knowledge, minimum material means for a decent standard of living, but those in the 'political sphere' such as security from violence, and political freedom and participation. Indeed, these are core elements of human well being reflected in the Millennium Declaration. Democratic governance needs to be underpinned by a political regime that guarantees civil and political liberties as human rights, and that ensures participation of people and accountability of decision makers.

Accountability is about power-about people having not just a say in official decisions but also the right to hold their rulers to account. They can demand answers to questions about decisions and actions. And they can sanction public officials or bodies that do not live up to their responsibilities. Today the insistence that public officials be held accountable is extending to corporations, multinational organizations and others who have more power in public decision-making. Because of their influence over the lives of people and communities, they are holders of the public trust and so answerable for their actions to national legislatures and to the public. Accountability means different things in different contexts. To whom, for what and by which standards is accountability judged? Often the concern is with sanctions against legal wrongdoing. All these kinds of accountability are central to democratic governance to ensuring that the holders of the public trust are acting effectively and fairly.

Source: Human Development Report 2002 p.65

IV- THE LINKAGES BETWEEN DEMOCRACY AND GOVERNANCE: VIEWS & PERSPECTIVES

The existing literature has developed various arguments that link democracy to both greater and lower quality of governance.

i) First of all, democracies allow populations to peacefully and regularly oust inept, inefficient and corrupt government administrations, while allowing people to keep more efficient, successful regimes, thus tending to make the quality of governance on average higher in the long run.

On the other hand, authoritarian regimes may randomly provide high-quality governance, but if they do not, they can only be changed by force, which may take years

or decades longer than under democratic institutions. As Sen summarizes in considering the effects of democracy relative to authoritarian regimes:

“we have to consider the political incentives that operate on governments and on the persons and groups that are in office. The rulers have the incentive to listen to what people want if they have to face their criticism and seek their support in elections.”²⁰

There is a high cost of sustaining poor government policies under authoritarian regimes. Goetzmann noted this in relation to recent financial crises:

“Suppose bankers lend to a dictatorship, as **Indonesia** was...suppose further that debt piles up, and the government of the borrowing country cannot service its obligations...This is in fact what has happened. Tens of millions of people in emerging markets have recently fallen back into poverty. Without a democratic voice, they had no control of the risks their governments assumed. Even more, without transparent political institutions and a free press they had no way to understand these risks...Some would call this taxation without representation. In fact, history is filled with examples of non-democratic governments causing great harm to their citizens.”²¹

ii) On the other side of the coin, a number of authors have noted that the proliferation of interest groups lobbying for power or for rents under democratic institutions may lead to policy deadlock, preventing the major decisions that are required in the development process. The most popular view concerns the **Singaporean** growth – one of the most remarkable over the last 30 years—, which, it is agreed, would not have occurred without the stringent restrictions on political and civil rights under his regime.²² A connected issue is the great variability that electoral democracies display in effectively promoting grassroots, participatory decision-making. The fact that electoral votes can be purchased may allow wealthy individuals or parties to control the electoral process in much the same way that an openly authoritarian regime would. As it is quoted of what Piero Gleijeses observes of the situation in **Latin America**: “The box on the outside is labeled a democracy, but inside you have an authoritarian system.”²³

It can be concluded that the introduction of democratic institutions in the form of more ample political rights, civil rights, and freedom of the press, among others, may or may not be associated with improved governance. The real question, then, is the relative strength of the forces just discussed in the real world. Are the various cases of

²⁰ Sen, Amartya, *Development as Freedom*, (New York: Alfred A. Knopf, 2000), p.152.

²¹ Goetzmann, William, “Democracy Before Debt,” *The New York Times*, October 22, 1999, p. A18.

²² Riviera-Batiz Francisco L., “Democracy, Governance and Economic Growth: Theory & Evidence”. *Paper presented at conference on Democracy, Participation and Development held in 1999 in New York.*

²³ *Idem.*

“enlightened dictatorship” the rule or the exception in the recent past? Do most democracies allow their population to choose more effective policymakers or are they just used as a tool by specific classes and oligarchies to control political power and sustain ineffective, corrupt regimes?

Indeed, democracy is not strictly essential for good governance, just as well as bad governance is quite possible under formal democratic structures.²⁴ However, it considers that free, fair, and competitive elections do make it possible to remove bad or corrupt political leaders. Thus they encourage leaders to govern more effectively, in the public interest. Democracy also gives citizens non-electoral means - associations, movements, the media - to monitor officials and participate in policymaking. In addition, leaders in democracies have stronger incentives (and more institutional means and obligations) to explain and justify their decisions and to consult a broad range of constituencies before making decisions. Such participation and debate give the public a stronger sense of policy ownership. As a result policies are more sustainable and government is more legitimate. For these and other reasons, it is strongly in the interest of development assistance agencies to promote both democracy and good governance.

According to the USAID’s report on “Foreign Aid in the National Interest”, the two are mutually reinforcing: when they develop together, resources are used to advance the public good.²⁵

- Public institutions perform their designated roles.
- Social consensus supports and stabilizes the system of government.
- Disputes are settled peacefully.
- And investment flows into the country, attracted by the low transaction costs associated with government transparency and legitimacy and the rule of law. (also because of low risk under stable governments)

In these circumstances economies grow, human welfare improves, trade expands, political stability and capacity deepen, and countries become more responsible and resourceful members of the international community.

By contrast, when governance is bad and undemocratic or only superficially democratic, the pathologies of development inevitably have regional and global consequences.

- Poverty becomes entrenched, reflecting the resources wasted by corruption and distorted investment.
- Chronic fiscal deficits drain and ultimately drive away international resources.

²⁴ USAID, *Foreign Aid in the National Interest: Promoting Freedom, Security, and Opportunity*. <http://www.usaid.gov/fani/>.

²⁵ *Idem*.

- The absence of the rule of law permits-and poverty drives-wanton destruction of the environment and depletion of biodiversity, threatening the global ecological balance (and robbing the world of new medical and agricultural breakthroughs) in ways not fully grasped.

V- ECONOMIC DEVELOPMENT:

1. Overview

The challenge of development is to improve the quality of life, which generally calls for higher incomes. But it involves much more. It encompasses, as ends in themselves: Better education, higher standards of health and nutrition, a cleaner environment, more equality of opportunity, greater individual freedom, and a richer cultural life.²⁶

According to the first Human Development Report of 1990 that was published by the United Nations Development Programme,

“People cannot be reduced to a single dimension as economic creatures”.

The central message of the report was that while growth in national production (GDP) is necessary to meet all essential human objectives, what is important is to study how this growth translates-or fails to translate- into human development in various societies.

Some societies have achieved high levels of human development at modest levels of per capita income. Other societies have failed to translate their comparatively high-income levels and rapid economic growth into commensurate levels of human development.²⁷

Thirteen years later, the world development report 2003 came to support the above and to add that

“Ensuring sustainable development requires attention not just to economic growth but also to environmental and social issues. Unless the transformation of society and the management of the environment are addressed integrally along with economic growth, growth itself will be jeopardized over the longer term”.²⁸

Unlike in the 1960's-1980's, today's governance debates grew out of concerns with the implementation of economic reform programmes that were part of an overall economic liberalization agenda in developing countries.

However, in many respects, this good governance agenda has become too narrow for the purposes of achieving the goals of the Millennium Declaration, which has a broader agenda.

On the economic front, the agenda is not economic growth but more directly aimed at improving human well being of the poor, in other words, human development.²⁹ Economic growth is a means; a priority challenge today as many poor countries where poverty is concentrated have not had adequate growth in the last decades. Over 60 countries had a lower per capita GDP in 2000 than in 1990. But economic growth is clearly not enough because the benefits of growth may not be channeled to the poor, or to expanding their social and economic opportunities.

²⁶ The World Bank, The World Development Report 1991, *The Challenge of Development*, (Oxford University Press, 1990) p.4.

²⁷ The Human Development Report 1990 (Oxford University Press, 1990) p. iii.

²⁸ The World Bank, World Development Report 2003, *Sustainable Development in a dynamic world, Transforming Institutions, Growth, and Quality of Life*. P.1

²⁹ Fukuda-Parr Sakiko and Ponzio Richard, *Governance: Past, Present, Future Setting the governance agenda for the Millennium Declaration*, (Background paper on the HDR 2002).

Accordingly, MDGs have shifted the reflection to a development agenda that is for human development, not just economic growth, and for equity not just efficiency.

Few today would argue against economic progress as a key element of human progress, but in most countries, this did not materialize, either because economic growth was inadequate or because the pattern of growth meant that the benefits were not widely shared.

One may ask: is democracy associated with greater economic development or vice versa? And what is the direction of such a relationship (positive or negative)? Before proceeding, one ought to identify the term and the implication it brings.

2. Definition

Economic development in its basic sense, as observed by the World Bank relates to the qualitative change and restructuring in a country's economy in connection with technological and social progress. The main indicator of economic development is increasing GNP per capita (or GDP per capita), reflecting an increase in the economic productivity and average material well-being of a country's population.³⁰ This concept is closely linked with economic growth yet by no means identical.³¹

However, the World Bank insists that any notion of strictly economic progress must look beyond growth in per capita incomes to the reduction of poverty and greater equity, to progress in education, health and nutrition and to the protection of the environment.³²

VI- THE LINKAGES BETWEEN ECONOMIC DEVELOPMENT AND GOVERNANCE: VIEWS & PERSPECTIVES

Unlike other social sciences, economics is a data-rich discipline with quantitative evidence that can check errant theorizing. However *there remains to be conflicting views on the causal linkages between Governance (or democratic governance) and economic growth.*

1. The Dilemma

The existing evidence on the links between democracy and economic growth does not provide a clear cut support of the idea that increased democracy causes growth. Some early studies, found statistically significant effects of measures of political freedom on growth. However, more recent studies have provided ambiguous results. For instance,

³⁰ The World Bank., *Beyond Economic Growth: Meeting the Challenges of Global Development*, Glossary, <http://www.worldbank.org/depweb/beyond/global/chapter1.html>.

³¹ **Economic growth:** Quantitative change or expansion in a country's economy. Economic growth is conventionally measured as the percentage increase in gross domestic product (GDP) or gross national product (GNP) during one year. Economic growth comes in two forms: an economy can either grow "extensively" by using more resources (such as physical, human, or natural capital) or "intensively" by using the same amount of resources more efficiently (productively). When economic growth is achieved by using more labor, it does not result in per capita income growth. But when economic growth is achieved through more productive use of all resources, including labor, it results in higher per capita income and improvement in people's average standard of living. Intensive economic growth requires economic development.

³² The World Development Report 1991, *The Challenge of Development*, (Oxford University Press, 1990), p.4.

Barro concludes that the established links between democracy and growth are a result of the connections between democracy and other determinants of growth, such as human capital.³³ Similarly, Rodrik, concludes that after controlling for other variables, “there does not seem to be a strong, determinate relationship between democracy and growth.”³⁴

Insofar as the United States Agency for International Development (USAID) is concerned, it assumes such a linkage implying that democratic governance is the independent causal factor that improves an economy’s performance.

In the absence of widely accepted evidence supportive of these linkages, there are advocates of the opposite causal relationship, as reflected by those who would de-link trade and human rights policies toward growing markets. These advocates argue that market-based economic growth will lead to greater democracy, although the reasons for this are not always clear.

The current focus on markets and exports helps to narrow the meaning of economic growth and the means to achieve it. Economic growth is thought to be generated by policies that are produced by governments, and, therefore, Democratic governance plays a central role in increasing economic growth through the policies issued and implemented by governments.

How market-friendly policies are produced and then implemented involves political processes not adequately captured by economics, theoreticians of democracy, and those who would link democratic governance to economic growth. Analysts tend to limit themselves to assessing the relationships among various quantitatively and qualitatively-based indices of economic growth, policy environments, government performance, democracy, and governance. The black box that helps explain how independent policy variables act on dependent growth ones is left unopened.³⁵

If democracy is associated with improved governance, then it will also lead to accelerated innovation and growth.

i)Positive co-relation (this argument contradicts the argument in 1. Dilemma where it says that there is no clear cut support of the idea that increased democracy causes growth)

Empirical studies for a cross section of countries have established that governance-improving democracies are linked to growth. Good governance constrains the actions of corrupt officials and reducing corruption stimulates technological change and encourages economic growth. Furthermore, evidence showed that there is a statistically significant effect of political freedom (democratic governance) on growth. For example, consider Poland, Hungary and the Czech Republic after the fall of the

³³ Barro, Robert J., “Democracy and Growth,” *Journal of Economic Growth*, 1 (1996): 1-27.

³⁴ Rodrik, Dani, “Democracy and Economic Performance,” Cambridge, Massachusetts, John F. Kennedy School of Government, (1997).

³⁵ How to Link Democratic Governance with Economic Growth , Suggestions from Recent Research on the Institutional Dimensions of Participation,By Robert E. Mitchell

Berlin Wall. Their freedom had a positive impact on their economies. This impact can be briefly illustrated by the following social and economic indicators: (Box2)

Box 2

- **Hungary:** Between 1990 and 2000,
 1. GDP growth rates increased from -3.49% to 5.152% (annual)
 2. GDP per capita increased from 4857.47 to 5425 (constant 1995 US \$)
 3. Inflation decreased from 28.97% to 9.79% (consumer prices, % annual)
 4. Fertility rates decreased from 1.84 to 1.29 (total, births per woman)

- **Poland:** Between 1990 and 2000,
 1. GDP growth rates increased from -7% to 4 % (annual)
 2. GDP per capita increased from 2990.3 to 4223.4 (constant 1995 US \$)
 3. Inflation decreased from 555.38 % to 10.1% (consumer prices, % annual)
 4. Fertility rates decreased from 2.04 to 1.4 (total, births per woman)

- **Czech Republic:** Between 1990 and 2000,
 1. GDP growth rates increased from -11.6% to 2.94% (annual)
 2. GDP per capita increased from 5269.6 to 5310.9(constant 1995 US \$)
 3. Inflation decreased from 9.96% to 3.9% (consumer prices, % annual)
 4. Fertility rates decreased from 1.87 to 1.15 (total, births per woman)

Source: World Development Indicators, (World Bank, 2001).

Is this table and previous argument really proof of the co-relation between political freedom and growth or does it rather prove a co-relation between stability and growth ? This argument is often used in the case of China versus Russia. The argument is that China has not increased political freedom but merely insured stability for economic growth whereas Russia by increasing political freedom “too much” has brought chaos and economic decline. Although the argument further down focuses on and concludes with institutional quality I found the sequence somewhat misleading (too much contradiction in the beginning..).

Thus, democratic governance is key determinant of growth but only insofar as institutional quality is improving. Empirical evidence by statistical modeling illustrated how governance-improving democracy raises growth. In the model, democratic governance influences growth by constraining the actions of corrupt officials and facilitating the freedom of the press which can monitor corruption and spread information on corrupt government officials to the public so they can be held accountable. Thus, democratic governance is correlated to growth but only if institutional quality is improving otherwise governance will have little impact on growth.

Furthermore, there is also evidence that non-democratic countries with a low quality of governance cannot sustain their economic growth in the long run without good governance. For example we go back to Indonesia’s case and its stock market crash in 1998 because the government could not service its debt payments as previously mentioned. Without good governance, people had no voice and control on the risks their government assumed. More importantly, without transparency and freedom of the press, people had no way to understand these risks and to hold their leaders accountable. As a

consequence, Indonesia's growth rate fell from 9 % (annual) in 1990 to -13 % in 1998; and its inflation rate increased from 7.8 % in 1990 to 57.64% in 1998.

ii) The Absence of such a relationship: Exceptions

It is true that economic development, by increasing a nation's total wealth, also enhances its potential for reducing poverty and solving other social problems. But history offers a number of examples where economic growth was not followed by similar progress in human development. Instead growth was achieved at the cost of greater inequity, higher unemployment, weakened democracy, loss of cultural identity, or over-consumption of resources needed by future generations.³⁶

As the links between economic growth and social and environmental issues are better understood, experts including economists tend to agree that this kind of growth is inevitably unsustainable- that is, it cannot continue along the same line for long.

There are certain exceptions as demonstrated by the South East Asian countries. Some of these countries experienced some of the highest economic growth under non-democratic rule between 1960s and 1990s however their quality of governance is relatively high also. For example, Singapore has one of the highest scores for government effectiveness, control of corruption, and Rule of Law, which are key dimensions of good governance. Thus, some have argued that Singaporean growth, one of the most remarkable over the last 30 years, would not have occurred without restrictions on political and civil rights under his regime. According to this view, democracy causes the proliferation of interest groups lobbying for power, which might lead to policy gridlock, preventing major decisions that are required in the development process.³⁷

As a conclusion, to be sustainable, economic growth must be constantly nourished by the fruits of human development especially such as greater democracy at all levels of decision-making.

VII- CONCLUSION

After providing existing definitions of good governance, democracy and economic growth, this paper has listed the various viewpoints of how good governance affects long-run growth through its impact on the quality of governance of a country. This issue was explored both on the theoretical and empirical level, from multilateral organizations (particularly UNDP and the World Bank), and from scholars all throughout.

Democracy and economic development are the ends to be achieved in a sustainable way, and this cannot be guaranteed without the greasing and conditioning process of good governance.

³⁶ The World Bank., *Beyond Economic Growth: Meeting the Challenges of Global Development*, <http://www.worldbank.org/depweb/beyond/global/chapter1.html>.

³⁷ Riviera-Batiz Francisco L., "Democracy, Governance and Economic Growth: Theory & Evidence". *Paper presented at conference on Democracy, Participation and Development held in 1999 in New York.*

Despite all conflicts and dilemmas hovering above the concept of good governance and its linkage to democracy and economic development, one fact remains intact: The heart of achieving good governance is building the appropriate institutions. According to the Human Development Report 2002, this could be achieved through:

- Developing stronger vehicles for formal political participation and representation through political parties and electoral systems :
 - a. Improving governance in political parties
 - b. Promoting the participation of minorities and women
 - c. Building electoral systems
 - d. Limiting the distorting influence of money in politics.
- Strengthening checks on arbitrary power by separating powers among the executive, judiciary and legislature, and by creating effective independent entities.
- Decentralizing democratically: devolving power from the central government to provinces and villages, underpinned by stronger local democratic institutions and practices.
- Developing free and independent media.³⁸

According to the president of the Islamic Republic of Iran, Mohammed Khatami: “The main features of democracy, which should be clearly distinguished from its various manifestations, include people’s right to determine their destinies, the emanation of authority, particularly political authority from the free will and choice of the people and its submission to their continued scrutiny; and the institutionalization of such accountability.”³⁹

This means, as Thomas Friedman puts it, concentrating first and foremost on building a functioning judicial system press, free speech, economic reform, civic institutions and multiple political parties, all anchored in a constitution that has the support and input of the main political forces in the nation.⁴⁰

Moreover, it is necessary to sustain a state structure, which depends not merely on criteria for good governance derived from a certain single model, but on the deeply embedded social attitudes and cultures, which are needed to make such governance work. Significantly, democracy means several things and works in different ways, not only at different stages of economic transformation, but also in different societies with different structures and values. Therefore, we should not be preaching for the uniqueness of one model and its application on all societies disregarding the diversity of their composition, since while the characteristics of good governance are universally accepted, their application to different societies and nations should be seen in the context of local circumstances and according to local conditions.

³⁸ Human Development Report 2002, *Deepening Democracy in a Fragmented World*, p. 69.

³⁹ Human Development Report 2002, *The World’s Future Belongs to Democracy*, Seyyed Mohammad Khatami, President of the Islamic Republic of Iran.

⁴⁰ Friedman Thomas L., “Give Iraqis something that’s worth voting for, Institutions of Liberty” *International Herald Tribune*, May 2003, p.7.

Several contextual characteristics, may affect the type of governance and are more or less likely to have an impact: Cultural, religious and ethnic diversity and structures, indigenous values, networks and knowledge, the economy: its base, growth and type; financial dependence on external resources, including aid and debt; and degree of integration with the global economy, socio-economic indicators including education, access to basic needs and the role of women and civil society including NGO's.⁴¹

The manifestations and mix of these factors vary greatly among and within regions. For example, in many countries in East Asia, Latin America, and Eastern Europe, existing factors have created conditions for high growth and expanded opportunities, and what marked a boost in Eastern Europe's GDP, was not confined merely to the fall of the Berlin Wall. Rather, Poland, for example, had a strong civil society. In Eastern Europe, where supporting civil society was seen as consistent with a strategy aimed at undermining communist regimes in countries engaged in a transition to democracy.

In the Millennium Declaration, the Member States of the United Nations resolved to create an environment that is conducive to development and the elimination of poverty. They stated that meeting this objective "depends, especially, on good governance within each country and at the international level.

Finally, The United Nations system can play an important role within the new frontiers of governance policy advice and institutional strengthening, especially in areas such as democracy and economic development. The approach to governance by the United Nations organizations especially the UNDP will no doubt emphasize partnership rather than conditionality, since the former is at the heart of governance for human development.

⁴¹ Governance for sustainable human development: A UNDP policy document
Chapter 3 Implementation of governance programmes

Annex I

Governance – common definitions

Definitions of governance by leading institutions and studies converge on the term as referring to a process by which power is exercised.

UNDP: Governance is viewed as the exercise of economic, political and administrative authority to manage a country's affairs at all levels. It comprises mechanisms, processes and institutions through which citizens and groups articulate their interests, exercise their legal rights, meet their obligations and mediate their differences. (UNDP 1997);

World Bank: Governance is defined as the manner in which power is exercised in the management of a country's economic and social resources. The World Bank has identified three distinct aspects of governance: (i) the form of political regime; (ii) the process by which authority is exercised in the management of a country's economic and social resources for development; and (iii) the capacity of governments to design, formulate, and implement policies and discharge functions. (World Bank, 1997);

OECD: The concept of governance denotes the use of political authority and exercise of control in a society in relation to the management of its resources for social and economic development. This broad definition encompasses the role of public authorities in establishing the environment in which economic operators function and in determining the distribution of benefits as well as the nature of the relationship between the ruler and the ruled. (OECD DAC, 1995);

DFID: The Department for International Development adopts the same approach to governance as that provided by the OECD's Development Assistance Committee (DAC), which identifies four key elements in governance:

- legitimacy of government (political systems)
- accountability of political and official elements of government (public administration and financial systems)

- competence of governments to formulate policies and deliver services (public administration and economic systems, and organizational strengthening)

The DFID believes that the DAC conceptualization is seen to reflect the broad degree of convergence in bilateral donor thinking on good governance. Since the good governance agenda has a strong normative content, it has led to calls for an approach more sensitive to the particular historical contextual realities within recipient countries. An additional point is the issue of donor governance, highlighted by many host countries.

Asian Development Bank: The definition of governance that is adopted by the ADB is that provided by the World Bank. Accordingly, the Bank regards good governance as synonymous with sound development management. It involves both the public and the private sectors. It is related to the effectiveness with which development assistance is used, the impact of development programs and projects (including those financed by the Bank). Thus, irrespective of the precise set of economic policies that find favor with a government, good governance is required to ensure that those policies have their desired effect. *In essence, it concerns norms of behavior that help ensure that governments actually deliver to their citizens what they say they will deliver.*⁴²

USAID: Governance encompasses the capacity of the state, the commitment to the public good, the rule of law, the degree of transparency and accountability, the level of popular participation, and the stock of social capital. Without good governance, it is impossible to foster development. No amount of resources transferred or infrastructure built can compensate for-or survive-bad governance.⁴³

Institute of Governance, Ottawa: Governance comprises the institutions, processes and conventions in a society, which determine how power is exercised, how important decisions affecting society are made and how various interests are accorded a place in such decisions. (Institute of governance, 2002); *Commission on Global Governance:* Governance is the sum of the many ways individuals and institutions, public and private,

⁴² <http://www.adb.org/Documents/Manuals/Operations/om54.asp?p=aadb>

⁴³ USAID, Promoting Democratic Governance,
http://www.usaid.gov/fani/overview/overview_governance.htm

manage their common affairs. It is a continuing process through which conflicting or diverse interests may be accommodated and co-operative action may be taken. It includes formal institutions and regimes empowered to enforce compliance, as well as informal arrangements that people and institutions either have agreed to or perceive to be in their interest. (Commission on good governance, 1995)

Annex II

Core Characteristics of Good Governance

- 1) **Participation** - All men and women should have a voice in decision-making, either directly or through legitimate intermediate institutions that represent their interests. Such broad participation is built on freedom of association and speech, as well as capacities to participate constructively
- 2) **Rule of law** - Legal frameworks should be fair and enforced impartially, particularly the laws on human rights
- 3) **Transparency** - Transparency is built on the free flow of information. Processes, institutions and information are directly accessible to those concerned with them, and enough information is provided to understand and monitor them
- 4) **Responsiveness** - Institutions and processes try to serve all stakeholders
- 5) **Consensus orientation** - Good governance mediates differing interests to reach a broad consensus on what is in the best interest of the group and, where possible, on policies and procedures
- 6) **Equity** - All men and women have opportunities to improve or maintain their well-being
- 7) **Effectiveness and efficiency** - Processes and institutions produce results that meet needs while making the best use of resources
- 8) **Accountability** - Decision-makers in government, the private sector and civil society organisations are accountable to the public, as well as to institutional stakeholders. This accountability differs depending on the organisation and whether the decision is internal or external to an organisation
- 9) **Strategic vision** - Leaders and the public have a broad and long-term perspective on good governance and human development, along with a sense of what is needed for such development. There is also an understanding of the historical, cultural and social complexities in which that perspective is grounded.⁴⁴

⁴⁴ UNDP Report, *Governance for Sustainable Human Development*, 1997.

Annex III: The Sequence of Good Governance ⁴⁵

What comes first good governance or human rights? In this instance, the answer is neither. Good governance and human rights develop together. Outlined below are some key principles of good governance and an explanation of how each is linked with a particular type of human right.

Good Governance Principle	Human Rights Link
Democratic government and processes	A truly democratic government cannot occur unless individuals have guaranteed civil and political rights. This means they can freely express their views without fear of being arrested, tortured or discriminated against.
Effective public sector institutions	These institutions are developed through good government policy but they cannot be administered effectively unless the staff has access to economic human rights, such as adequate pay. Adequate pay enables people to support themselves properly and so reduces corruption. This improves governance.
The primacy of the rule of law and an impartial and effective legal system.	The primacy of the rule of law and an impartial legal system protects the civil rights of all people in relation to their property, personal security and liberty. The legal and judicial system should be independent of the government so that it can serve the interests of its citizens rather than a particular political party. In this way it protects the civil rights of its citizens against a predatory state.
A strong civil society	Civil society is about people contributing to the governing of their country through their participation in the community. It is difficult to participate if you are poor, unemployed, hungry, homeless and uneducated. People who live under these conditions are being denied their economic, social and cultural rights. Good governance cannot truly occur until these rights are guaranteed by a government willing to take responsibility for the social security of its people.
A high priority on investing in people	Investing in people means creating a skilled workforce. This cannot occur unless basic economic and social human rights are met including the right to adequate education, health services, food, and shelter.
Careful management of the national economy	A government, which does not manage its economy well will not have enough resources to guarantee basic human rights. However, if these rights are not met it is difficult to create the accountable and transparent institutions so vital to good governance and to sustainable development.

⁴⁵ Global Education: Australia Aid Program
<http://globaled.usaid.gov.au/secondary/casestud/governance/1/governance.html>

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