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Foreword

The ERD Working Paper Series is a forum for ongoing and recently completed research and policy studies undertaken in the Asian Development Bank or on its behalf. The Series is a quick-disseminating, informal publication meant to stimulate discussion and elicit feedback. Papers published under this Series could subsequently be revised for publication as articles in professional journals or chapters in books.

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Abstract

The motivation of this research paper is to shed light upon the political economy factors that determine the quality of governance for poverty alleviation policies. This issue is a crucial one because although remarkable strides have been made in some parts of the world, more than 2.8 billion people live on less than $2 a day. The situation begs the important question: Why have poverty alleviation efforts by developing countries not achieved the momentum necessary to improve the living standards of poor? An important reason why growth with significant redistribution has not occurred in many developing countries is that poverty reduction strategies have often been politically naive. The literature spawned by major development institutions until the 1980s did not go beyond policy prescriptions to ask under what political conditions redistributive policies could be successfully adopted. This is a relevant issue because policies reflect concrete political and social interests and it is not hard to imagine a situation where poverty-alleviating reform is hindered by vested interests. The aim of this research paper is to shed light upon the factors determining quality of governance, because poor governance is but a manifestation of these deep-rooted institutional and political biases against the collective interests of the poor.

I. INTRODUCTION

The motivation of this research paper is to shed light upon the *political economy factors that determine the quality of governance for poverty alleviation policies*. Why is this important? Often, technical studies that precede allocation of funds for development projects do not incorporate "unofficial" leakages from the planned resource allocation, or prior to that, they do not explicitly model the agenda setting process, which may to some extent be endogenous (Behrman 2002**,** 43). In other words, the quality of *governance*[1] is assumed to be an exogenous factor in the *agenda formulation and project implementation* processes. While it may be justifiably beyond the scope of the technical reports to provide information on the political economy of governance quality, it must be recognized that such factors are capable of seriously distorting the "real" outcomes of any poverty alleviation policy. Some authors suggest that economists and planners are not trained to analyze such apparently unpredictable and perhaps even irrational contingencies as civil conflict, electoral populism, or collectively orchestrated strategies of non-cooperation in pursuit of purely sectoral advantage. Yet "political" processes of this kind often disturb the orderly progress of even the best designed of pro-poor policies, and in at least some cases it is difficult to avoid the conclusion that the technocratic approach may itself have contributed to stimulating a counterproductive backlash by disregarding the political ramifications of a narrowly correct policy design (see Whitehead and Gray-Molina 1999, 3). Therefore governance as an overarching concern needs to be better understood if we wish to determine robust criteria for the optimal policy mix.

In this light, the focal point of this paper will be good governance, described by the Asian Development Bank's (ADB) Poverty Reduction Strategy (PRS) as a "crosscutting priority" (ADB 1999, 23). While the ADB and other multilateral institutions undertake a large number of direct, governance-related initiatives or institutional reform policies (for example, public administration reform and decentralization programs), the concept of good governance is in fact much wider in scope. This is recognized and emphasized by the PRS, which argues that the quality of governance is critical to poverty reduction because good governance facilitates participatory, pro-poor policies as well as sound macroeconomic management. It ensures the transparent use of public funds, encourages growth of the private sector, promotes effective delivery of public services, and helps

[1] The definition of this term is discussed in detail in Section III.

to establish the rule of law. Therefore good governance, as an instrument and constituent of the welfare of the poor, is a highly relevant research topic.

The concept of good governance can inform our understanding of the policy choices that governments make when it is interpreted as the outcome of:

(i) A specific *balance of political power* in the state and in society, a balance that underpins the entire framework of the existing institutional environment.

(ii) The *structural characteristics of the bureaucracy*, and specifically its insulation from the "pulls and pushes of short-run, pork-barrel politics" (Quibria 2002, 65).

This statement will be explained further and justified in the course of the analysis that this paper will involve. For now it is sufficient to highlight the broad scope of the good governance concept and the use of it as a conceptual peg to understand the political economy factors that determine the effectiveness of poverty alleviation policies.

The structure of this paper is as follows. Section II is a detailed discussion of the political economy of good governance; specifically in terms of two the two factors mentioned above: the balance of political power and the nature of the bureaucratic system. Section III is a follow-up to this discussion. It considers, in the context of poverty alleviation policies, the policy implications of each of the two factors underlying good governance. Finally, Section IV summarizes the main arguments of this paper and ties them together with the policy implications.

To anticipate the conclusion, we will find that good governance in terms of creating and implementing pro-poor agendas relies on three factors:

(i) presence of political competition that leads to greater accountability;

(ii) sufficiently high political cohesiveness of the poor leading to the representation of their interests in government; and

(iii) creation and maintenance of a state capacity that is insulated from elite capture and yet "tied in" to structural networks of resource allocation, in this case channels for transferring resources to the poor (e.g., institutions that facilitate a program of land reform).

The policy implications of these attributes of the institutional and political environments are in the realms of electoral reform, administrative reform, and political dialogue to forge interclass alliances.

Once governance is improved, i.e., policy unpredictability, unstable property rights regimes, decentralized corruption, and unaccountable leadership are corrected, utilizing purely technical criteria is more likely in allocating scarce donor resources to development projects. Until then, however, there is an urgent need to understand the political economy of governance quality.

II. THE POLITICAL ECONOMY OF GOOD GOVERNANCE

In this section we examine various mechanisms through which the political environment significantly affects governance quality in public policy. Specifically, we will adopt the framework that Quibria (2002) sets out and consider the role of two important institutions that could determine the quality of governance in developing countries:

(i) the balance of political power in the state and in society and its implications for agenda setting or policy formulation, and

(ii) the structure and function of the bureaucracy and its implications for policy implementation.

A. Political Power: Setting the Agenda

In the context of rapid economic development in the "miracle" economies, Stiglitz has argued that "the real miracle of East Asia may be *political* rather than economic: why did governments undertake these policies? Why did politicians… not subvert them for their own self-interest?" (Stiglitz 1996, 174, emphasis added). Quibria points out that history teaches us clear lessons about the nature of political regimes that are most conducive to rapid economic development: "The one characteristic common to the political regimes of the miracle economies was their authoritarian nature.… When this experience is juxtaposed against that of India, it appears that whereas democracies have been slow in grappling with poverty the authoritarian regimes in the miracle economies achieved spectacular success" (Quibria 2002, 62-3). Similarly, Deolalikar et al. (2002, 13) posit that "[I]t is simplistic to think that democracy or civil liberties alone can guarantee poverty reduction. After all, only until recently was it believed that a strong and autocratic leadership was an essential factor common to all the Asian Developing Countries that had experienced rapid economic growth and poverty reduction, such as Korea and Taipei,China in the 1960s and 1970s; Thailand in the 1970s and 1980s; and Indonesia in the 1980s and the early 1990s. Some scholars have credited the success of Korea and Taipei,China in implementing far-reaching land reform to their "enlightened dictatorships."

Of course, mere correlation is not the same as causation, and so we must be careful to understand the *mechanisms* that might link regime type with effectiveness of poverty alleviation policy. When we do so, we find explanations that tell part of the story but perhaps not all of it. Varshney (1999) explains that authoritarian regimes are more consistent with the indirect method of poverty alleviation, which is basically growth-mediated, whereas democratic regimes are more amenable to direct measures such as asset and income transfers. This, according to Varshney, is because "direct methods… have a clear logic and have effects that can be quite tangible.… [but] In contrast, the utility and value of indirect methods of poverty-removal… [are] not easy to understand in political circles, and even if understood, rather difficult to push in political campaigns" (Varshney 1999, 5-6). The reason for this correlation across two regime types and two poverty alleviation strategies is that democracies are characterized by *mass* politics whereas authoritarian regimes are characterized by *elite* politics.[2]. So in the former, the poor can pool their weight to push the government's economic policy toward their interests through political mobilization and/or voting. Political mobilization and regular and periodic elections, which are common to democratic systems, do not exist in authoritarian polities.

But it should be recognized that while an inadequate rate of economic growth is indeed part of the reason for underdevelopment, it is not the entire story because it is by no means clear that democratic developing countries have reached their "redistribution frontier." In other words, it is highly likely that the failure of economic growth is only compounded by a redistribution failure too. The evidence can be directly observed in the *lack* of infrastructure, social security nets, and assets like land owned by the poor in developing democracies like India (see World Bank 1997). The implication for our analysis is that there is something in the nature of the political landscape that prevents effective redistribution even when democratic institutions per se are functioning as they should. The converse is also true: dictatorial regimes such as those in Nigeria or the Philippines can also fail to deliver *both* rapid economic growth as well as redistribution of resources toward the poor. How then, can we understand the developmental impact of the balance of political power?

If we accept that "'late industrialization" (see Gerschenkron 1962) is essentially about a Marxian "primitive accumulation" of scarce resources for the purpose of investment, then we must focus on the politics of accumulation and distribution by the state in developing countries to understand why some of them prosper while others falter. This politics is most easily understood when we *observe the operation of the state directly*, in terms of policy making, and ask the following question: What is the impact of the balance of political power on the agenda setting or policy formulation process?[3]

The starting point is to clarify what we mean by the term "policy." The traditional definition of policy is in terms of sequential phases of problem identification, data collection, and analysis through which possible courses of action to be adopted by government are defined; followed by rational decision making to choose between alternatives (possibly employing techniques such as cost-benefit analysis); then by implementation; and finally (less certainly) by monitoring and evaluation. However, this definition proves to be inadequate because "policy should rather be understood as a multi-layered political process involving contestation over the agenda (or 'problem formulation'), over procedure, and resource mobilization and access, and as engaging a variety of actors" (Harriss 2001, 5) The moment we speak of contestation over the policy agenda, we must recognize that the concept of *power* is relevant to our definition of policy because both power and policy are constructs based on agency, or the ability to do, and thus both are closely and causally related.

[2] Elite politics, according to Varshney (1999), is confined mostly to the Westernized upper and middle classes, and is consistent with the push for trade liberalization, currency devaluation, and market-oriented reform. This cannot be said of mass politics involving large numbers of average or poor citizens.

[3] Of course the balance of political power also has a strong impact on the *implementation* of any given policy, but this issue is dealt with in greater detail under the section on bureaucratic functioning.

This draws our attention to the nature of power relationships within the state and between the state and elites in society. India is an interesting example that illustrates the dynamics that show how certain power relationships can be more salubrious to the welfare of the poor than others. The Indian states of Andhra Pradesh and Karnataka are similar in many ways (both are dynamic middle-income states in southern India), but "research has shown that while Andhra Pradesh has a good record in poverty reduction, Karnataka has not. Amongst the reasons for this contrast are that the local political dominance of particular landed castes persists in Karnataka, while party competition in the state is fragmented and involves different factions headed by members of those same castes relying on clientelistic recruitment. The structure of local power in Karnataka means that agricultural growth is less pro-poor than it might otherwise be. The nature of party competition makes the political system less responsive to poorer people. In Andhra Pradesh, on the other hand, local-level political dominance has been reduced to a greater extent, and agricultural growth has been more pro-poor (having created more productive employment with rising real wages) while stable two-party competition has created conditions in which political leaders are more responsive to poor people" (Moore and Putzel 1999, 11).

So what does this analysis tell us about the impact of the balance of power on the probability of adoption of a pro-poor agenda by the state?

(i) Essentially, the creation of a strong pro-poor agenda is a function of the extent to which the preferences of the poor are represented within the state, and often (but not always), this is facilitated by vigorous interparty competition. It is *not* facilitated by a government composed of a large faction-ridden party that is prone to the political accommodation of elite classes (and in the case of India elite castes) through clientelistic networks. Note that intraparty factional competition can substitute for interparty competition when there is only one dominant party in government.

(ii) Additionally, within democratic systems, we can postulate that the preferences of the poor will be sufficiently represented in the policies of the ruling government only when the poor themselves vote as a block, not succumbing to the vote-fragmenting effects generated by patron-client exchanges. This fragmentation is commonly observed in democratic developing countries like the Philippines and in India (see Sidel [1999, 5-12]; and Frankel and Rao [1989 and 1990]).

It should be noted that sometimes factors that are more or less totally exogenous play an important role, for example the patterns of historical dominance by particular elite caste or class groups. "But once we recognize that institutional change, say from a populist, patronage-based type of government to a more ideology-driven, lower-class-representing government is a function of distributional conflict over scarce resources (Knight 1992), then by examining the bases (participants and stakes involved) of such conflict, we can begin to think about what impact specific policies might have"[4] (Lakshman 2001, 47). Our guiding precept to understand distributive conflict is cui bono, or "who benefits?" (from particular resource allocation patterns and institutions).

B. Bureaucratic Insulation: Policy Implementation

The second element of the policy process that we are concerned with is implementation. As mentioned before, Quibria has suggested that the insulation of the bureaucracy from the imperatives of short-run politics might have been a decisively important factor in facilitating effective implementation of pro-poor, growth-enhancing policies in the miracle economies. Good governance becomes possible because of the incentives that insulation from politics provides to bureaucrats to implement development policies and projects associated with a longer time horizon. The insulation thus enabled them not only to implement the development agendas of authoritarian regimes efficiently, but also introduce innovative incentive designs in the form of economic "contests." These are contests based on three elements—explicitly stated rules, impartial referees, and substantial rewards—which govern the conditional institutional support given by the state to private firms (see World Bank 1993). "Given its power, independence and incentives to remain honest, the insulated bureaucracies ran these contests fairly and yielded the best of both worlds of collaboration and contests" (Quibria 2002, 66).

While it is straightforward to observe the effectiveness of this institutional design of industrial policy and indeed development policies in general, what is less clear is why such a design and such a high degree of efficiency in the implementation process were possible in the first place. Bardhan (1999) and Quibria suggest that mere authoritarianism is neither a necessary nor sufficient condition for effective bureaucratic insulation (for semidemocratic Japan during the early 20th century succeeded in insulating its bureaucracy whereas the powerful Marcos dictatorship in the Philippines failed to do so). Further, Srinivasan (1997) suggests that it is not enough to indicate the *positive* incentives (such as selective meritocratic recruitment and long-term career rewards) that the bureaucrats faced, but it is also necessary to demonstrate that the incentives to deviate from the specified rules, for the referee to collude in condoning such deviation, etc. were absent. He argues that without a deeper political economy analysis to back it up, in particular whether or not an authoritarian framework committed to development is at the root of the impartiality of the referees, the three R's (rules, referees, rewards) are no more than catchy slogans. Regarding such a political economy analysis, Quibria claims that there is still much to learn about how the miracle economies achieved their bureaucratic insulation and ensured the efficiency of their bureaucracies, which suggests that this is approximately where our knowledge of this subject could be extended.

To take the issue further, it will be necessary to delve into the political economy factors that Srinivasan referred to, as we seek to shed light on the political origins of bureaucratic efficiency.

[4] More will be said on these aspects of institutional reform in Section III.

Why political and not purely institutional factors? Institutional design alone is not sufficient to explain the relative success of the bureaucratic administration in East Asia because "despite the highly selective meritocratic recruitment and long-term career rewards for members of the bureaucracy, the insulation of the bureaucracy in post-independence South Asia was only short-lived. Under the rough and tumble of its raucous democracy, within a decade of independence India's bureaucracy lost its insulation and became an integral part of the rent-seeking process.… In South Asia… senior civil servants can be subjected to harassment and humiliation, including frequent job transfers to hardship positions in poor locations, when they incur the wrath of powerful politicians" (Quibria 2002, 66). Similarly, in many parts of Latin America and Africa, selection to work in the bureaucracy is more a function of political patronage than of individual merit. Thus it is in the realm of politics that we must seek the cause of bureaucratic performance.

A good starting point in our search for the political bases of bureaucratic efficiency is Evans (1992), who suggests that the relevant concepts are state capacity and state autonomy.

State capacity in the developmental context refers to the "ability of the state to undertake collective actions at least cost to society. This notion… encompasses the administrative or technical capacity of state officials, but it is much broader than that. It also includes the deeper, institutional mechanisms that give politicians and civil servants the flexibility, rules and restraints to enable them to act in the collective interest" (*World Development Report*, henceforth WDR 1997, 77). While the neo-utilitarian view of state failure postulates that rent seeking distorts incentives and diminishes production efficiency, case studies of successful (Japan, Republic of Korea) and failed (Democratic Republic of Congo or DRC) states (in regard to developmental achievement) suggests that the problem is not so much one of a self-serving bureaucracy that impedes progress. Rather, it is the absence of a coherent bureaucratic apparatus, or in other words a lack of state capacity that leads to stagnation or decline. Thus in the DRC, the weakness at the center of the political-economic system undermined the predictability of policy required for private investment. The state failed to provide even the most basic prerequisites for the functioning of a modern economy: predictable enforcement of contract, provision and maintenance of infrastructure, and public investment in health and education. At the other end of the scale, during the capital-scarce years following World War II, the Japanese state acted as a surrogate for weakly developed capital markets, while inducing transformative investment decisions. The intermediate position is occupied by states such as India and Brazil, whose bureaucracies are not patrimonial caricatures of Weberian[5] structures as in the predatory case (DRC), but still lack the corporate coherence of the ideal developmental type (see Evans 1992, 151-76).

The interesting observation here is that the creation of state capacity is causally linked to the presence of *state autonomy*. However, state autonomy here should not be interpreted to mean authoritarianism in a simplistic sense, because the state in DRC was autonomous in the

[5] According to Weber, a state's ability to support capital accumulation (and in the case of poverty alleviation policies, resource transfers) depended on the bureaucracy being a corporately coherent entity in which individuals see the furtherance of corporate goals as the best means of maximizing their individual self-interest.

sense of being "strikingly unconstrained by society… [and] of not deriving its goals from the aggregation of societal interests…. [But] paradoxically, since the state as a corporate entity is incapable of formulating coherent goals and implementing them, and since policy decisions are up for sale to private elites, the state might be seen as completely *lacking* in autonomy" (Evans 1992, 151, emphasis added). Contrarily, the autonomy of the developmental state (in East Asia) was of a completely different character from the aimless absolutist domination of the predatory state. This was, according to Evans, an autonomy embedded in a concrete set of social ties that bound the state to society and provided institutionalized channels for the continuous negotiation and renegotiation of goals and policies. The fact the state capacity is a necessary but not sufficient condition for effective implementation of policies can be seen in the case of India, which has a thoroughly Weberian organizational structure, but lacks the ties that might enable it to mount a shared project with social groups interested in transformation.

Therefore we find that it is necessary to appreciate bureaucratic effectiveness in the context of:

(i) the transformative role of the developmental state (in this paper this role concerns the state's capacity to transfer resources to the poor either through direct redistributive methods or through more indirect growth-mediated poverty alleviation policies), based in part on substantial state capacity; and

(ii) the extent to which the state enjoys autonomy from societal pressures of a deleterious nature and is simultaneously "embedded" in policy and social networks conducive to implementing policies of a pro-poor nature.

Both of these factors are strongly dependent on the distributional pattern of political *power*. If we understand political power as deriving from social control (perhaps through traditional social relationships of dominance and submissiveness; see Frankel and Rao 1989 and 1990) and also control of economic resources, then it is likely that the dispersed nature of political power among elites in developing countries prevents effective implementation of public policies. In other words, state autonomy in the East Asian sense is contestable (if not actually contested) and therefore even if the basic requirements of a Weberian bureaucracy are established, their role in channeling resources to socially desirable uses (such as poverty alleviation) becomes politically unsustainable over time. The observed leakages of resources (rents) from administrative institutions are symptoms of the dispersed distribution of political power. Some multilateral institutions like the World Bank have recognized the importance of political power. In examining the obstacles to reform (in this case we would be interested in pro-poor reform), the World Bank finds that "Three factors turn out to be critical: the distributional characteristics of reform (the likely winners and losers), the political strength of key groups (particularly those that will lose out), and the design of existing state institutions…. But the fact that opposition to reform can be rooted deeply in a country's institutions need not be a counsel of despair" (WDR 1997, 144). The next section will consider why this might be true.

C. A Note on Democracy

In the light of these comments on the political economy factors underlying good governance, it is interesting to consider what the United Nations Development Program's *Human Development Report* 2002 (HDR), subtitled "Deepening Democracy in a Fragmented World" has to say. Essentially, the HDR argues that besides being valuable in its own right, democratic governance is important in advancing human development for three reasons: first, because political freedom and democratic participation are fundamental human rights; second, because democracy helps to protect populations from catastrophes like famines and descent into chaos; and third, because it can "trigger a virtuous cycle of development— as political freedom empowers people to press for policies that expand social and economic opportunities, and as open debates help communities shape their priorities" (UNDP 2002, 3).

While there is little argument over the first two mechanisms through which democratic governance (which it defines as governance systems that are fully accountable to *all* people) affects human development, the third mechanism is possibly more contentious. What can we say about this mechanism, given what we have understood thus far about the political economy of good governance? Certainly the goal of accountability cannot be denied importance as we have seen that political competition between parties or party factions is aimed precisely at maximizing this "variable." Neither is the goal of participation to be doubted—for the political cohesiveness of the poor implies participatory politics and ultimately leads to the representatives of the poor occupying the seat of government.

The interesting question that arises when we examine the empirical record of democratic polities, however, is why have well-established democracies (like India for instance) failed to realize the "virtuous cycle" that the HDR mentions? The HDR anticipates this question, and posits that, "Statistical studies find that neither authoritarianism nor democracy is a factor in determining either the rate of economic growth or how it is distributed" (UNDP 2002, 4).[6] This is a rather seriously mistaken approach. The point is not to undertake cross-section studies that map the relationship between "democratic-ness" or "authoritarian-ness" of a regime on one hand and "human development" or more narrowly "per capita income" on the other. It is rather banal to observe that such a cross-country study shows no statistically significant relationship between the two variables. It would. The more interesting approach is to ask under what conditions some authoritarian regimes like the "soft" authoritarian states of East Asia succeeded in actually raising the standard of living rapidly in their economies. In other words, it is not useful to classify all countries into one of two categories—democratic and authoritarian—and then simply look at their respective development records. There are many "types" of authoritarian regimes, just as there are many "types" of

[6] Interestingly, a study by Barro found that there was a statistically significant negative relationship between democracy and economic growth. However the same study *did* find a significant positive relationship between economic freedom and economic growth. One conclusion that might be drawn is that what is important is whether democracy is "liberal" or not. See Barro in Quibria and Dowling (1996, 67-104).

democracies (as even the HDR admits, see UNDP 2002, 4). Our focus instead ought to be upon the *mechanisms* through which centralized political power might translate into rapid progress.

It is at such a juncture that this paper hopes to make a small contribution. We have already seen that such centralized political power must be accompanied by a *specific* pattern of interaction between political parties, by *specific* coalitional patterns between the poor and by *specific* patterns of networks between administrative institutions and the constituencies they serve. It is in understanding these specificities that we will truly be able to comprehend the value of democratic governance.

III. TOWARD GOOD GOVERNANCE: POLICY IMPLICATIONS

So far we have examined the political economy factors associated with regimes characterized by good governance. Now we turn to the implications of these factors for policies aimed at poverty alleviation. Short of directly intervening in the political process to alter the balance of power in favor of the poor, what sorts of interventions can be advocated to improve agenda setting and implementation? This is where the focus shifts to institutional reform that could offset the "perverse incentives" faced by political leaders and bureaucrats, which make them less effective as agents of change in poverty reduction strategies. As in the previous section we seek to understand governance quality in terms of two factors:

(i) agenda setting, and the policy implications of reforms that aim to create an environment where more pro-poor policies are formulated at the meso level; and
(ii) policy implementation, and the policy implications of reforms that aim to produce institutional reform in the channeling and administration of resources into poverty-reducing programs and projects.

Before considering these issues, however, it is important to clearly spell out the definition of "good governance", the goal of the aforementioned institutional reform.

A. Defining Good Governance

Quibria suggests that a well-governed economy that secures individual property rights, ensures the rule of law, contains the extractive behavior of the government, and offers a credible policy framework is more likely to succeed than one that fails to obtain such conditions. He thus points to four general characteristics of a well-governed economy, which the paper will modify to fit into a framework of poverty alleviation policies:

(i) *Credible Policy*: This element of good governance is analytically closest to the agenda-setting problem discussed earlier. The main question at hand is, is it possible for the state concerned to credibly pre-commit itself to a policy of poverty alleviation? What political economy implications does this have? Quibria suggests that the ability of a state to pre-commit to policy depends on the nature of the state, that is, whether it is a strong or a weak state. The "strength" of a state here refers to the degree to which it can formulate and pursue its goals without being encumbered by the interests and demands of special interest groups. Thus, we are back in the realm of state autonomy, a la Evans.

(ii) *Rule of Law:* This refers to a society's adherence to its existing rules and regulations. It implies a legal system where laws are public knowledge, are clear in meaning, and are applied equally without any arbitrariness. The rule of law in many developing countries is particularly unfavorable to the poor, as the institutions of formal/legal force (such as the police and army) are amenable to informal control by elite groups in society and often even within the state (for example the many instances of state-sponsored or state-abetted violence or other forms of domination). Is this true under any regime type? Perhaps, because (as Quibria points out) even in democracy, there is a fair chance that the property rights of the rich may always be threatened, as the poor, who suffer as a consequence of private property, will use their power to vote to appropriate the wealth of the rich. Where it is not possible for the rich to protect their interests through formal institutions, violence, aided by state power could well be the optimal solution for them.

(iii) *Limited and Centralized Corruption:* While earlier theories of corruption, particularly the neo-utilitarian school, viewed rent seeking as an impediment to development, more recent studies (see Khan and Jomo 2000) have shown that it was a necessary attribute of rapid economic growth in the miracle economies of East Asia. In fact to the extent that any property right confers an income stream (or a "rent") upon an agent, it can be argued that all institutional change (which is fundamentally about property rights reallocations) is basically about rent seeking. This theoretical insight draws our attention to the fact that the important distinction for us to make is between the more beneficial and the more detrimental *types* of corruption, rather than to posit that all corruption is undesirable from a developmental perspective. Quibria and others suggest that the "best" type of corruption is limited and centralized, because then the transactions costs associated with the process are reduced. This would apply to the case of effective poverty alleviation strategies, because it is precisely the decentralized nature of rent seeking that makes patronage the prime obstacle to effective policy implementation. For instance, Kohli (1987) has provided a detailed analysis of how land reform programs in the Indian state of Karnataka failed due to the patron-client relations between powerful landed elites in the countryside and the bureaucrats/state officials on the land reform committees/boards.

(iv) *Accountability:* This attribute of a political regime serves to limit the abuse of executive power. While democracies have more concrete *formal* institutions to enforce accountability, such as periodic elections that "reward and punish elected officials for their successes and failures in managing the economy" (Quibria 2002, 71), the absence of adequate state capacity could nullify all traces of local level accountability. Quibria quotes several cases where local level accountability is found to be severely wanting in democratic frameworks, whereas it is far more evident under more authoritarian regimes, where power is centralized and local elites are unable to capture decentralized institutions. Local level accountability is a crucial feature of any poverty alleviation agenda,[7] and so it will be most important to discover what institutional reforms will best enhance this accountability.

Briefly, these are some of the important elements in the definition of "good governance." While we will certainly examine the policy implications of these characteristics, we will not be constrained by them. This is because good governance in relation to poverty alleviation is not without potential theoretical contradictions, for instance, asset redistribution is in some sense the "opposite" of strengthening property rights (see Whitehead and Gray-Molina 1999). The primary goal of this section is to understand the nature of institutional reforms that address the political economy factors discussed in the previous section, factors that *collectively* produce poor governance in a number of developing countries.

B. Improving Agenda Setting and Implementation: Policy Implications

This section picks up from the results presented in Section II, where the political economy factors underlying the agenda setting and implementation dimensions of good governance were discussed. Thus, the main questions considered in this section are the following:

(i) Which institutional reforms are likely to lead to a competitive (or at least a *contestable*) political system, where political competition among elites leads to centralized political power and thus more effective provision of maximum social benefit to the poorer classes?

(ii) Which institutional reforms can improve the political cohesion of the poor, or as a corollary, can reduce the fragmentation of the votes of the poor (in a democratic framework), due to the impact of patron-client relationships?

(iii) Which institutional reforms are required to improve bureaucratic capacity (and thereby policy implementation effectiveness) and autonomy?

In each case, it will be necessary to examine the policy implications of the proposed institutional reform, i.e. the political-economic consequences of incorporating these policies into a broad approach of pro-poor development and good governance.

[7] For any nonparticipatory approach is likely to falter due to information and incentive failures; see ADB 1999, 12-4.

1. Political Competition

While we have already seen that several authors have recommended that a strong state is necessary for policy implementation unhindered by clientelistic claims, we should be careful to qualify the precise pattern of political centralization that might produce this optimal outcome. Otherwise we may find ourselves confronted with failed states such as the dictatorships of sub-Saharan Africa at worst, and with states like Ghana and Mexico at best, where targeted social programs did not increase the political voice of the poor because they were merely aimed at undercutting opposition popularity and reclaiming votes (see Niles 1999, 37).

It is useful to conceive of the problem using the party system as the unit of analysis, because ultimately, "parties monopolize the process of enacting legislation, which is one especially valued target of coalitions. [Party systems are across the developing world are highly diverse] but in order to assess how they may influence organizations of the poor it is helpful to identify three dimensions: …the number of parties, …the level of ideological polarization… [and the] level of institutionalization…. [This last dimension is particularly important because] weakly institutionalized party systems are those that suffer instability in the patterns of *party competition* and have parties that are comparatively *weakly rooted in society*, have weak *organizations*, and enjoy low levels of *legitimacy*" (Houtzager and Pattenden 1999, 6, emphasis added). The key mechanisms that mediate the effect of the party system on the ability of the state to create an effective pro-poor agenda have been italicized above.

Kurtz explains why political competition is important. He posits that, "party system dynamics and the level of competitiveness (the quality of democratic practice) are crucial mediators of policy outcomes. *Where several reformist parties compete with each other, the capture of poor voters as a captive constituency is impossible, and anti-poverty efforts and political accountability are likely to be highest. Where only one political party has as part of its goals serious anti-poverty efforts, the latter can more easily be subordinated to other goals and responsiveness to actors in civil society is reduced….*" (Kurtz 1999, 33, emphasis added). In other words, when there is vigorous competition between parties or between factions of a dominant party, political accountability tends to be maximized.

So an important institutional reform that must be considered in order to improve governance quality is to remove formal and informal barriers to free entry and exit into the party system. This can be achieved first by lobbying the relevant governmental authorities to amend pre-requisites for electoral participation set by the election commission or other administrative body that governs such procedures. This reform can be complicated especially if we are dealing with an elected authoritarian regime such as the one in Mexico, where "elections are not entirely fair and open. Opposition parties are allowed to compete, but under rules that strongly favor the ruling party with mechanisms to ensure that the opposition parties do not perform too well" (Niles 1999, 14). The key is to realize that such dominance by the ruling party is also a function of its more informal control of certain resources such as media campaigns—so institutional reforms to increase party competition will have to reach beyond the election commission toward biases in the media and civil society that favor the ruling party.

2. Pro-Poor Alliances

Increased political competition is but the first step toward good governance, for if the competing parties or party factions do not depend on the consolidated constituency of the poor for their political survival, then they are unlikely to represent the collective interests of the poor when they assume office.

What is the likelihood that such a constituency will emerge? Some authors have suggested that “interest group economism”, which emphasizes the conflictual nature of the interests of the poor and the rich, erroneously glosses over the possibility of a number of pro-poor coalitions (see Moore and Putzel 1999) . Recent literature on the politics of poverty alleviation has indicated that the role of elites in facilitating the emergence of a pro-poor agenda is fairly important. Houtzager and Pattenden point out that there is a growing agreement among students of development that the ability of organizations of the poor to influence policy is greatly enhanced by alliances with reformist elements within the state. Indeed much of the literature on civil society, NGOs, and social movements associates movement strength with autonomy from elites, political parties, and the state; yet this focus on autonomy is misguided. Only in instances where broad coalitions of the poor succeed in attracting the support of critical elite and nonelite allies are they likely to gain access to policy making centers.[8]. Reform in this area could aim to increase policy-oriented dialogue between the poor on the one hand and NGOs, state and private elites on the other.

The main question is, what sorts of arguments could be made to forge these interclass coalitions? Moore and Putzel (1999) illustrate the answer to this question by providing an example of land reform in Brazil: Most members of the Brazilian political, business and governmental elite are in favor of land reform. The supporters do not include the minority of that elite who themselves are landowners. Even so, this finding seems counterintuitive to those who find that political divisions will generally reflect economic self-interest, and that the rich and poor will generally find themselves on different sides. Why, then, is the idea of land reform so appealing to rich Brazilians? Part of the explanation does lie in perceived self-interest, specifically the optimistic expectation that land redistribution would improve living conditions in the large cities where members of the elite live by exporting the poor to the countryside. However, it is unlikely that land redistribution would actually produce such an outcome, given the vast backlog of overmigration into Brazilian cities, leading to urban poverty and a dramatic rise in violent crime as a result. Yet the Brazilian elites believe this, according to Moore and Putzel, because of the skill of many politicians, especially those associated with the influential Landless Workers Movement, in constructing a case for land reform that is both plausible and congruent with what elites like to believe about themselves and the world. In this case an important element of the story is that feudal landlordism is seen as old-fashioned and as a constraint on the modernization of Brazil.

[8] The Houtzager-Pattenden study that yielded these results is based on a comparative case study of Brazil, Peru, and Philippines.

A problem arises when such political skill and/or will are not forthcoming, and politicians are self-seeking and aligned with elites to perpetuate the status quo. In this case, the task for development institutions is to improve the political cohesion of the poor *amongst themselves* (as opposed to attempting to forge transactional alliances with elites). This can be achieved by improving local government with the aim of reducing the bias that traditional alliances at the village and district/province levels produce in favor of dominant social groups. It is necessary to tackle these society-based biases because in a number of developing countries (Especially in Asia), social stratifications along the lines of caste, tribe or religion are the instruments of division used by elites to fragment the votes of the poor and thereby prevent them from voting to power leaders who represent their interests. More will be said on the institutional reforms that might lead to better governance at the local level in the next section, where bureaucratic capacity and decentralization are discussed in detail.

Before moving on, however, it is instructive to consider the following case study of Thailand, where mobilization of the poor led to improved poverty alleviation policies: "…[R]ecently, coalitions of the rural poor and civil society organizations have managed to move poverty to the top of the government's agenda in Thailand…. [W]ith the onset of the Asian financial crisis in 199, the decade-long decline in poverty quickly came to an end, and poverty rates increased sharply. As the situation of the poor began to deteriorate, rural unrest began rising in Thailand. In 2000, thousands of villagers took to the streets of Bangkok to clamor for action against rural poverty…. The street protests and other demonstrations received organizational and other support from NGOs, such as the Forum of the Poor, a grassroots movement for change in Thailand. The coalition of the poor and other civil society support has brought about concrete gains for the poor at the negotiation table. In 1997, the National Assembly passed a new constitution that, for the first time in Thai history, guarantees community rights to self-determination" (Deolalikar et al: 19). Other telling examples of coalitions of the poor that succeeded in influencing the effectiveness of anti-poverty policies are cited by Deolalikar et al. These include the Self-Employed Women's Association (SEWA) in the Indian state of Gujarat and the Congress for People's Agrarian Reform (CPAR) in the Philippines.

3. Bureaucratic Capacity

We have so far examined the implications of the balance of political power for the creation of an effective pro-poor agenda. Now we turn to its implications for the implementation of policies for poverty alleviation. The most important debates relating to the implementation of poverty alleviation policies are captured in the discussion of decentralization. Decentralization, after all, is about bringing the implementation of such policies closer to the ultimate beneficiaries so as to improve service delivery and also tap into the informational advantage that local communities are likely to possess over far-removed systems of central administration. It is worthwhile, therefore, to consider what lessons the decentralization debate might hold for our understanding of policy implementation.

We have already seen that the level of institutionalization of the state, in terms of the presence of a Weberian bureaucratic apparatus, influences the efficiency of the resource allocation process. Specifically, it impinges upon the types of linkages organizations of the poor can establish with the state and it also conditions the state's capacity to respond to the demands of the poor. Close working relationships around substantive issues are difficult to establish when the state is weakly institutionalized and run along patronage lines. In other words, there is a strong link between state capacity and state autonomy, in the sense that Evans mentioned. That is, the nature of the state's structural linkages to society, as determined by the state's role in economic and social spheres, play a significant role in defining the parameters of the political arena and the axes around which organizations of the poor mobilize and build alliances

Turning to the well-known cautions about decentralization under inappropriate conditions, we see that it can be a barrier to the sustainability of an antipoverty agenda. Kurtz points out that since administrative capacity is not equally distributed at the national and municipal level, decentralization of pro-poor policies increases their risk of mismanagement and raises the likelihood they will be discredited. Similarly, municipalities are often the bastion of undemocratic and clientelistic local elites, raising the odds that antipoverty funds will be used to construct patronage machines, leak away from their intended beneficiaries, and work directly against the formation of autonomous actors in civil society that are crucial to their sustainability. Finally, if resources are also decentralized then issues of distribution across class become conflated with issues of interregional distribution, further raising the bar to significant antipoverty relief (see comments by Kurtz 1999, 34). Before we can comment on the actual empirical "performance" of decentralization as an administrative instrument for improved poverty alleviation, it is important to clarify what we mean by the term decentralization itself. To do this, one needs to answer the following questions relating to the character of decentralization (from the discussion in Moore and Putzel 1999, 17):

(i) Is it political and administrative devolution (the assignment to lower levels within nested hierarchy of territorial administration) or deconcentration (the shifting of functions and personnel to a lower level unit within a centralized administrative hierarchy)?

(ii) Does it involve increased democratization? Here it should be noted that elites capture of decentralized institutions actually reduces the possibility of voices of the poor influencing public policy. Therefore empowerment is a goal that needs to be calibrated to the power relations within the local political environment.

(iii) What level are we talking of? The implications of devolving authority from central to state governments in Nigeria may be very different from those of devolving from the township to the village level in People's Republic of China.

(iv) Is decentralization part of a broader change in the allocation of administrative and political authority that also has centralizing components? Many contemporary public sector reforms involve shifting authority for operational decisions to lower levels while granting higher levels increased power to establish performance targets, monitor performance and allocate resources. This kind of decentralization is often employed to give central governments more control over rural areas and outlying provinces and cities. The proponents of decentralization sometimes see only one aspect of a two-way process.

Given the significant diversity of the processes collectively known as "decentralization", it is not surprising that the evidence presented by Crook and Sverrisson (1999) yields no support for the argument that decentralization is intrinsically or generally pro-poor. However, their study does point to four key factors that determine performance in terms of both responsiveness and pro-poor social and economic outcomes:

(i) the politics of the relations between newly empowered local government and central government,
(ii) the extent to which enhanced participation established accountability of local governments,
(iii) the extent to which central authorities provided certain key inputs, and
(iv) the extent to which the central government provided long-term support.

These factors suggest that institutional reform aimed at increasing the effectiveness of poverty alleviation policies must aim to achieve the following goals:

(i) It is necessary for supra-local governments to support the decentralized system with adequate administrative and financial resources and legal powers. But in addition, central governments have to have a capacity and willingness to control and monitor *financial probity and accountability* for the implementation of policies, particularly where these relate to poverty alleviation. Simultaneously, it is important to avoid inefficiencies and inequities, for instance across decentralized local authorities. So, "if there is a great deal of mobility between local jurisdictions, differences in taxes could misallocate the mobile factors. Inequities, on the other hand, may arise due to differences in fiscal capacities and preferences for redistribution. Thus there is a need for central control to harmonize the tax system, achieve a fairer redistribution, and reduce tax collection costs" (Deolalikar et al. 2002, 45).
(ii) Crook and Sverrisson argue that it is equally important for these governments to have an ideological commitment to pro-poor policies and to challenge local elite resistance if necessary. This implies that it is necessary for governments and the central and state/province levels to engage actively in local politics and institutional reforms to increase the formal accountability at the local level are important. Additionally, there must be measures to reduce the impact of clientelistic relations between intrastate elites on implementation efficiency; such measures would include increasing the power and reach of monitoring authorities that could curb rent seeking behavior at decentralized levels. In other words, it is important for political power to be centralized.

(iii) The Crook-Sverrisson findings on the factors responsible for local level accountability are good guides to appropriate institutional reform. They suggest that, "fair and competitive elections were a key factor in developing public accountability in the most successful cases" (Crook and Sverrisson 1999, 48). So creating clear and impartial rules for electoral activity and monitoring of electoral processes are both necessary to improve governance in terms of accountability. The aim should be to create an environment where there is a good balance between the political clout that elected politicians could exercise, and the ability of civil servants and council committees to invoke legal and accounting norms if politicians tried to exceed or abuse their powers.

(iv) The policy implications of input provision by central to local governments relate to the following resources: earmarked funding from general taxation to accompany the allocation of specific sectoral functions; targeted central poverty-relevant programs or social funds for development allocated using an appropriate equalization formula to ameliorate spatial inequality; a hierarchy of authorities that at the state/provincial level have sufficient scale to handle the resources, raise some of their own revenues, and provide effective support to the lower level or grass roots bodies.

(v) It should be noted that most decentralization reforms take some time to get established and many are changed or abandoned after only a few years, or one electoral cycle. In reality, it may take at least 10-15 years in a context of financial and political stability for a system to show any results that can be fairly judged. This implies that institutional reforms must aim to produce political and administrative stability over time, and such reforms are similar to the ones that facilitate the creation of a coherent competitive political regime (See Section III.B.1).

Essentially, these reforms suggest that it is necessary to strike a balance between two factors: first, *political* power must be centralized so that elite demands upon scarce resource intended for poverty alleviation do not dissipate these resources before they reach their intended beneficiaries; second *administrative* decentralization must be undertaken when it is possible to produce embedded relations between bureaucrats and the poor whom they serve.

IV. CONCLUSIONS

We began this theoretical investigation with an explanation of why governance quality matters. It was suggested that there is nothing inherently problematic about allocating resources to programs or projects based on purely technical criteria such as rate of return on investment or poverty impact. However, due to the disproportionate access to state power that elites in developing countries have (relative to the poorer masses), it was posited that the use of technical criteria alone would produce a distorted picture of reality, wherein policy formulation and implementation would deviate from the planned resource allocations. This paper has therefore sought to provide some insight into the nature of institutional reforms that would be necessary to “correct” for this distortion, reforms that aim to improve governance quality.

In Section II we first examined the political economy of good governance so as to shed light upon the various conditions under which the agenda setting and policy implementation processes succeed or fail, in terms of their efficacy in reducing poverty. It was pointed out that political competitiveness is desirable, as are political (especially electoral) cohesiveness of the poor themselves, and a politico-administrative framework of “embedded autonomy” wherein the state is able to circumvent clientelistic elite claimants whose actions are deleterious to poverty alleviation efforts. In Section III we considered what institutional reforms could address these factors that produce poor governance in so many developing countries. A number of potential policy targets were indicated including electoral reform, administrative reform, and political dialogue to forge interclass alliances. Electoral reforms were aimed at increasing political competition, and they included reforming the formal barriers to free entry and exit into the political system as well as breaking the disproportionately strong control of the dominant party over media and social resources that helps perpetuate their dominance. Administrative reform favors decentralization of bureaucratic functions only when the goals of accountability, noncorruption, rule of law, and policy predictability are not sacrificed. It was seen that in most cases, the central government continues to play a primary role in agenda setting and in channeling scarce resources toward decentralized poverty alleviation programs. Finally, “social” reform aimed at forging interclass alliances through the use of political interlocution was seen as being decisively important to sustaining any agenda for poverty alleviation.

The hope is that such reforms will lead to good governance for poverty alleviation policies. The challenge for both research and policy lies in the identification and implementation of politically expedient strategies that make these reforms a reality.

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