The World Bank and the Making of the Governance Agenda

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“This, indeed, is the last remaining argument of economic liberalism…today. Its apologists are repeating in endless variations that but for the policies advocated by its critics, liberalism would have delivered the goods; that not the competitive system and the self-regulating market but interference with that system and interventions with that market are responsible for our ills.” Karl Polanyi, 1957

Beginning in 1980, the most ubiquitous and consequential set of policies influencing the developing world has been a series of economic reforms sponsored by the World Bank, International Monetary Fund and other multilateral and bilateral donors. From their inception, these policy packages known as structural adjustment have used conditionality to tie loans to a series of macroeconomic and sector targets. Underlying these targets was the belief that growth and development would arise from the stabilization, liberalization, and privatization of economies.

Stabilization focused on macro goals and was aimed at reducing volatility and restoring balance in the economy. Constraining monetary growth and cutting government spending would reduce inflation and imbalances in the current account and government budgets. Liberalization retracted state intervention in markets in order to reverse the distortions to the price signals consumers and private producers need to make optimal choices. In addition to reducing government regulations,
liberalization often meant “freeing up” prices by removing government controls or subsidies on goods, such as food for consumers, and input commodities, such as fertilizer for farmers. User fees or charges to individuals for utilizing public goods like education and healthcare were introduced to promote “efficiency” in their allocation. Privatization focused on selling state assets to the private sector in the belief that private property ownership would lead to higher levels of efficiency, investment and growth. These three focal points made up the policy packages of structural adjustment, which began to emerge after 1980.

In 1989, the World Bank began to expand its developmental lexicon to include other issues, such as institutions, capacity building, social capital, poverty reduction, sustainable development, decentralization, and ownership. In Bank officials’ view in line with Polanyi’s incisive comments from an earlier era, the disappointing results follow from the 1980s agenda was never the fault of the policies of structural adjustment themselves, but rather a consequence of other factors that had limited the positive influence of neo-liberal policies. It was in the context of this effort to revitalize structural adjustment that the Bank began to discuss the issue of governance.

There were three elements common to most of these new concerns including governance. First, there was a continued commitment to the core set of adjustment policies, with the new elements used to rationalize the poor performance of adjustment. Second, each new policy was seen as a complement to adjustment, which would enhance or act as a catalyst to reform. Third, the microfoundations of the new agenda were frequently based on neo-classical economic theory with all its problematic implications.

**Background to “From Crisis to Sustainable Growth”**

Like so many other parts of the World Bank agenda, the driving factor behind the expanding policy domain of the Bank was the poor performance of African economies. From 1980-90, SSA countries received 31 adjustment loans, which comprised roughly 50% of all loans in this category allocated worldwide during that period (Kapur et al., 1997, p.520). Investment declined at an annual rate of 3.9% in the 1980s after growing by 4.0% 1973-1980. Exports fell by 0.6% per year. Real per capita income fell by 1.2 per cent per annum from 1980 to 1989, after growing by 0.6 % between 1973 and 1980. Per capita food production fell by 6% over the decade. Meanwhile, Africa was taking an enormous burden of additional debt through adjustment, but with nothing to show for it. Between 1980 and 1988, debt increased at an annual compound rate of 12%, and debt to exports ratio at 17.7% per annum to a completely unmanageable 360% of GDP. By 1989 debt relative to GNP was at 98.3%, up from 27.4% in 1980 (Stein and Nafziger, 1991, Tarp, 1993, UNDP, 1992).

In 1986, the Bank’s African directors asked for a new study focusing on how to deal with the debt situation. There was considerable debate in the Bank, as well as opposition from the IMF, which considered the debt to be under its control. In the end, a new Africa study was commissioned. Ram Agarwala, who was working in the Special Office for African Affairs and was the main author on the previous Africa report (World Bank, 1984) was asked to be the principle writer along with Stanley Please (who co-authored the previous report). In early 1987, Agarwala presented the outline of the report to the Executive Board. During the presentation, many questions were raised regarding African participation. All previous reports on Africa had
been undertaken without any direct input from Africans, including the Berg report published in 1981 (World Bank, 1981). Meanwhile, the Scandinavians agreed to pay $1 million to fund the cost of sending a bank delegation to African countries. Agarwala indicated he traveled to around 15 countries in 1987 and talked with perhaps 300 to 400 Africans. Almost all were highly critical of structural adjustment. Although he played an instrumental role in pushing the agenda\(^2\), he was also becoming increasingly skeptical due to the very poor performance of African economies. The first draft of “SSA: From Crisis to Sustainable Development” which became known as the “yellow cover” was finished and widely circulated in 1988. According to Agarwala, it was quite critical of adjustment and well-received by African governments. Ed Jaycox, who took over the Africa office in the reorganization of 1987\(^3\), was extremely unhappy with the content of the report and thus brought in Pierre Landell-Mills to tone down the criticisms and to provide other explanations for the poor performance of African economies in the 1980s. The memo issued by Jaycox said “Agarwala would become Mr. Outside and Pierre Landell-Mills Mr. Inside.”\(^4\)

In 1981, the Berg Report had indicated that African countries had accomplished three major objectives in the first two decades after independence: “political consolidation,” “laying down of basic infrastructure,” and “the development of human resources.” However, too little attention was paid to production. The report emphasized that in order to generate growth, the key was “(1) more suitable trade and exchange rate policies; (2) increased efficiency of resource use in the public sector and (3) improvement in agricultural policies” (World Bank, 1981, pp.4-5).

By 1989, the World Bank’s Africa study “From Crisis to Sustainable Growth” introduced a new set of policy considerations and explanations for the region’s poor performance without abandoning the core of adjustment, including the issue of governance:

> It is not sufficient for African governments merely to consolidate the progress made in their adjustment programs. They need to go beyond the issues of public finance, monetary policy, prices, and markets to address the fundamental questions relating to human capacities, institutions, governance, the environment, population growth and distribution and technology (World Bank, 1989, p.1).\(^5\)

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\(^2\) Agarwala wrote perhaps the most important background paper in support of the very neo-classical World Development Report, 1983 on price distortions and economic growth which helped justify the getting prices right policies embedded in structural adjustment. His 1984 report on Africa was central to the operationalization of adjustment. See Stein, 2008, ch.2.

\(^3\)The Special Office for African Affairs was moved out of Stern’s office in 1987 and combined, along with the East and West Africa regional office, into a single unit.

\(^4\)To quote Agarwala “They came down on me like a ton of bricks.” He felt his days as the “blue-eyed wonder were over”. He spent most of his remaining years until his retirement in 1996 working on East Asia and China (telephone interview with Ramgopal Agarwala, Sept. 8, 2005). It should be noted that Pierre Landell-Mills has a very different view. He felt he was brought in after the project was languishing. There was no mention of the controversial nature of the content of the first draft (telephone interview, Monday, August 15, 2005).

\(^5\) Goran Hyden claims that his background paper for the 1989 report was the first to mention the issue of governance (conversation with G. Hyden in Washington, D.C., November, 2005).
The Construction of Governance

The continuing lack of progress, as well as growing frustration, especially with developments in Africa, pushed the Bank to investigate and pursue new avenues, some of which were long prohibited by the Articles of Agreement. For example, the issue of politics increasingly began to emerge in the discussions. In its 1989 report on Africa, the Bank announced that “underlying the litany of Africa’s development problems is a crisis of governance” (World Bank, 1989, p.60). Agarwala, however, considered governance to be “an alibi for the failure of adjustment” and did not support its inclusion. Landell-Mills, on the other hand, was quite pleased, as he was able to reintroduce back into the agenda those elements he felt important, even after they had spent a decade on the back burner.

Landell-Mills indicated that the discussion of governance related issues like politics and corruption was circumscribed by two reports in the late 1970s, one written by Michael Carter on Mali, and a second on the Philippines. Michael Carter was the representative in Mali and was asked to examine how the country actually worked and how it constrained the Bank’s programs. After reading the report, Ernie Stern dismissed it, saying that if it was to be taken seriously, it would mean that they would need to stop lending, since “how could we do business with a government like that?” The second report on the Philippines was a scathing attack on the politics of corruption under Marcos. The regime got a copy of the report and was furious with the Bank for raising the issue of politics. The developing countries in the Executive Board raised their opposition. The report was buried with only 12 copies ever printed (each one numbered). This event also helped to put the issue of “governance” on the back burner for a decade; it was not raised again in a public document until the 1989 Africa report authored by Landell-Mills (World Bank, 1989). In general, the economists in the Bank, led by Ernie Stern and Anne Krueger, were

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6 There is a growing highly critical literature on the meaning and impact of governance. Harrison (2004) argues that the main focal point of governance is to create governance states, which embed neo-liberalism in places like Africa. Reconstructing states in support of the neo-liberal agenda is nothing new and was a focal point of the public sector agenda from 1983 (Stein, 2008). However, there is little doubt that the new elements are added with the formal declaration of the governance agenda after 1989. Our focal point is to illustrate how governance is carefully constructed and reconstructed using the same “technical” tools as other parts of the World Bank agenda, and is therefore in line with the same substantive and procedural dimensions of the agenda.

7 One senior official, commenting on 1983 progress report, said that “the major cause of the crisis is political not economic and is caused by self-seeking, corrupt politicians, and senior civil servants who really don’t care or are not allowed to care about development and their people” (quoted in Kapur et al., 1997, p.760). In 1989, politics were creeping into decision making. The Bank suspended disbursements to Benin until the government secured broader support for its adjustment program. Beginning in 1990, the Bank joined donors to press for more political accountability and transparency in Kenya, Malawi, and Tanzania. In November, 1990, at a Kenya consultative meeting chaired by the Bank, aid became contingent on political reform. Within donor circles, corruption, military spending, human rights and democracy became an acceptable part of the African agenda (Miller-Adams, 1999, p111; Kapur et al., 1997, p.761).

8 Telephone interviews with Ramgopal Agarwala, Sept. 8, 2005.
rather skeptical about the “soft” nature of the discussions on institutions and governance. Landell-Mills said Stern dismissed it because he felt the field had “no robust underpinnings.”

In addition, the Executive Board became somewhat concerned that governance might contradict Article IV, section 10 of the Articles of Agreement dealing with political issues. A legal opinion by the general counsel of the World Bank opened up the agenda by outlining aspects of the governance that were acceptable to the Bank’s development work including civil service reform, legal reform, support for greater participation, public spending accountability, and budgetary responsibility. These were justified on the grounds of improving the stability and predictability of the government and enhancing the rule of law. These were not arising from ideological and political preferences but simply justified on the technical grounds of improving efficiency.

The meaning and implications of the new governance agenda were explored in the April 1991, ABCDE (Annual Bank Conference on Development Economics) conference in a section entitled “The Role of Governance in Development.” Unlike his skeptical predecessors, the newly appointed chief economist Lawrence Summers endorsed the new agenda in his keynote address at the conference. “The question of what governments must do, what they can do and how we can help them do it better leads to the difficult problem of governance” (Summers, 1991, p.13).

9 Interview with Pierre Landell-Mills Monday, August 15, 2005. There were others in the Bank who were historically very interested in governance. Arturo Israel was involved in institutions and public management issues from the 1970s onward, and was quite critical of Krueger and Stern’s dismissal of the importance of governance and institutions. For example he takes a shot at this group by stating that “specialists have adopted an intellectually elegant form of escapism; they ignore those aspects of the development process, such as institutional issues, that cannot nicely be quantified and concentrate on those that can be analyzed through equations” (Israel, 1987, p.3). In 1990, in reaction to the new “opening”, Israel published a paper entitled “The Changing Role of the State: Institutional Dimensions” which contains a section on the “Quality of Politics” and echoes many governance-related concerns. Quality of politics means a more “effective political process” such as “a low level of corruption”, “improving the accountability of the political system”, “stability in the policy framework” and a “sense that political control does not imply public ownership” (Israel, 1990, pp. 32, 34).

10 The Bank and its officers “shall not interfere with the political affairs of any members, nor shall they be influenced in their decisions by the political character of the member or members concerned” (quoted in Woods, 2000, p.145).

11 The memo, written by VP and General Counsel Ibrahim Shihata, was entitled “Issues of ‘Governance’ in Borrowing Members: The Extent and their Relevance Under the Bank’s Articles of Agreement”, December 21, 1990.

12 There is little doubt that the Bank was quite concerned with maintaining its technical veneer. Note that this is perfectly in line with the discussions concerning the procedural dimensions of hegemony. To quote, “It is important to note the underlying motivation behind the restrictions in the Articles of Agreement. These restrictions help to protect the Bank’s reputation for technical excellence and objectivity and its status as an international institution that is guided solely by its concerns for economic development and not by any political agenda…” (World Bank, 1992, p.51)

13 Landell-Mills makes this quite explicit: “I know from conversations with him [Larry Summers] that he was much more open to and interested in the PSM/ID/Governance agenda that we were promoting compared to Anne Krueger”. However, Stern always remained a skeptic. “I don't think that Larry spent much time persuading Ernie as it was not high on his agenda either; Ernie simply could not deny the relevance of our arguments, but he never came
While other papers explored development and cultural dimensions of governance in the ABCDE conference, Landell-Mills, in collaboration with Ismail Serageldin (1991) concentrated on identifying the core elements of governance and how they could be fostered by external agencies like the World Bank. These issues were salient to building the governance agenda in the Bank. Their paper aimed to identify what constituted “good governance” and focused on freedom, transparency, participation, accountability and the rule of law. The agenda was not theoretically constructed, but the authors posited to the potential theoretical tools which could generate a “renewed attempt…to link the roles played by political science, institutional economics, and neoclassical economics to create a coherent theory of development management” (p.303).

At first, however, the authors tried to legitimize the agenda through the careful citation of appropriate articles from the 1948 UN Declaration of Human Rights. In line with the chief consul’s ruling, arguments for the agenda focused on issues of improving efficiency. The renewed debate around governance was being driven, according to the authors, by the success of market economies over central planning, the abuse of authoritarian regimes, the inefficiencies of state enterprises, the “widespread corruption” that siphoned away domestic and foreign aid resources, and the resurgence of ethnic conflicts (p.303). Development, once viewed as inevitable if a country carefully followed the dictates of adjustment, was now viewed as an uncertain process “highly correlated with the quality of governance” (p.303).

The authors also argued that political accountability is necessary to ensure that the leaders of states do not use their power for their own benefit. A government thus needed to “demonstrate that it enjoys some minimal level of popular support” and “some transparent process of popular choice” (pp. 311-12). According to the argument, there were, however, some dangers on simply relying on the wishes of people, since “democracies have an unfortunate tendency to generate into a crude populism that is…inimical to good governance and sustainable development.” This was to be avoided by ensuring that public agencies are made “competent,” which was a euphemism for following the dictates of the World Bank. “Neither empowerment nor accountability will assure better governance unless public agencies are more competent. This brings to the fore technical management and skill acquisition.” However, in a foreshadowing of the expanded agenda of the 1990s, they argued that
“a competent and accountable government dedicated to liberal economic policies will not ensure development unless public agencies simultaneously invest in infrastructure and human resource development. When this is done, most elements are present to create an enabling environment where private operators can flourish. This then is the challenge of good governance.”

According to the authors, political accountability could also be ensured by insulating bureaucracies from political influence and by creating a system which could protect against bureaucratic abuses and inefficiencies. Transparency would be generated by making information related to government performance readily available. Bureaucracies would also be constrained by the rule of law and the creation of a sound judicial system. Moreover, the rule of law was absolutely central to a privately led development system, since “Ignorance of the laws, unpredictable legal administration, delays in handling court cases, and a failure to enforce court decisions all tend to increase business costs, discourage private investment and obstruct development” (p.313).

While raising the issue of the sovereignty of states, the authors indicated that donors should have an equal right (as if there was no power and resource asymmetries already!) to impose governance conditionality on their foreign aid. In their own words:

“While governments of a sovereign state have every right to resist the initiatives of donors, bilateral agencies representing sovereign states have an equal right to condition their assistance on measurable progress to improve the quality of governance. There is a growing appreciation that improved governance is central to achieving development goals and that external aid will never yield lasting benefits unless concrete steps are taken to tackle the systematic causes of poor governance…Governments unwilling to address these problems may be viewed as lacking commitment to good governance and hence may be justifiably penalized by external agencies whose financial assistance is being sought” (Landell-Mills and Serageldin, 1991, p.310, 313).

Following the 1991 ABCDE papers, and in the wake of the chief consul’s ruling, a 1991 task force on governance investigated its relationship to economic development. The conclusion was that good governance was “synonymous with sound development management” (World Bank, 1992).

**Governance and Development: Transparency, Accountability and the Rule of Law to the Rescue**

“Governance and Development” (World Bank, 1992) tries to trace the parameters of governance in four main areas: public sector management, accountability, the legal framework for development, and information and transparency. 17 Instead of legitimizing the effort by invoking UN human rights principles, the agenda in line with other new policies is justified through neo-

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17 The meaning of this has evolved over time. In a recent report on governance from the Bank, six dimensions of governance were cited: voice and external accountability, political stability and lack of violence, crime and terrorism, government effectiveness, lack of regulatory burden, and rule of law and corruption (Kaufmann, 2003, p.5).
classical arguments that relate improved governance to market efficiency. Moreover, Bank policy measures of 1980-92 are reinterpreted in governance terms and used as a foundation to construct the new agenda. Thus, the poor performance in Africa and elsewhere was not a reflection of problems with World Bank policies, which were correct in content, but rather inadequate in scope due to the preponderance of recipient government failures. Given the importance of this document in setting the governance agenda, it is worth reviewing in some detail and illustrating these arguments.

Beginning in the early 1980s, the focal point of the World Bank’s state-oriented agenda was on improving public sector management and non-financial sector reforms, such as civil service reform and parastatal reform. These goals were now absorbed into the governance and development agenda, since “when the capacity of the public sector to manage the economy and deliver public sectors is weak, the prospects for development are poor” (p12).

A brief example will better illustrate these Bank initiatives and how they attempted to deal with the subject of governance. The issue of accountability, for instance, is defined to mean “holding public officials responsible for their actions.” Although having its own implications for other social sciences, in economics theory, accountability has a specific meaning: in macro-economic terms, it is the strengthening of financial management capabilities. This was at the heart of public sector management projects throughout the 1980s (p.15). Economic accountability was addressed by previous public expenditure reviews, which have analyzed “the efficiency of resource use in public investment programs, in the parastatal sector, in the social sectors, and more recently, in employment and wage issues in the civil services” (p.19). However, such efforts are not sufficient. There is also micro-level accountability, which can reinforce more macro-level accountability by adding elements of competition and participation. Deregulation, the contracting out of services to multiple private providers, and public-private and public-public competition, can create contestability and exit options, which encourage greater accountability. These conceptualizations represented the new justification for the post-1980 encouragement of the privatization of the state and the improvement of governance through greater accountability.

However, a second and mostly new element was also invoked in “Governance and Development.” Participation was understood to generate “voice” and make public agencies more responsive, thereby increasing their accountability. As the document admitted, “the Bank’s experience with participation is limited and growing” (p.27). NGOs were also seen as capable of creating an avenue by which “voice” could be allowed expression, particularly for the poor. The paper argued that governments should provide an enabling environment, permitting freedom of association, while external aid can provide financial support.

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18 See for example discussions on social capital in Stein, 2008, ch. 3.
19 One could put it more strongly. The idea of participation was rather alien to the World Bank, which felt that the issues were technical and best left to experts in the World Bank. The 1989 Report entitled “Sub-Saharan Africa: From Crisis to Sustainable development” was the first Africa report to involve any input. The participation issue became increasingly important as part of the arguments about stakeholder input and increased ownership of Bank policies. In the context of PRSPs, genuine participation is quite remains quite elusive (See Stein, 2008).
Neo-classical visions of competition are also invoked to explain the role of information and transparency. “A competitive market economy requires that economic actors have access to relevant, timely, and reliable information...In all countries governments are the primary source of information...Economic efficiency requires that information about government policies and action be available, that major processes of economic policymaking...be reasonably transparent and there be some opportunity for the public to affect policymaking...” (p.40). Once again previous Bank policies were actually contributing all the time to transparency since “the Bank has actively assisted governments in improving the transparency of their budgets, mainly through its public expenditure work” (p.44).

Similarly, the legal framework for development that focused on generating the “rule of law” also builds on neo-classical economics. The emphasis on the role of law in development was not new and was, in fact, a part of the Bank’s policy agenda in the 1960s and 70s. However, the framework was based on scholars that emphasized law as a vehicle for social change. It was largely deemed to be a failure for a variety of reasons, including the exclusion of informal legal mechanisms and attempts simply to transplant American legal approaches. The new approach introduced in the 1992 report, however, had a rather different vision supporting a neo-classical conceived market system. More specifically, this latter version relied on one of the central elements of neo-classical economics, which argues for a need to impartially guarantee property rights through a properly operating judicial system. This vision of a capitalist economy arises from the neo-classical economic view that markets are exchanges between self-seeking individuals which, ipso facto, involve the exchange of property rights. The role of guarantors of property rights is thus a central element of the rule of law vision. As we will see, a second explicitly neo-liberal element focused on constraining the state with the rule of law (Ginsburg, 2000).

The Bank’s formulation of the factors necessary for “rule of law” included five main elements. First, laws must be known in advance. For example, privatization was said to work best with clearly defined guarantees of private property rights (World Bank, 1992, p.33). Secondly, the laws must be strictly enforced. For instance, banks must be able to enforce foreclosures via court actions on collateral pledges of private debtors if financial systems were to operate properly within the private sector (p.35). Thirdly, a fundamental aspect of the rule of law is that it applies to both state and private citizens, which means there must be a proper and consistent application of the law by government officials. Concretely, this meant that new legislation on the rules that govern privatization and the creation of competition would greatly help the creation of market systems, for example in places like Poland, a transitional economy at the time (p.36). Fourth, the rule of law demands an independent and credible judicial system to ensure the private contracts are respected. Enforceability of contracts is essential “for conducting efficient private economic activities” and as “a shield against arbitrarily exercised executive power.” (p.37) For example, as a consequence of Bank prodding, new commercial courts were set up in Bangladesh for the purpose of reducing transaction costs by – among other things – allowing financial institutions to bring actions against borrowers” (p.37). Fifth and finally, the rule of law is argued to be “the antithesis to government arbitrariness,” meaning that laws should be only infrequently amended or repealed and, when necessary, only in accordance with clear procedures that are publicly known. Thus, as we can see, at the core of the World Bank’s effort at reform in the
image of the rule of law is the need for countries to draft clear rules and procedures for amending or repealing laws (p.38).

It should be noted, however, that the World Bank`s approach to building a legal system is rather at variance with the experience of development in places such as Asia. For example, in China, there are no formal, central, legally recognized private property rights. Moreover, unlike the neo-classical view embodied in World Bank agendas, laws in many successful cases of Asian development were frequently aimed at enabling states, not constraining them. The Asian cases also excluded some private sector actors rather than indiscriminately encouraging them (Ginsburg, 2000). Moreover, the importance of a legal system in development is not due to its formal implementation, which is implied in the exercise of the rule of law, but rather in influencing new forms of socially prescribed correlative behavior.

The new agenda on governance was given further impetus with the 1992 publication of the Bank`s task force on portfolio management. The so-called Wapenhans Report responded to the rising incidence of implementation problems with World Bank loans. It pointed to an insufficient focus on political and institutional factors. It questioned whether support would naturally arise as adjustment progressed and urged the Bank to find ways to increase borrower ownership (Miller-Adams, 1999, p.108; Santiso, 2002, pp.11-12).

**Governance in Practice**

With growing pressure to deal with the governance agenda, the Bank searched for an operational meaning. As a lead-up to the governance issue, the 1990 Annual Report contained a new category of loans for public sector management. Data from the 1980s was reclassified to incorporate this new category. Again, the impact of these changes in Africa, which was most heavily affected by Bank actions, is particularly telling. On average, between 1981 and 1985, African countries received $ 3.3 million dollars to improve public sector management, which was less than 1% of the total. By 1988, this amount had risen to $165 million, or 5.6% of total loans from the Bank. The total peaked in 1996 with $592.2 million, or 21.8% of the total lent to Africa in this category, before falling to 5.3% in 1998 and 5.2% in fiscal year 2001. In most years, African countries received proportionately more lending for public sector management than the overall averages for this category of lending. In the peak year, nearly one-third of all of this kind of lending was going to sub-Saharan African countries, while, in comparison, the average allocation for all countries was only 8.7%. From 1990-94, only 4.2% of overall lending was for public sector management rising slightly to 6.2% during the 1995-99 period (World Bank 1990a, 1999a., 1999b).

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20 Even NIE writers like Williamson (1994) recognize that in countries like China, mechanisms of state guarantees to property rights can take many forms beyond simple legal guarantees. In his view, federalism has generated credible commitment by limiting the confiscatory capacity of the central state and relying on local government channels to express credible commitment to private investors.

21 Despite its flawed conceptualization, the Bank pursued the “rule of law” agenda as part of their battle to improve governance and combat corruption. By 2001, there were 17 freestanding projects in legal reform with 13 pending. Legal assistance from the Bank covered 45 areas in 80 countries (Drake et al., 2003, pp.9-11).
In a similar way, much of the “new” governance agenda introduced in the early 1990s had been generated through the creative reclassification of existing strategies and projects under the rubric of governance. For example, a 1994 evaluation of governance attempted to assess the proportion of selected operations that contained some element of governance between 1991 and 93. The analysis was broken down the following ways: 68% for capacity building, 68% for decentralization, 49% for economic management, 33% for state-owned enterprise reform, 30% for participation, and 6% for legal framework (World Bank, 1994, p. xv).

Beginning in 2002, the governance agenda was given full representation with the introduction of new “thematic” system with 11 different categories. Two new categories, “public sector governance” and “rule of law,” had explicit governance implications; other categories included “management” in their title and had more implicit governance implications. Other themes included development (both urban and rural), as well as social considerations such as social protection and risk management. With a revisionist sweep of the hand, as if they had been focusing on governance, development, and poverty reduction all along – as opposed to the actual focus on neo-liberalism – data was reconfigured back to 1993. Public sector governance was the largest category again in 2002 at 23% of total loans for Africa, only slightly below the total allocation to all countries of about 21.8% (World Bank, 2002).

However, even with the new commitment to governance, adjustment continued to be an overwhelming part of the World Bank agenda through the late 1990s. Prior to the reclassifications, the 1999 Annual Report provided a fairly clear picture. In 1997, adjustment lending accounted for 40% of total Bank lending to Africa. In 1998 it fell to 28.5% before rising back to 37.1% in 1999. In all regions, adjustment spiked up in 1999 after the Asian crisis (World Bank, 1999a, pp.33, 97). Despite the Bank’s rhetoric, if financial allocation was any indication, adjustment was still the dominant part of the agenda in the late 1990s. While less clear in the annual reports since 1999, the World Bank itself estimated that one-third of its total loans in the fiscal year ending June 30, 2003 was in structural adjustment. This percentage also included the Poverty Reduction Support Credits (PRSCs), introduced in 2001. In the Fall of 2003, the Bank’s Committee on Development announced the plan to remove all reference to the highly pejorative term by renaming the structural adjustment loans (SALs) development policy loans (DPLs) (World Bank, 2004). This was approved in August, 2004.

**Governance and the IMF**

With the usual flair of cooperation, the IMF also joined in the new agenda. In a 1997 IMF document, the Fund indicated that it would weigh in on the economic side of governance,

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22 In a precursor of things to come, the Bank justified the new lending not in terms of implementing a wish list of liberalization measures of high priority to the US and other G8 members, but as a way to reduce poverty. To quote from the 1999 Annual Report “Nearly 70% of adjustment lending in FY99 was poverty-focused...The fundamental rationale for Bank involvement in the crisis is to reduce their short- and long-term effects on poverty. This involves support for economic and financial reform...aiming to ensure that economic recovery would favor the poor...” (World Bank, 1999a, p.11). Shortly afterward, they simply renamed the device as poverty reduction strategy credits.

23 The governance guidelines were approved by the Executive Board in July, 1997 (“The Role of the Fund in Governance Issues: Guidance Note”).
including the transparency of government accounts, public resource management effectiveness, and regulatory stability of the private sector. These would be handled with monitoring, advice on policies, and technical aid. Corruption would be considered in cases where there was an indication of clear macroeconomic implications. In practice, governance-related conditionality has been in five general areas: fiscal and public sector reform, legal and judicial reforms, transparency and accountability in public management, banking and financial sector reforms, and informational reforms.

In a manner similar to the Bank’s approach, many of the areas labeled as governance were simply reclassifying long existing programs under the rubric of governance. For example, in Box 2 of its 2001 review of governance, the Fund designateed as governance bank privatizations, the reform of state enterprises, the elimination of customs exemptions, the improvement of the macroeconomic data base, the removal of extra-budgetary spending, etc. Much of this is simply old wine in a new bottle. Three changes, however, were evident. First was a growth in the codification of acceptable practices after 1997, mostly developed in cooperation with the World Bank. Second is the increase in the frequency that governance issues were raised in Executive Board country consultation discussions from 18% in 1994/95 to 62% in 1998/99. Most issues focused on transparency and accountability. In about 4% of the reviews, corruption was addressed. Third was the increase in the number of governance-related conditions from an average of 3.4 in 1994/1995 to 6.6 in 1998/99 (IMF, 2001, pp. 11).

African countries seem to have a disproportionately large number of governance related conditionality related to Fund loans. One author’s survey of letters of intent and policy framework papers of 13 African countries between 1997 and 1999 indicated an average of 9 governance-related conditions out of a total of 23, or roughly 39% (Santiso, 2002, p.22).

As argued above, much of the new governance agenda is still replete with the same problematic neo-classical microfoundations. The view of governance in both the Bank and the Fund draws on the same public choice theory used by neo-classical economists. The Fund is quite explicit in this when it states that governance is aiming “to eliminate the opportunity for rent-seeking,

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24 The Fund admits this in the report: “Even before the 1997 report, the Fund’s involvement in governance was already considerable. This involvement was often in the form of policy advice and technical assistance that promoted sound public resource management and economic efficiency albeit without an explicit recognition that such activities were related to good governance” (IMF, 2001, pp. 11). The survey of activities covers the period 1994-1999. The 94-97 period predates the official commitment to governance, which took place in 1997.

25 The list is fairly long, and includes the “Code of Good Practices on Fiscal Transparency” (1998); the “Code of Good Practices on Transparency in Monetary and Financial Policies” (1999); and the “General Data Dissemination System” (1997). Only the “Special Data Dissemination Standard” clearly predated the Guidance Note. However, it was updated in 2000. Much of this is imposing standards that developed countries never faced, and is only one of many current examples. For an excellent critical view of the implications of IFI standards and policies to the development process, see Chang, 2002b.

26 The public choice theory uses the neo-classical principles of individual decision-making to explain the behavior of governments, voters and politicians. Corruption and rent-seeking arise because *homo economicus* (rationally calculating individuals attempting to maximize their own utility) are free to pursue their self-interests without the constraint of markets.
corruption and fraudulent activity in the management of public resources” (IMF, 2001, p.5). The goal is to support standard stabilization policies: “The Fund’s involvement with governance derives from its mandate to promote macroeconomic stability and sustained non-inflationary growth…” (IMF, 2001, p.8). Governance does not displace any of the standard adjustment conditions, but rather adds a new layer of compliance on already overburdened African states. The number of conditions has simply increased over time from an average of 6 in the 1970s to 10 in the 1980s to 26 in the 1990s (Santiso, 2002, p.21).

Civil service reform and its associated strategy of state retrenchment, introduced in the 1980s, was also driven by a public choice vision of the minimalist state with very problematic results. According to the theory, if state retraction would not work, then mechanisms were needed to contain state activities and thereby minimize their distortion of prices, which was seen to encourage rent-seeking and inefficiency. The objective was now state neutrality in accordance with the original adjustment view that states were the major source of the poor performance of African countries. Governance and a series of related projects are aimed at ensuring that the state is kept in check to focus on its main neo-classically defined role as the guarantors of private property and the money supply.

The Political Economy of Governance

Given the hegemonic position of the US inside the Bank and the somewhat subjective nature of the governance criteria, they also became a convenient tool to reward allies and punish enemies. Stories of World Bank and IMF loans to countries US allies like Pakistan and Russia with problematic governance conditions abound as does the denial of lending to enemies like Iran that arguably are no worse than these two countries. (Iran received no new World Bank loans between 2003 and 2008) (Iran Times International, July 4, 2008). There have been some attempts to statistically test the political nature of IMF and World Bank lending and the selective use of governance.

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27 In a 1993 speech, Edward Jaycox, the former vice-president for Africa, admitted that the state retraction strategy simply "hadn't worked". Money had not been saved, and laid off labour had not stimulated economic growth. Instead, these workers increased social dislocations and unemployment. (Jaycox 1993, p.26).

28 The perfect fusion of the property right and poverty agenda has come together with the Bank’s support of De Soto’s Institute for Liberty and Democracy project to provide titling to the poor in Peru. De Soto (2000) argues that poor people have large assets, such as housing, which they cannot tap because they are not legally recognized. “Dead Capital” (DeSoto’s term for untapped assets) can be turned into “live capital” through titling. This could be accomplished in different ways: the poor can liquidate these assets and supply themselves with cash, or else they can use their assets to borrow for collateral, which would allow them to invest in businesses and therefore pull themselves out of poverty. By most accounts, the project has been a disappointment and has not increased the accessibility of credit to the poor (Mitchell, 2005). This is perhaps unsurprising: even a cursory understanding of the behavior of Bankers indicates that they have little interest in foreclosing on properties in general, and even less interest in doing so in poor neighborhoods. Lending to poor people is far too risky even if they have an option to seize their houses. Despite the weakness of the approach, the World Bank was still barreling ahead with private property titling in places like Babati in rural Northern Tanzania (visited by this author in September, 2009).

29 One must now add the additional responsibility of reallocating funds from debt servicing (as a result of HIPC) to education and health spending.
A number of studies have shown that the probability of receiving IMF loans is affected by the political interests of the US. Barro and Lee (2002) show that voting in the UN with the US and intensity of trade with the US significantly increases the size of IMF loans a country receives. Thacker (1999) also uses UN voting patterns to examine political allegiance, and finds that countries prior to 1990 were rewarded with IMF loans if they moved closer to the US voting positions. After 1990, those with most closely aligned patterns were rewarded the most. Faini and Grilli (2004) examine the pattern of World Bank and IMF lending between 1984 and 2001, and in their statistical analysis, find it highly correlated with US financial and commercial interests. Dreher and Jensen (2004) illustrate the relationship between conditionality and UN voting and statistically illustrate a close relationship between the number of conditions attached to loans and the alignment between country and UN voting patterns (fewer conditions with closer alignment) using fixed effect poisson regression models.

Svensson (2000) and Alesina and Weder (2002) look at governance issues and find no relationship between corruption and aid allocation. Neumayer (2003) looks at a wide variety of governance variables, including democracy, human rights, corruption, military expenditure, rule of law and regulatory burden. He finds that none of these variables show a consistent pattern of significance across the group of bilateral and multilateral donors. Anderson et al (2005) focus on the IDA or World Bank lending arm for the poor using many of the same variables as Neumayer and voting patterns in the UN General Assembly. They find that the level of IDA commitments (lagged by one year) is positive and highly correlated with the voting behavior of recipient countries (as measured by the frequency in which their votes correspond to the US). In contrast a variety of governance variables such as corruption, rule of law and regulatory burden were insignificant and in the case political freedom significant but the wrong direction (more aid went to countries with less political freedom). The only issue that was vaguely related to governance and had the predicted causal relationship was human rights.

Conclusions

The paper has outlined the origins and nature of the evolution of the concept of governance and the role it has played in developing the agenda of the World Bank. Governance is only one of a number of issues raised by the Bank to explain the failures of adjustment in Africa and elsewhere. The new agenda item which was theoretically reconstructed shared many of the same features as other policies that were not directly part of the original neo-liberal agenda. First, it was used to rationalize the poor performance of adjustment. Second it was seen as a complement to adjustment, with the potential to enhance the reform process. Third, the microfoundations of the new agenda were frequently based on neo-classical economic theory with all its problematic implications.

A final question is the reasons for continuing to adhere to the core of adjustment in the face of failure. This can be partly explained by the dominance of economists inside the Bank which brings with them the methodology of neo-classical economics. It has become widely recognized that neo-classical economics, the type used by Bank’s economists, almost never practices Popperian falsification and has a core set of propositions that are unaltered in the face of

30 By Popperian falsification (after the LSE philosopher Karl Popper), we mean the proposition that any theory that is not falsifiable is unscientific.
counterevidence. Some scholars have explained this in terms of Lakatos' work on the methodology of scientific research. From his perspective, this consists of: a hard core of metaphysical, irrefutable propositions; positive heuristics, which generate a guide to what tools and questions should be selected and which should be avoided; and finally, a protective belt of theories, empirical conventions, and auxiliary hypotheses.

Governance is part of the protective belt around a core set of propositions about how an economy should operate in view of the basic assumptions about human behavior (e.g., *homo-economicus*). It attempts to bolster these propositions by dealing with the conceptual constraints related to the operational capacity of the state as an agent to deliver key elements of the neo-liberal agenda (Weisner, 1998, p. 114). However, by sharing many of the same microfoundations as neoclassical economics, governance suffers from many of same errors and flaws. Because governance contains many of the same core propositions as neoclassical economics, it can be used conceptually to qualify and contextualize neoliberal policies without rejecting their basic validity. In essence we have a logical statement of conditionality or “if only” (i.e., the neoclassical vision would work if only there were certain preconditions) and the need to consider and create institutional design palliatives or a set of “only ifs.”

The end of Cold War meant the disappearance of exit options available to poor nations to ideologically re-define themselves in an effort to align with one superpower or the other. The coordination of bilateral and multilateral aid around structural adjustment ensured that almost any poor country interested in accessing international finance was required to accept conditionality. With the HIPC initiative and MDRI, the incentives for agreeing to new forms of conditionality became even stronger after the mid-1990s. The exception has been a handful of countries in Africa and elsewhere that have been able to attract large Chinese loans without the baggage of neo-liberal and governance conditionality. While this has created some new competition which might pressure the IFIs to ease off on their policies, the Chinese loans come with other problems including associated demands for resource accessibility at terms propitious for Chinese firms. In addition, the new competition needs to be balanced against the impact of the current economic crisis which has re-empowered and re-emboldened the World Bank and IMF as they have been handed unprecedented resources while dramatically increasing their lending (Stein, 2009a,b).

For far too many years, the development agenda has been set by an international organization that has both a flawed vision and a flawed set of theoretical tools. The governance agenda is one example of many. Governance in the abstract needs to be replaced by concrete studies of state formation as institutional constructs in the service of development. That, however, is the subject of another paper.
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