Aid Governance and Transparency:
Essential Preconditions or New Conditionality
And on whose Development Agenda?

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SCALING UP AND ABSORBING RESOURCES: CHALLENGES FOR POVERTY ERADICATION

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In 2000, the international community adopted the Millennium Development Goals with a view to reducing poverty by half in the world's poorest countries and notably those of Africa by 2015. In the new policy framework that has emerged, the Millennium Development Goals (MDGs) provide the targets and national poverty reduction strategies represent the vehicle, supported by associated direct budget support mechanisms for reaching these targets. Within this policy framework the introduction of quite precise and standardised macro economic reforms is presented as a structural conditionality[1] in order for poorer indebted countries to qualify for the funds which permit the implementation of PRSPs.

With the MDGs as the framework and PRSPs the vehicle for the increasing harmonization of donor policies, there is no doubt that greater coherence has been

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[1] " Structural conditionality " is the term used by the IMF for example in its Malian Country Report of June 2004, No. 04/184 (Mali: Request for a Three Year Arrangement under the Poverty Reduction and Growth Facility (PRGF). See page 25 of this document where the conditionalities which are discussed in this paper, are detailed.

achieved among the initiatives of the multitude of actors concerned whether multilateral, bilateral or NGOs. The objective of harmonization appears to have been accompanied by an increasing tendency to formulate issues in terms of good administrative practices, efficiency and effectiveness of the policy process. This is obviously important. However, the counterpart appears to be a tendency for the broader issues concerning the choice and the design of development strategies to receive far less attention. This seems paradoxical for a concern with aid effectiveness would appear intimately related to the content of the development agenda which is being put forward and into which aid policies are integrated.

In the context of increasing attempts to harmonise aid strategies there have occurred quite fundamental transformations in both the language in which aid debates are framed and aid policies formulated. What appears to have been lost sight of is the political and dynamic nature of development processes and how such aspects impact on the design and the content of the policies themselves. Here there seems to be an interesting parallel with the manner in which the concern for governance has been introduced as of the end of the 1980s.

It is within this broader framework that I propose to raise the issues of governance and transparency of aid.

Although the concept of governance has imposed itself over the last and a half decade as central in the development strategies of international financial institutions and aid agencies, it should be noted that there is by no means unanimity or a common understanding concerning the manner in which the notion has been conceptualised or policies derived from it implemented. While the approach to governance privileged by the World Bank which it defined in 1992 as : "the manner in which power is exercised in the management of a country's economic and social resources for development" (World Bank, Governance and Development, World Bank, Washington, D.C., 1992. p.1) signalled what I would call a “ technification ” of social, economic and political issues, that is an attempt to approach these as if solutions were to be found through the introduction of the right set of policies and administrative procedures, this approach has not prevented the use of the notion of governance to increasingly justify the introduction of reforms which have undeniable political dimensions.[2] Moreover, the tendency to " technicize " development issues has tended to obscure debates which should be taking place concerning the choice of development strategies which aid policies seek to support. In order to develop this argument I would like to do three things:

First develop several reasons for the ambiguousness of the governance and transparency paradigms as put forward at present illustrating certain implications and notably that they both lead to a focus on obstacles which are internal to the countries concerned rather than encompassing donor strategies.

Second, drawing on the empirical results of a study produced for Oxfam I have just coordinated but which is not yet published, briefly illustrate certain of the assumptions and results of current reform policies undertaken in the name of governance, to suggest why it is important to look beyond an increasingly "technical" and procedural approach to aid policies and development issues more generally, and finally, third, draw a series of conclusions.

In the interest of time and because it is more overarching and inclusive, I shall concentrate my remarks on the notion of governance and refer only briefly to that of transparency.

A. The ambiguousness of the governance paradigm-three reasons:

1. First, the notion of governance as presently used by the international financial institutions tends to suggest that there exists a consensus concerning the procedures of good management, which are put forward as universally applicable and intended to serve as a reference model. However, in the more circumscribed area of the management of enterprises, " corporate governance " is not a model but rather a " modus operandi ", referring to an equilibrium to be achieved among shareholders,

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[2] See for example the World Bank's notion of " *effective governance* " : *Effective governance requires stable coalitions and an executive with reasonably strong and clear powers*. World Bank, World Development Report, 1999/2000, Entering the 21st Century, Chapter 5, " Decentralization : Rethinking Government "p. 121.

members of administrative boards, external auditors and the directors of the enterprise.

2. Second, not only does the notion refer to a multitude of definitions which vary according to the strategies of the different actors – whether bi- or multilateral financial institutions, aid agencies or NGOs, but it may be shown, notably with regard to the World Bank, that the definition of the same notion is in constant evolution within the same institutions.

3. Finally, in spite of the use of administrative language formulated in terms of efficiency and good management, put forward as neutral, as if to address essentially technical issues, the notion of governance as proposed by the multilateral financial institutions entails a particular concept of the state, of its role, of its desirable evolution, of state-market relations, of the exercise of power and of a particular political project. In this sense, the notion of governance may be shown to be eminently political.[3]

In the context of the late 1980s and early 1990s and the concern for the feasibility of structural adjustment measures, the concern for " good governance " by the international financial institutions signalled a recognition of the need for institutional reforms as a condition to ensure the success of macro economic reforms whose disappointing results were attributed to " internal dysfunctions ". Hence emphasis was placed much more on factors and obstacles which were internal to the countries under reform (lack of transparency, corruption or in a word " weak governance "). Much less attention was given to the design of past macro economic policies which were and continue to be at the heart of donor strategies.

Without wanting to minimise in any way the reality of certain dysfunctional practices which characterise regulatory and political processes in certain poorer indebted countries and to which a great deal of attention has been given, the focus of my presentation will

[3] Bonnie Campbell, " La bonne gouvernance, une notion éminemment politique " in *Les non-dits de la bonne gouvernance*, Karthala, Paris, 2001, pp.119-149.

attempt to reset these issues in a broader perspective. For if we are interested in addressing the challenges for poverty eradication, it seems important to look carefully at the policy process as a political, dynamic and reciprocal process and not only in terms of good administrative implementation of policies of which the content is taken as a given.

Just as with governance, the issue of transparency is now central in the thinking about donor strategies and so it should be. However, it is useful to think about transparency not merely in procedural and uni-dimensional terms but as well, as a clear, political commitment to work in ways that maximise accountability of both donors and recipient governments for commitments and obligations undertaken together financial or otherwise.[4]

B. Current reform policies undertaken in the name of governance:
Lessons from Mali and Burkina Faso

To illustrate the need to look beyond solutions formulated in terms of introduction of the right set of policies and administrative procedures in the name of governance and transparency, I would like to draw briefly from the findings of a study we undertook for Oxfam America on the impact of current policies concerning cotton and gold production in Mali and Burkina Faso.[5] The results suggest the need to question certain key assumptions on which current poverty reduction strategies are now based, notably concerning institutional reforms and poverty reduction (including the privatisation of parastatals) introduced to achieve better governance, as well as assumptions concerning the distributive implications of promoting economic growth through foreign investment.

In Mali and Burkina Faso, the extension of cotton production which has taken place over the last 40 years or more has been characterised by numerous sources as a “ **success story** ”. The term “ success ” refers not only to the impressive increases which have taken place regarding production, yields and competitiveness (production costs have been

[4] This point is developed in a forthcoming article by Brian Tomlinson “ Aid Effectiveness and Civil Society Organizations: A CCIC Discussion Paper, ” Canadian Council for International Cooperation, Ottawa, October 2006.

[5] “ Comparative Analysis of the Cotton and Gold Mining Sectors in Mali and Burkina Faso ” by Bonnie Campbell, Vincent Nabe Coulibaly and Gisele Belem, in preparation for Oxfam America. 2006.

among the lowest in the world), but as well, the positive social and economic impacts which have accompanied the extension of this crop.

In Mali, the incomes drawn from cotton production provide for the livelihood of over 3 million people. Moreover, studies have shown that there exist very clear links between cotton production and food security. In Mali, 40 % of cereal production comes from cotton producing zones.[6]

Concerning Burkina Faso, a study conducted by the World Health Organisation found that the cotton-maize mix provided households with a greater cash income and led to a better and more balanced diet than niebe alone. The study concluded that:

> *The expansion of cotton cultivation was a major factor in improving health of households located in the cotton belt. From 1993/94 to 1997/98, cotton production increased by 175 percent and poverty incidence among cotton growers declined from 50 percent in 1992 to 42 percent in 1998, while it increased by two percentage points among subsistence farmers.* [7]

Similar results concerning the impact on poverty have also been documented concerning Mali. These results do not depend merely on cotton as a crop, but rather on the fact that the extension of cotton took place in the context of the adoption of an integrated approach to rural development which included cereal production, the raising of cattle, access to credit for inputs such as fertilizers and in which the coordination of the production, the sale and the transportation of this crop was assumed by parastatal organisations. In Mali the public company responsible was the Compagnie Malienne de Développement du Textile (CMDT) and in Burkina, the Société Burkinabé des Fibres Textiles (SOFITEX).

To summarize, among the central factors explaining the success of the cotton sector in these two countries has been the institutional support and the political commitment of the governments concerned. Moreover, what has been described as the resulting "cotton

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[6] Eric Hazard, ENDA Prospective Dialogue Politiques, " Mali, Yellow Gold and White Gold ", November 2004, page 5. Oxfam America Eminent Persons Delegation to Mali: December 1-4, 2004.

[7] "Analyse de la pauvreté au Burkina Faso", INSD, 1999, Ministère de l'Économie et des Finances. Quoted in Louis Goreux and John Macrae « Reforming the Cotton Sector in Sub-Saharan Africa," March 2003. Draft study for the World Bank.p.7.

production support system" refers to an approach to agricultural development which aimed to meet the needs of the local population both in terms of improving livelihoods and reducing poverty.

Among the principle reforms which have been required of Mali and of Burkina Faso as a structural conditionality by the multilateral financial institutions since the beginning of the current decade, has been the privatisation of these parastatal companies and the dismantling of the integrated production systems or the "filière cotton" as it came to be called. In Burkina this is particularly paradoxical since Sofitex is recognised by the World Bank to have been efficient, low cost and well administered, factors which explain why its costs of production have been extremely competitive. Sofitex has now been privatised. In Mali, a country which in the past had been considered a «strong reformer», that is that the country has introduced the recommended reforms, the request that the CMDT be privatised has been resisted and at present has been postponed until 2008 when there is little chance that it will not be implemented. [8]

Turning to the relationship between ensuring growth and poverty reduction, the study " Perspectives on Growth and Poverty Reduction in Mali " produced by the French research group Dial (2004)[9], documents that economic growth in Mali has in fact been constant. Over the long term, 1960-1996, growth rate was 3,1 %, a tendency which was maintained through the 90s and which increased further to the 1994 devaluation, to an average of 5,7% between 1995-2000.

Economic growth has been driven by the export sector as illustrated by the period between 1993/94 and 1997/98, which was characterised by a growth rate of 118% in cotton production and a rapid increase in the exports of gold. And to the question as to

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[8] It should be noted that the other conditionalities which have been requested of Mali by the IMF as part of its Poverty Reduction and Growth Facility include the privatisation of the public telecommunications company, (SOTELMA) and of the public company which produces pharmaceutical products (UMPP). As for the public water transport company and that which produces sugar, state participation is to be reduced to 20 % of total shares. IMF, Country Report of June 2004, No. 04/184 (Mali: Request for a Three Year Arrangement under the Poverty Reduction and Growth Facility (PRGF).pp.16-17.

[9] " Perspectives on Growth and Poverty Reduction in Mali " by Mohamed Ali Marouani and Marc Raffinot, Document de travail DT 2004/05. Développement, Institutions et Analyses de Long Terme, Dial, Paris, September 2004.

whether such constant rates of growth succeeded in reversing the country's high poverty rates, the answer is negative. Approximately two thirds of Malians continue to live below the poverty line and one fifth of the population live in conditions which are described as «extreme poverty». Another fact that is also very preoccupying notes the same study is that Mali is considered to be following the «right policies», that is, those considered appropriate by the multilateral financial institutions.

" Does the experience of Mali show that there is no relationship between " good " policies, democracy, and poverty reduction? "

The least that can be said concludes the same study is that: " Sound macro-economic policies have not been effective in poverty alleviation. "[10]

The Dial study arrives at the conclusion that what is happening is an accentuation of inequalities in the rural sector, which underlines the critical importance of paying far more attention to the distributive implications of policy reforms.

In the context of the difficulties confronting cotton producing African countries in the 1990s, notably as a result of American, European and Chinese subsidies which were introduced in order to protect their own producers, the question arose as to whether there existed other sectors which would be capable of driving growth. Before examining the answer that was proposed by the donor community and to recall rapidly the context of these decisions, it is worth underlining that as a result of the subsidies, world cotton prices declined by almost half as of the mid-990s. Between 2001 and 2003, American farmers received 3,9 billion $US worth of subsidies (that is 230 $ US per acre) and the total amount represented the doubling of the figure ten years previously in 1992. According to Oxfam International, doing away with these subsidies would have permitted an 11¢ increase per pound of cotton that is a 26 % in price paid to African producers. Just to give an idea of the importance of American subsidies, American farmers received in

[10] Ibid. p. 18.

this period in the form of subsidies for their cotton more than the GDP of Burkina Faso and almost three times more in subsidies than USAID's budget for all of Africa.[11]

There have been subsequent and recent debates notably at the WTO concerning cotton subsidies. However, the point which appears important is that it was during the period of the downturn in cotton prices that attention was increasingly turned to finding an alternate sector as the " motor of growth ". It was found in the extractive sector and for both Mali and Burkina Faso in gold production. The confidence in such a choice was summarised by one of the Executive Directors of the World Bank, Mr. Paulo Gomes, who in September 2005, at a mining conference in Cape Town, South Africa declared:

" The mining sector is set to play a key role in the World Bank's goal to alleviate poverty in Africa by 2015. "[12]

" If we use mining as the key driver for growth, then we would become less dependent on $ 50 billion (in aid) that I am not sure will even come."

The hypothesis underlying this declaration is clear. Economic growth driven by the export sector, which is stimulated by foreign investment, attracted to the extractive sector by incentives and a favourable investment climate enshrined in liberalised mining codes in the mineral rich countries of Africa, will contribute to poverty reduction.

Under certain condition, this might be the case. Under the circumstances which exist in many African countries including the two referred to here which are characterised by weakened institutional capacity, the absence of the necessary financial and technical resources needed to ensure the implementation and respect of the social and environmental regulations when these exist, and in a present context of highly generous incentives which aim to attract foreign investment, poverty reduction has not

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[11] " Cotton Cultivation in Burkina Faso – A 30 year Success Story ". A case study from " Reducing Poverty, Sustaining Growth – What Works, What Doesn't and Why. A Global Exchange for Scaling Up Success, " prepared for the World Bank, 2004, p. 8.

[12] www.mineweb.net/events/conferences32005/samda2005/489480.htm

" Mining to play key role in World Bank Africa plans " by Gareth Tredway, September 20, 2005.

accompanied the constant economic growth which has taken place. In Mali, since 1997, gold has replaced cotton as the leading export product. The industrial gold sector provides employment to approximately 3 400 Malians. However, given the extremely rapid rates at which gold is being extracted, government figures show a decline in gold production figures as of 2013 and the country has been encouraged to look to ways to stimulate growth. To this end, Mali was encouraged by the World Bank to introduce a petroleum code in 2003 and to encourage exploration. The first exports are expected in 2008.

These are obviously very complex issue which can only be summarised very hastily here. Without at all wanting to suggest that there is a simple causal relations between policy choices and Human Development Indicators, but rather to underline more generally that there appears to be a need for much more attention to the choice the design and the responsibility for policy reforms, I think it useful to draw attention to current trends, particularly in the light of the MDGs which were are starting point.

Table 1 : Human Development Indices in Mali and Burkina

Country	**Rank**		**Life expectancy**		**Literacy rate for adults (% 15 years and over)**		**Graduation rates (primary to secondary)**		**GDP per capita (PPP)**	
Year	1999	2002	1999	2002	1999	2002	1999	2002	1999	2002
Mali	153rd	174th	51.2	48.5	39.8%	19%	28%	26%	753	930
Burkina	159th	175th	46.1	45.8	23%	12.8%	23%	22%	965	1100

Human Development Reports, 2001 and 2004

Mali has slipped between 1999 and 2002 from 153rd to 174th position, Burkina from 159th to 175th. The figures concerning life expectancy have dropped for both countries (51 to 48 years in Mali, 46 to 45 in Burkina Faso), as have the figures concerning literacy rates for adults and graduation rates for primary and secondary levels students. One rate that has not declined for either country is the GDP per capita and since growth has been fairly constant, this goes to underline that economic growth does not of itself lead necessarily to poverty reduction but it may under certain circumstances signify the accentuation of inequalities.

Concluding observations:

Obviously governance and transparency if by this we mean good administrative practices, are essential preconditions to donor strategies and should be applied to all actors concerned.

The argument I have tried to present however, is not merely that there is a danger that issues of governance and transparency serve as new conditionalities, they clearly do, but a preoccupation for good administrative processes should not deter attention from the more substantive question concerning the nature of the reform strategies themselves.

The danger at present appears to be the tendency to treat the reform process as if it could be approached as an essentially technical process deterring attention from more fundamental concerns which arise from the current policy framework, of which I shall mention four.

1. In the interest of harmonization and greater aid effectiveness, the donor community has rallied together behind the MDGs and the PRSP process. However, and as is well known both of these initiatives have been put forward by the donor community rather than have evolved from within specific countries; they are "**driven donor".** [13] Moreover because of their donor origin, there is no necessary logical correspondence between the financial requirements of a particular country to meet the MDGs[14] and the funds made available through the

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[13] In fact, it is useful to recall that the MDGs which were adopted by the international community in 2000, were put forward in 1998 in a World Bank document which based its arguments calling for an important increase in aid budgets on the basis of a greater harmonisation of the strategies of the different donors around its recommendations. World Bank, Assessing Aid, What Works, What Doesn't and Why, World Bank by Oxford University Press, 1998.pp.11-12

[14] While the MDGs have certainly and usefully attracted attention to critical development challenges, the manner in which they have been formulated around **disaggregated objectives** such as hunger, primary education, child mortality, health, environmental sustainability, etc, raises certain problems. As is well known, these issues are intimately inter related. And the same is true for the conceptualisation of the strategies necessary to reach these objectives. For the origins of these problems lie in processes of impoverishment which reflect social, political and economic relations which are specific to each country. There is therefore a real danger that the disaggregated approach present in the MDGs deter attention from

PRSP process. This raises in a very explicit manner the relationship between the MDGs and PRSPs as a response to the challenges of development and above all, the question as to **who is responsible for determining the development agenda and setting its goals and what actors are responsible for the success or failure of policies put forward to carry it out?**

2. Given this context, it would appear particularly important to examine closely the nature of the economic reforms introduced as measures accompanying the PRSP. Many of these economic reforms rest on the hypothesis that economic growth which results from investment and notably foreign investment, attracted through increasingly generous incentives, will bring economic and social development and poverty reduction. This may be the case under a certain set of quite specific conditions and notably when investment strategies are integrated into and reinforce local development strategies, which have been determined by the country itself and which reinforce medium and longer term inter sectoral objectives, in a context in which governments have the political and institutional capacity to negotiate, to implement, to monitor and, if necessary, to bring remedial actions. Can it be said that these conditions exist in African countries after 20 years of structural adjustment measures of which one explicit objective was to ensure state withdrawal and a redefinition of its role and functions resulting in a weakening of its institutional capacity? The answer is very far from certain.[15]

3. With regard to certain political implications, the fact that the reform process is heavily donor driven has potentially negative implications concerning democratic processes which raises issues concerning for example the accountability of states towards their own populations. Similarly, the donor driven nature of the process raises the issue of the compatibility between the modes of regulation introduced in

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the specific structural causes which are at the origin of poverty which it would appear necessary to address with the appropriate policies if we want to effectively eradicate poverty.

[15] This argument is developed in : UNCTAD " Rethinking the Role of Foreign Direct Investment " Geneva, September 2005.

the name of governance to stabilise the economic reforms which multilateral donors would like to see implemented and the conditions necessary to ensure local participation in social and economic projects which are capable of ensuring social and economic cohesion in the medium and longer term.

In the case of conflict of interpretation or of resistance on the part of the local population, there is a danger that governments to be more responsive to the needs and positions put forward by economic actors such as foreign companies or investors or by financial institutions and less so to those put forward by the local population or communities. Such trends may contribute to undermining the longer term social and political stability of the countries concerned.

4. The challenge is consequently to see under what conditions policy space can be broadened, greater flexibility introduced with regard to the application of conditionalities and more generally, the decision making process « unlocked »[16] in order to permit the reappropriation of the initiation, the conceptualisation, the implementation and the evaluation of economic and social development strategies in order that they be compatible with the development objectives which the countries have themselves determined. An opening of policy space would appear as a prerequisite in order for those who hold positions of leadership and political responsibility to be effectively in a position to better determine the development agenda of their countries and consequently, to be held politically accountable by their populations.

Beyond the issue of the viability of the strategies proposed, what I have attempted to suggest is that current trends bring to the forefront the problem of the positioning of

[16] The term "locking in" was used in 1997 by to Larry Diamond in his recommendations contained in : Prospects for Democratic Development in Africa. Palo Alto, California: Hoover Institution on War, Revolution and Peace.

bilateral and multilateral donors. The contradictions and problems of incoherence which arise as a result of the attempt to reduce the analysis of social, political and economic processes which have been determined historically, to management solutions which might be considered universality valid as the governance paradigm as presently used by much of the donor community would appear to suggests, raise two fundamental issues : first, the impossibility of managing from the exterior issues which are as complex as those concerning institutional and economic reforms and second, the absence of political responsibility of multilateral and bilateral donor for the reforms and policies which they propose and at times impose.

While these are complex questions and clearly much can be done for improving aid effectiveness, better awareness among the donor community of the need to evaluate its own actions from the perspective of the development agendas of the countries where reforms and development strategies are introduced, would also be a significant step towards the introduction of practices and the establishment of structures which might be more closely in line with the realities and objectives of the populations concerned.

Moreover, the issue of " aid effectiveness " can obviously not be addressed without taking into consideration the broader set of factors which contribute to the structural causes of impoverishment and of social and political marginalisation. In the last instance, the solutions to these issues reside no doubt less in providing more funds but in the choice and the timing of the policies introduced, which in turn raises the central issue of the possibility of democratic appropriation of the definition of the development agenda and the capacity to mobilise the resources necessary to realise it.

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