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SESSION 1: Development, Democracy, Good Governance: Competing or Complementary Goals?

Democracy, Development and Governance

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1. Survey of the Overall Issue

Democracy, development and good governance are hugely important goals in their own right. None needs to be justified in terms of its utility for the other goals. The relationships between them are nevertheless of considerable interest. In an ideal world the three would be mutually supporting so that efforts to achieve any one also promoted the others. In a less comfortable world there would be trade-offs between them: societies might have to choose which they regarded as more desirable. In between these possibilities, the sequencing of the attainment of the three goals might determine whether complementarities or trade-offs are encountered. Because each goal is desirable each has its advocates. Much the easiest way for the three advocacy groups to come to terms with each other is to assert that they are mutually reinforcing: there are no trade-offs. This may indeed be the case, but it is the role of academics to investigate the world as it is. In the next section I review what academics currently think are the relationships between the three goals. Of course, academics disagree with each other and this topic is both slippery and inherently politicized. Nevertheless, some guidelines seem to have emerged. One is that there do not seem to be simple generalizations. Rather, fundamental differences in the physical and social endowments of societies seem likely to influence how democracy, development and governance relate to each other.

2. Summary of the Current Academic Discussion

The three goals generate three potential pairs of relationships to be explored: democracy and development, democracy and governance, and finally, development and governance. In each relationship causality could potentially work in either direction, and so the three pairs generate six possible causal relationships. This is the agenda for the review of the academic literature.

Democracy and Development

Does democracy promote development? Does development promote democracy? These are the questions that concern us in this section. I will take them in turn. First, however, I am going to restrict the meaning of 'development' to *economic* development. There is a strong case for *defining*

development so as to include characteristics associated with democracy, most notably freedom. However, this would clearly be unhelpful for the present limited purpose of investigating how distinct concepts relate to each other. If development is defined to include freedom we already have our answer as to how development and democracy interrelate without looking. So, our discussion only makes sense if we ask how democratic rights relate to economic development.

Does democracy promote development?

India has been democratic for nearly sixty years, during which period China has been a dictatorship. China has developed considerably more rapidly than India. Both of these societies are huge, and so their experience cannot be dismissed as idiosyncratic. China's astounding development potentially offers an alibi to every third world dictator. It of course decisively refutes the simple proposition that democracy is necessary for development. At least superficially, it suggests that dictatorship may even be good for development. The overall statistical evidence is rather mixed. Most studies find that democracy does not significantly affect growth (Drazen, 2000). However, in a major recent study, Feng (2003) finds that democracy does tend to increase growth, partly due to more investment in education.

Two of the major problems that societies must overcome in order to develop are coordination and investment. Dictatorship can sometimes have advantages for these two problems.

Dictatorship offers one way of solving the coordination problems that beset societies: everyone obeys the dictator. Democracy arrives at coordination either by building a consensus or by consenting to follow the will of the majority, but its methods may involve delay and changes of direction. A benevolent dictator may, therefore, have some attractions. In addition to rapid coordination, a dictator may be able to take a longer-term view than an elected government and so be useful for investment. The ultimate long-term perspective of government indeed arose in feudal societies where power was not only concentrated but dynastic: the Hapsburg rulers could reasonably consider the effects of their actions over a horizon of centuries. By contrast, an elected government is likely to discount the future beyond the next

election, since its continued tenure of office is so uncertain. Consistent with this, there is statistical evidence that democracies tend to have systematically lower investment than dictatorships (Tavares and Wacziarg, 2001).

However, dictatorship also has some massive disadvantages for development. The best understood is that a dictator lacks the capacity to make binding commitments: his very power makes him weak in respect of what is now termed 'commitment technology'. This makes him unable to escape the problem known as 'time inconsistency': situations where it is evidently to his advantage to say promise thing and then, once people have acted on that promise, to do another. The key area in which this matters for development is property rights: dictators by definition cannot guarantee property rights to others. They might in practice respect the possessions of their subjects, but nothing compels them to do so: others do not have rights which they can enforce regardless of the wishes of the government. Property rights matter because they affect the incentive for investment. The time consistency problem is a problem for the dictator because his subjects can see that if they invest to the extent that it is in the interests of the dictator to grab the resulting assets, he will do so regardless of what he has promised. Knowing this, they will limit their investment and this will retard growth. This was clearly part of the story in Mubutu's Zaire: the risk of subsequent plunder by the dictator was too high to warrant investment. Yet it is evidently not a significant effect in China: despite the complete absence of enforceable property rights, investors pile in. What underlies this phenomenon of investor confidence in the absence of rights? I suspect that the Chinese authorities have solved their problem by a different approach which can be understood from the economic theory of 'screening and signaling'. Investors are trying to differentiate between dictatorships like Zaire and China – they are trying to 'screen out' places like Zaire.

Knowing this, the good investment locations like China, do some high-profile action that the bad locations are not willing to imitate – that is, China 'signals' what type of location it is. In this theory, a signal only works if it is sufficiently drastic that it is too costly for the other type to imitate it, even though in the process they 'reveal their type' – Mubutu is left looking like a

plundering crook. The Chinese government could not have adopted a more drastic signal: here was a formerly communist regime implementing full-blooded capitalism. The political costs of this astounding *volte face* were obviously so enormous that it has given the Chinese government huge credibility with investors. Evidently, the Chinese government has prioritized a strong China over a commitment to an ideology. Since to achieve a strong China the government needs a century of high investment, investors are safe from state plunder regardless of their lack of rights. Mobutu did not want a strong Zaire, or at least, not sufficiently to tear up his other objectives. Most dictators are more like Mobutu than like the Chinese elite and so cannot escape the time-consistency problem.

The second well-known critique of dictatorship is due to Sen (1999). He finds that democracies are radically better at preventing famines than are dictatorships. The instincts of a dictatorship are to suppress information that puts the regime in a bad light, rather than addressing the problem. Thus, if a locality suffers from famine, local officials will try to cover it up, and if the central authorities learn of it, they will tend to do the same. By contrast, in a democracy the existence of a free press gives the government little option but to try to alleviate the famine. Famously, Mao's government chose to suppress information about famine rather than confront it. But even in modern China the same instincts are apparent: the world learnt about SARS through individuals reporting it on the internet and despite the efforts of the mayor of Beijing to suppress the medical information. So, in this very fundamental aspect of development, mortality, democracy seems to have a clear advantage over dictatorship.

The third and somewhat less well-understood disadvantage of dictatorship occurs disproportionately in the social context of ethnic or religious diversity. Since the power that enforces a dictatorship cannot rest on legitimacy it has to rely upon the military. The challenge for the dictator is then how to maintain control of the army. In an ethnically divided society, an obvious strategy for the dictator is to fill the army, and especially the officer corps, with people from his own ethnic group, thereby making use of the social bonds within the group. The most celebrated recent example is Saddam Hussein who packed the army with his own Sunni minority group,

and the officer corps with his own Tikriti clan. However, this strategy is almost universal among dictatorships in ethnically diverse societies: the top positions in the army are held by relatives of the dictator, and the army is disproportionately drawn from his own tribe or religion.

Dictatorial power structures are often astonishingly robust. Around the world some of these dictatorships are evolving into absolute monarchies as sons succeed fathers: for example, North Korea, Syria, Togo and the Democratic Republic of Congo are all effectively now absolute monarchies rather than simply dictatorships. However, there is an important corollary for development. If the dictatorship rests only on a relatively small ethnic group, the dictator only needs to provide benefits to that group in order to maintain power, and redistribution in favor of the group may be more effective than a strategy that benefits the whole society. If, for example, the ethnic group is only 20% of the population, the income of the group can be doubled by robbing other groups of a quarter of their income, and it may be much easier to do this than to double all incomes through a sustained period of higher growth. Of course, it would be even better if the dictator could do both: plunder other groups in favor of his own, and double the economy. However, the two strategies are likely to be alternatives: in an environment of plunder, other groups are not going to invest, and even those in the favored group will devote their efforts to securing the largest gains from patronage rather than in the struggle for greater productivity. Hence, in ethnically diverse dictatorships, the dictator chooses to sacrifice development for redistribution to the narrow group on which he depends.

This theory is well-supported by empirical research. Whereas overall, the statistical relationship from democracy onto development is either negligible or at best contentious, once ethnic diversity is introduced the results change. Globally, the more ethnically diverse is the society the more beneficial is democracy for development (Alesina and La Ferrara, 2004; Collier, 2000, 2001). The statistics underlying these results relate an index of the degree of democracy, and an index of the extent of ethnic diversity, to the rate of growth of the economy. New research on Africa takes a different approach and supports and refines these results (Ndulu, *et al*, forthcoming). It replaces the rate of growth as the goal, with the avoidance of grossly

dysfunctional policies, which it terms 'syndromes', showing that each of these syndromes is strongly growth-reducing. It also replaces the index of democratization with a three-way classification of polities into multi-party democracy, 'rule-by-fear', and everything in between these extremes. It finds that multi-party democracy significantly reduces proneness to the syndromes. 'Rule-by-fear' does not in itself make a society more prone to the syndromes, nor, in itself does ethnic diversity. A society can get away with either: but it cannot get away with both. The combination of 'rule-by-fear' with ethnic diversity massively increases proneness of the society to the policy syndromes.

The implication of this analysis is that China is not a pertinent model for most other developing societies. China is unusual, though not unique, in being ethnically remarkably homogenous. Africa is at the opposite end of the spectrum: its societies are usually highly diverse, although there are a few exceptions such as Somalia. As Somalia demonstrates, ethnic homogeneity is not in itself a recipe for success. But a dictatorship in an ethnically homogenous society can sensibly choose to prioritize development of the nation, as has that in China. In highly diverse societies dictators would be quixotic to have such priorities and indeed they would rapidly be replaced by those who better served the sectional interests of their group. So, most societies in developing countries indeed probably need democracy in order to develop, despite the apparent example of China.

Does development promote democracy?

Now lets look at the relationship with causality running in the other direction.

Ancient Athens and modern India both demonstrate that democracy is entirely viable without development. However, until recently it was presumed that as development proceeded it made democracy both more likely and more viable. Superficially, the evidence appears to bear this out: both democracy and development have spread on a massive scale during the past quarter-century. Over this period dictatorships have declined from being more common than democracies to being less common, and globally the

number of people in poverty has been declining for the first time in history as many developing countries have enjoyed unprecedented growth. The supposition that development and democracy were related was also the foundation stone of perhaps the most celebrated political theory of the 1950s, namely ‘modernization’, a proposition most strongly associated with Lipset (1960).

However, more rigorous investigation of the statistical evidence has recently found that there is no significant relationship running from development to democracy (Acemoglu *et al.*, 2005; Przeworski, *et al.* 2001; Feng, 2003). Some societies are on institutional paths that lead to both, some are on paths that lead to one but not the other, and some are on paths that lead to neither. A good current example is Russia: broadly on a path to economic development, but increasingly headed back to its centuries-long tradition of authoritarianism. China is evidently another example of dramatic economic development without much sign of political evolution to democracy. The apparent trend towards democracy is not so much a trend as a shock event. There was a strong wave of democratization at the beginning of the 1990s evidently a response to the new global knowledge generated by the fall of the Soviet Union: communism was not a viable model. This sudden addition to global knowledge produced a cascade which gathered a momentum of its own, somewhat analogous to the contagion of financial crises in the late 1990s.

Democracy and Governance

Whereas the term democracy has a pedigree that goes right back to ancient Athens, the pedigree of the term ‘governance’ is extremely recent. Nevertheless, the concept is useful and important. Whereas democracy concerns itself with how power is achieved, governance concerns itself with how power is used. Hence, the concept of good governance seeks to capture both the integrity and the competence with which public officials conduct the business of government. Again, I consider the two possible causal relationships in turn.

Does Democracy Improve Governance?

In theory, democracy improves governance through a very simple mechanism. By providing the discipline of reelection on governments it increases the pressure on them to use power to the benefit of ordinary citizens. In a well-functioning democracy, if a government is judged to have been either corrupt or incompetent it is likely to be punished at the polls. Electoral competition creates the opportunity for accountability to the electorate.

In theory, democracy also induces more frequent changes of government that is common in other systems of government, while reducing the likelihood of fundamental changes in political regime. Empirically, both of these are found to improve governance (Feng, 2003). That is, it helps to have a fresh team of people in charge of the government, but not a complete rewriting of the rules.

The mature western democracies do largely seem to work in this way. Governments are disciplined by being held to account by voters for their standard of governance. They are periodically changed when electors sense that they have been in power too long, but the regime itself is highly robust. However, elsewhere in the world democracies often do not seem to function in this way. There are some disturbing examples. In Pakistan the period of democracy under President Benezir Bhutto was marked by extremely poor governance. Nigeria under President Shagari during the oil boom of the early 1980s was legendary for public corruption but he still managed to get re-elected. Currently, in Latin America electorates are returning populist regimes modeled on the economically illiterate pronouncements of President Chavez of Venezuela. Democracy does not even seem to be an effective defense against illegitimate regime change. In Africa coups d'états remain common and democracy has no significant effect on the chance that they occur (Collier and Hoeffler, 2005a).

Academic work has only recently started on how societies with very poor governance succeed in turning themselves around. A new statistical study finds that despite their economic failings, societies with initially poor

governance have only a very low probability of getting out of it (Chauvet and Collier, 2005). The most acutely affected are those with small populations and few educated people: such societies may lack the critical mass of an educated elite needed to formulate and implement change. How does democracy affect these prospects? Unfortunately, formal democracy in the sense of electoral competition seems to have no significant effect on the chances of turnaround. This aspect of democracy does not seem in itself promote good governance. For some reason in many of the low-income societies electorates are not effectively holding governments to account when they govern badly.

Nevertheless, other aspects of democracy, notably freedom of the press, do seem to be effective in increasing accountability of government. A celebrated recent example is from Uganda, where electoral competition itself has been quite weak. In 1996 a Public Expenditure Tracking Survey followed money released from the Ministry of Finance intended for primary schools. It found that only 20% of the money actually reached the schools, indicative of a severe problem of misgovernance. In response to the problem the Ministry decided to inform local communities of the money that should be reaching their schools: the financial information was published in local newspapers each time money was sent. Three years later, a repeat of the tracking survey found that now around 90% of the money was reaching the schools, and this transformation can be shown to be directly related to newspaper circulation (Reinikka and Svenson, 2004). Evidently, the power of community protest was sufficient, even in the absence of full electoral competition, to raise standards of governance.

A second celebrated example is the Fujimori government of Peru (McMillan, 2004). This was a democratically elected government, but it used its power systematically to erode the checks and balances upon it through corruption. Each restraint was undermined through bribery: the judicial system was subverted through bribing judges, parliament was subverted through bribing the opposition, and the media were subverted through bribes to editors. The spending of the government on each channel of bribery tells us something about how important it regarded each restraint. By far the most money was spent bribing television channels. It turned out that this view of the relative

importance of the restraints was correct. The government bribed nine television channels but neglected to bribe a small tenth channel. It was a broadcast on this tenth channel, with film revealing the government's corruption in action, that brought the government down, igniting popular street protest. These two examples suggest that in many societies the key way in which democracy can improve governance is not through the ballot box but through the freedom and professionalism of the media.

Does governance improve democracy?

Recent academic work has tried to understand why electoral competition seems to be so ineffective as a discipline on standards of governance in many societies. It poses the question of what is a winning electoral strategy for a political party?

A political party in a democracy has two quite different potential strategies for winning votes. It can adopt the strategy that is normal in the mature democracies of offering a national program to electors that seeks to offer a more appropriate level of public goods than that offered by other parties. A radically different strategy is the politics of patronage, in which it bribes influential people to deliver blocs of votes (Keefer and Razvan, 2005). A key question for research, not yet very far advanced, is to understand the conditions under which patronage is the most effective strategy for winning elections.

One line of inquiry is to investigate voter allegiances. If voters are sufficiently susceptible to allegiances defined by their identity, then their votes may either be decided regardless of government performance, or they might be delivered by opinion leaders within the community of identity. Societies with strong and fragmented ethnic identities and low levels of education may lend themselves to such voting patterns. However, even where this is the case, for patronage to be feasible the political party needs to be able to finance the bribery. Patronage politics is expensive. Evidently, the main potential source of such finance is if the political party can embezzle the public revenues. If it can, then patronage may well be a more cost-effective way of winning votes than the normal route of offering an appropriate provision of public goods. The decisive issue is thus whether the party in power can embezzle public

finances. In turn, this depends upon governance. Poor governance, such as a lack of checks and balances on how power is used, enables a political party to win and retain power by a strategy of patronage. In situations where patronage is the most cost-effective way of winning votes, the more intense is electoral competition – the stronger is democracy in this sense – the greater will be the pressure for patronage. Parties that contest elections on platforms of honest governance and public goods will be defeated by those whose strategy is patronage. And so bad governance and dysfunctional democracy will reinforce each other: bad governance will make patronage politics feasible, and patronage politics will in turn make bad governance necessary for party finance.

The problem of patronage politics may be particularly acute in those low-income societies with large revenues from natural resources, such as oil. Statistically, these societies have the weakest checks and balances, and indeed checks and balances tend gradually to erode if revenues from natural resources are large. A simple explanation for this is that governments that have large resource revenues do not need to tax their citizens. Taxation is the normal way in which citizens are provoked into scrutinizing their government: scrutiny is a public good and so chronically undersupplied. Without scrutiny, governments are freed up to embezzle their revenues from natural resources and this in turn enables the politics of patronage to triumph over the politics of public goods. Consequently, in resource-rich countries, democracy appears actually to be dysfunctional for development (Collier and Hoeffler, 2005).

If this analysis turns out to be correct, an implication is that although governance is not automatically improved by democracy, the quality of democracy is improved by good governance. Only once democracy has broken clear of the patronage trap is there a reasonable chance that it will reinforce the maintenance of good governance. Hence, in a sense, good governance may be a pre-condition for a well-functioning democracy. If so, this is disturbing because the wave of democratization during the 1990s, and into Afghanistan and Iraq at present, broadly inserted instant electoral competition into conditions of bad governance. While the hope was that democracy would improve governance, if the above thesis is correct the more

likely outcome is that bad governance will corrupt democracy: patronage politics will triumph and prove highly persistent.

Governance and Development

Does governance matter for development and does development tend gradually to improve governance? These are the questions I consider in this section.

Does good governance promote development?

The NGO *Transparency International* produces an annual ranking of countries according to their degree of corruption. The ranking is based on large and carefully conducted surveys and it is a reasonable source for information about governance. In the most recent rankings two societies tie for global bottom place: Chad and Bangladesh. There can be no doubt that both these societies have extremely poor governance by any standards. There is, however, a remarkable difference between them. The economy of Chad has for long been stagnant and impoverished: this is certainly consistent with the notion that bad governance is a severe handicap to development. By contrast, however, although Bangladesh is still impoverished, in recent years it has been growing quite rapidly. The reasonable pace of development in Bangladesh despite being at the bottom of the world governance rankings refutes any notion that good governance is necessary for development.

What accounts for the differential importance of governance in Chad and Bangladesh? The study of governance is recent and the academic profession has not yet reached any consensus on the question. Jeffrey Sachs has argued that concern over governance is a diversion from the core issue of increasing aid: governance is simply not important for development and this is indeed one interpretation of evidence such as the contrast between Chad and Bangladesh. Another possibility is that the difference between the two countries reflects differences in growth opportunities between them. Chad is landlocked, with few opportunities for private sector growth. Its main growth opportunities are its aid inflow, which could be large because of the sheer poverty of the country, and its new revenues from oil. Both of these are revenues to the government, and so for them to be effective for development

the government has to be able to spend the money to some effect. Because of its very poor governance the public sector in Chad is not able to do this. For example, a recent survey tracked money released from the Ministry of Finance intended for rural health clinics, using the same methodology as that previously described in Uganda. It found that *less than one percent* of this money actually reached the clinics. Such crushingly bad governance closes off Chad's only opportunity for growth: Chad needs an effective state. By contrast, Bangladesh is a coastal Asian economy able to follow the classic route to development, namely labor-intensive manufactured exports. For this strategy to succeed it may not be necessary for the government actually to do much at all. Primarily, the state needs to avoid predatory behavior rather than actually deliver services: the 'minimal state' may well be adequate. The government in Bangladesh is indeed incapacitated by bad governance, but the private sector has learnt how to function without it. To generalize, depending upon the growth opportunities that are available to a country, good governance ranges from being something that is merely useful, to something that is vital.

Does development promote good governance?

Finally, consider the last of the six potential interrelationships: from development to good governance. As societies get richer the state does seem to get both less corrupt and more competent. There are various reasons why this might be the case. For example, as societies develop they can afford higher levels of education for their population and this may increase the degree to which government is scrutinized by citizens. They also tend to diversify out of natural resource dependence and to increase government revenues as a share of GDP. Both of these imply increasing direct taxation and this again is likely to provoke scrutiny of government.

A Possible Synthesis: Geographic Variation

Democracy, good governance and development are massively desirable goals, but they are not necessarily a simple package. Their interrelationship seems to vary according to geographic characteristics. The degree of ethnic diversity, the magnitude of natural resource rents, and whether the country is landlocked and so probably unable to integrate into the world economy

through manufactures all seem to influence whether the three goals are complementary. In societies with that are not diverse, do not have natural resources, and are coastal, the three may have relatively little interrelationship. Such societies may be able to develop successfully with neither democracy nor good governance, and in turn this development may fail to promote democracy and better governance.

Yet, in an ethnically diverse society democracy can make a huge difference, forcing the government to take a broader view than the narrow interest of the ethnic dictatorships they replaced. If the society is also resource rich, democracy may be insufficient and even dysfunctional unless supplemented by good governance. If the society is also landlocked, then democracy and good governance may be vital to development. Such societies could either rapidly achieve the three together, as has Botswana, or be trapped with none of them because it is so difficult to get all three together, as for example, Chad.

These effects of political geography may help account for why the astonishing progress of democracy since the fall of the Soviet Union has had such differing consequences for development and governance.

A final aspect of geography that seems to matter is proximity to a major mature democracy. This is most clearly demonstrated by the role of the European Union in the countries of the former USSR. In those that were sufficiently close geographically for an aspiration of membership of the EU to be credible, an initially fragile democracy was strongly reinforced by EU conditionality: to join, a country had to demonstrate its democratic credentials. Similarly, the proximity of Mexico to the USA, and its membership of NAFTA, may have helped to consolidate its recent democracy.

3. Survey of Progress Achieved through International Action in the Last Five Years

The past few years have seen an explosion in international actions covering democracy, governance and development. I group these actions under five headings.

International public governance initiatives

The link between governance and development was forged internationally in the Monterrey Consensus of 2002. In effect, the OECD countries agreed to increase aid flows, and the aid recipients, most notably Africa, agreed to take action to improve governance. Of course, enforcement of each side of this agreement has been extremely difficult, but there has indeed been progress. The OECD has substantially increased its resource flows, partly in the form of the debt relief agreed at the Gleneagles G8 Summit of 2005. This has reversed a sharp decline in aid volumes that occurred during the mid-1990s.

The key African commitment to improved governance has been through two institutional vehicles, the replacement of the Organization of African Unity by the African Union, and the launch of a Peer Review Mechanism through a new institution, NEPAD (the New Economic Partnership for African Development). The old OAU had 'non-interference' as a key principle and this effectively allowed each national government to undermine governance and abandon democracy without any sanction. The AU has replaced 'non-interference' with 'non-indifference' and this in principle permits sanctions against states which offend against some basic principles. One such principle that the AU introduced was that coups d'états should no longer be recognized. There has been one success, the suppression of a coup in Sao Tome, Principle through AU pressure, and a partial success, the forcing of an election in Togo following the death of the President. There have, however, been some failures: successful coups in the Central African Republic and Mauritania.

NEPAD is running its new Peer Review Mechanism, loosely modeled on OECD processes. The first review, of Ghana, is just completed and is a remarkably thorough public scrutiny of deficiencies in democratic governance. It has the potential to be used within the society to induce change.

A final dimension of the AU is scrutiny of elections. Here the record is much weaker: with the AU declaring that the elections in Zimbabwe and Ethiopia were free and fair, despite contrary assessments by European observers.

Perhaps a common EU-AU standard for election monitoring is needed, with a common team of assessors.

Probably the most notable recent international development on governance and democracy has come out of the NGO movement, namely *Transparency International*. In Kenya when the corrupt old regime of President Moi was finally defeated by an alliance against corruption, the new president, Kibaki, appointed the Chair of the local *Transparency International* Chapter, John Githongo, as his advisor on governance. In his new role Githongo discovered continuing major political corruption, and resigned from the government. In the context of massive international publicity, in February 2006 Githongo produced a report detailing this political corruption and naming four top politicians, including the Vice-President and the Minister of Finance, whose resignations President Kibaki thereupon demanded. The importance of these events ranges far wider than the immediate Kenyan context. Local civil society, allied to an international NGO and the international media, is exerting discipline on governance at the highest political levels. This sets a precedent with enormous potential.

International Initiatives on the Management of Natural Resource Revenues

Although natural resource revenues have the potential to promote development, usually they have failed to do so, and indeed, commonly they have undermined governance. As we have seen, electoral competition alone seems insufficient to remedy the problem. Over the past five years several important initiatives have been launched to address the issue, which is made much more important by the current high levels of commodity prices.

The first was the Kimberley Process for transparency in the diamonds trade, designed to curtail the phenomenon of 'conflict diamonds'. It is a non-government initiative of NGOs and private enterprises, but with an important impetus from a UN investigation on how conflict was being financed. Despite some limitations, it is overall already a considerable success and there are plans to introduce smartcard technology into alluvial diamonds prospecting, enabling cheap but effective tracking of diamonds

from very close to their original source. The Kimberley Process is a potential model for other commodities, notably timber and oil, both of which currently support illicit trade in looted resources.

A second initiative focuses not on tracking the physical commodity but on making the financial flows more transparent. This also originated in an NGO campaign, 'Publish What You Pay', run by *Global Witness*, aimed at getting oil companies to publish their payments to governments. A variant of this proposal was picked up by the British Government and became the *Extractive Industries Transparency Initiative (EITI)*, a highly important attempt to improve governance to which around a dozen oil-producing countries have committed themselves. There is considerable scope for developing the EITI. First, it needs to be moved from the British government to an international body, the UN or one of the International Financial Institutions. Second, it has the potential to be broadened beyond the issue of transparency in reporting of revenues. It is desirable that the process by which contracts are awarded is also fully transparent; that public expenditures in resource-rich countries should be more transparent; and that there should be some international guidelines for managing revenue shocks and for spreading the risks between governments and companies.

A third initiative, which has been very fraught, is the Chad-Cameroon pipeline. Because of NGO concerns about how the government of Chad would manage new oil revenues, a condition of investment by oil companies in oil extraction was that a governance structure be put in place that ensured that the bulk of the revenues would be used for social needs. A scrutiny system was devised involving representatives of civil society within the country, formed into a *College* which had to approve each item of expenditure. The arrangement was enshrined into Chad law as part of the deal. Unfortunately, once the investments had been made, the government promptly repealed the law (in January 2006), using the money to increase its military spending. Since this had been the fear of the original NGO concerns, the arrangement was revealed to have been both necessary and insufficient. The pipeline deal might still form the basis for a more effective means of ensuring reasonable governance of resource revenues, but there is an

evident need to formulate a more robust international design of checks and balances against misgovernance.

Anti-Corruption Initiatives

The major successful international initiative against corruption has been that by the OECD, in which each member has agreed to legislate to make bribery of public officials in other countries a criminal offense. Until recently, not only was such bribery not an offense, but in some OECD countries it was actually a tax deductible corporate expense! It was necessary for the OECD to organize this collectively, because there was an acute ‘free-rider’ problem: each OECD country did not wish to disadvantage its own companies in competition for contracts with the companies of other countries. Even with the new legislation, the acid test will be in how effectively it is enforced, the same free-rider problem still presenting a problem. There is a potential role for international NGOs to mount trans-national campaigns within the OECD to press for tough enforcement.

A second and unrelated initiative has been to encourage greater reporting of corrupt money deposited in the international banking system. The impetus for this was September 11th, which forced governments to pay attention to terrorist finances. The same tightening of controls that now requires banks to report money that might have connections with terrorism could potentially be enforced against corrupt money more generally, but at present this is not the case. A recent case involved large deposits of General Abacha, a former dictator of Nigeria, in Swiss banks. Even when the Swiss courts eventually ruled that the deposits should be returned to the Nigerian government the Swiss minister of justice prevaricated. Both official and civil society pressure is necessary to change practices in international banking.

Governance and Democracy in Post-Conflict Situations

Post-conflict situations constitute a major opportunity for international intervention. The past record is very variable.

Probably the most successful international operation of the past five years is Sierra Leone. A fairly modest military presence, combined with a large and sustained aid inflow, has helped to rebuild the country and permit a transition to democracy. Governance, however, remains a problem. There is perhaps scope for an international standard for governance in post-conflict societies, with a focus upon transparent budgetary systems and effective controls against embezzlement. Without such controls there is a danger that even with democracy the political process gets corrupted.

In September 2005 at the UN Summit agreement was reached to create a Peacebuilding Commission. This is envisaged not as a new agency but as a coordinating entity for other agencies. The Commission has the potential both to coordinate the economic, political and military interventions, enabling longer-term and hence more credible approaches to post-conflict recovery, and to promulgate minimum standards of governance. Such standards would avoid the *ad hoc* donor interventions that are now widely recognized as both unacceptable and ineffective.

International Initiatives of Development

To date, international initiatives on development have focused on aid, debt relief, and trade. The two former I have discussed as part of the Monterrey Consensus. Trade has been the major development failure. The Doha Round of the WTO was supposed to be a 'Development Round', but development has not, in practice, been a priority. The poorer developing countries need two benefits from the Round, neither of which currently look likely.

The first is agricultural liberalization on the part of the OECD countries. The key change here is not market access through reduced trade restrictions, but an end to the massive subsidies that OECD governments currently pay to their agricultural producers and which undermine prices globally. Such is the power of the agricultural lobby that this has made virtually no progress. The Common Agricultural Policy of the EU is a major culprit.

The second is that the poorer countries may need protection from the successful low-income Asian economies *in OECD markets*. The Asian

economies have already established economies of agglomeration and so are more competitive than the 'latecomer' low-income countries which therefore need help to get over the threshold of entry into global markets for manufactures and services. The deal reached in Hong Kong in December 2005 ostensibly gave the poorer countries such privileged access to OECD markets but it failed in two important points of detail. First, it applied only to the 'Least Developed Countries'. This excludes virtually all the countries that are actually in a position to break into global markets, such as Ghana, Senegal and Kenya, which are one step up from the bottom. Secondly, OECD countries are permitted to impose trade restrictions on any 3% of tariff lines. While this permitted them to say in the press statements that 97% of tariff lines were going to be set to zero, in practice there are only a few products that countries emerging into the global market can hope to export. The fact that they would not face tariffs on exports of their computers or tractors is irrelevant: what matters is whether they face tariffs on textiles. The 'only 3%' rule enables OECD countries to continue with trade restrictions where they actually matter.

4. Possible Leading Questions for Discussion

I conclude with four possible questions for discussion. None of them has easy answers but they are all important.

What is the extent of the duty of the international community towards citizens of low-income countries in which the state is repressive and corrupt?

Should aid be conditional upon democracy?

Should the OECD adopt a 'zero tolerance' policy towards political corruption in developing countries?

Should there be agreed international standards and monitoring for the conduct of elections?

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