

# Governance in Context with Aid: Role of the World Bank and Other International Organisations

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## Abstract

Governance is a complex issue due to its wide range of dimensions. To uplift the quality of the government there are some international agencies those use to extend their cooperation. But the nature and way of providing advices are sometimes misleading and incorrect. The reason behind the provision of inaccurate and biased recommendations is the authoritative behavior of the international organizations. The dominance of some of the developed countries and weak economy of the aid recipients' countries are also responsible for this. Whatever the form the governance possesses it is a pre-requisite for economic development for all economic entities. Based on secondary evidences this paper makes an attempt to analyze the role of the World Bank and other International Organizations in the context with aid. To ensure a realistic level of development the countries must have appropriate guidelines for setting its strategy. The World Bank and other influential international organizations may aim to provide suitable development outlines to ensure this the existing international organizations should be come into an accountable framework.

**Keywords:** Governance and Good Governance, Aid, the World Bank, International Organisations, Accountability

## 1.0 Introduction

The concept of governance was introduced by the World Bank (henceforth, WB) in 1989 while pointing to corruption, bad policies and nepotism as severely hampering development (Santiso, 2001, p.5). The Bank and all other UN development agencies have played leading role for promoting good governance practices by attaching various compliance conditions with their loans (Kjaer, 2004, p.17). The common conditionality of those agencies was to establish good governance in the developing countries by ensuring transparency, efficiency and accountability. However, many critics have arisen with regard to the accountability of the WB and its influential hands towards developing countries. It was resulted to create a debate among different scholars and the global civil society. Many scholars argued that, the Bank should be accountable first and followed transparent procedures instead of imposing and influencing developing countries.

There is a tendency among analyst and development agencies alike to adopt those that its most closely their own pragmatic mandate (Hyden, *et al.*, 2004, p.17). The WB introduced the concept of governance. But time to time they changed its definition due to their own interest. Scholars try to enrich the concept of governance introducing an extended pragmatic view. But the WB and the UN agencies have not consider the possibility of systemic governance in the interests of social and environmental sustainability that spans international, regional and national boundaries based on subsidiarity as suggested by Singer (2002). Systemic Governance is the contextual (social, cultural, political, economic and environmental) accountability process of deciding who, gets what, when, why, how to what effect based on: participation, advocacy, compassion and subsidiarity (McIntyre-Mills, 2006, p.325).

This is a literature review and for that reason no separate literature review is given here. This article first briefly discussed the concept of governance considering some key issues that how to measure it. Then it examines the scholarly arguments and comments of different researchers with respect to the correlation between aid and development. Secondary evidences have been used to serve the purpose. We paid attention particularly on some technical terminologies and arguments of different thinking. This work is expected to provide valuable information for the researchers to conduct further research and help the policy makers to set the strategies in terms of improving the socio-economic development and prosperity of the globe.

One of the limitations of the study is that it doesn't observe any trends of any particular economic entity on the basis of empirical evidences. More importantly, this analysis is not country specific so it may create ambiguity if someone plans to relate with any particular economic unit. The excuse of those limitations is that this study is not a quantitative analysis rather a general discussion of the role of international organizations paying particular attention on the WB in the governance mechanism.

The paper proceeds as follows: in Section-1 there is an introductory discussion while Section-2 develops the methodology of the study. A separate section (Section-3) is added here to provide a comprehensive idea about good governance and its measurement process to make a clarification of its nature and characteristics.

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Section-4 articulates the correlation between governance and development. This section also critically examines the role of international donors and their attitude in giving aid. Section-4 has the paramount importance because it is the core section of this study. The succeeding section (Section-5) describes the writings the influential role of international agencies in determining the aid conditionalities. The decisions are mostly taken on the basis of donors' interest ignoring the recipients' countries potential benefits. Section-6 tries to articulate the present responsibilities enjoying by those organization and how to develop a system to make them accountable. The next section contains the concluding remarks of this paper.

## 2.0 Methodology

This paper will intend to define governance from different perspectives. After that we will discuss how governance linked with context of aid and role of international organizations. Then attention will be given to the indicators of governance and how governance is linked with development. After that the paper will give some examples how conditional aid badly affect the social and economic condition of the receiving country. Then it will discuss the criticisms on accountability and transparency of the WB and finally we will conclude.

This paper is completely based on theoretical arguments of different books, journals, websites and intellectual writings (published & unpublished) of different authors. Here we tried to analyze the findings and comments of scholars. In this paper no data are used and no testing of hypothesis is considered. So this is just a theoretical elaboration of the role of the WB and other international donors considering governance as the key issue. The development through aid is the starting point of our discussion which ends with the fact that the international donors must have some accountability for efficient use of resources. The whole discussion is based on the secondary evidences.

## 3.1 What is Good Governance?

The term "good governance" was coined by the WB in 1989 in a report on Sub Saharan Africa (Santiso, 2001, p.5). According to the WB the concept of governance captures "the manner in which power is exercised in the management of a country's economic and social resources for development" (WB, 1992, cited in Santiso, 2001, p.3). It also shapes the way in which donor countries respond. The policy agenda promotes democracy and development as a condition for aid.

The WB does not operate with one single definition of governance. In 2000 the bank changed their earlier definition of governance. 'Governance is the institutional capability of public organizations to provide the public and other goods demanded by a country's citizens or their representatives in an effective, transparent, impartial, and accountable manner, subject to resource constraints' (WB, 2000, cited in Kjaer, 2004, p.173). In spite of the varying definitions, the core features of the Bank's operational notion of governance refer to reducing corruption strengthening rule-bound behaviour.

The UN Development Programmes, have adopted definition that sees governance as "the exercise of economic, political and administrative authority to manage a country's affairs at all levels." In this perspective, governance comprises the mechanisms, processes, and institutions through which citizens and groups articulate interests, exercise legal rights, meet obligations and mediate conflicts. Governance is said to have three legs: economic, political and administrative (Hyden, *et al.*, 2004, p.15).

Governance examines process, not performance. It is treated as both activity and process in the sense that it is viewed as reflective of human intention and agency but is itself a process that sets the parameters for how policy is made and implemented. According to Hyden, *et al.*, (2004, p.16), "Governance refers to the formation and stewardship of the formal and informal rules that regulate the public realm, the arena in which state as well as economic and societal actors interact to make decisions. Governance, then, refers to behavioral dispositions rather than technical capacities".

There is a tendency among analysts and development agencies alike to adopt those that fit most closely into their own programmatic mandate (Hyden, *et al.*, 2004, p.4). UNDP gave a different definition, "It is the exercise of political, economic and administrative authority to manage a nation's affairs. It is the complex mechanisms, processes and institutions through which citizens and groups articulate their interests, exercise their legal rights and obligations, and mediate their differences". According to Kofi Annan, "good governance is perhaps the single most important factor in eradicating poverty and promoting development" (Hyden, 2003, p.1).

## 3.2 Measuring Governance

It is very difficult to find out and agree upon indicators of a macro-political phenomenon like governance. Donor community takes this advantage. They fix results-based indicators through which results could be measure (Hyden, *et al.*, 2004, p.12).

In 1996 the WB Institute created six quantitative 'Governance Indicators'. The indicators measure a country's government effectiveness, voice/accountability, political stability, rule of law, regulatory quality, and control of corruption (Kaufmann, *et al.*, 2006, p.4).

**Table-01: Description of governance dependent variables**

<b>Dependent</b>	<b>Variable Description</b>
Voice and Accountability	The what extent citizens are able to participate in selecting their government; freedom of expression, association, and media
Political Stability	Likelihood that the government will be destabilized or overthrown by unconstitutional or violent
Government Effectiveness	Quality of public services and the civil service; degree of its independence from political pressures; quality of policy formulation and implementation
Regulatory Quality	Regulations that permit and promote private sector development
Rule of Law	To which extent agents have confidence in and abide by the rules of society; quality of contract enforcement, police and the courts; likelihood of crime and violence
Control of Corruption	To which extent public power is exercised for private gain; as well as “capture” of the state by elites and private interests

Note: *Adopted from Kaufmann, D., Kraay, A., Mastruzzi, M. (2006, p.4)*

Hyden (2003, p.7) focus on six arenas: civil, political, and economic society and the executive, bureaucracy, and judiciary. According to Hyden, ‘good governance’ should constitute with:

- I. Participation: the degree of involvement and ownership of affected stakeholders;
- II. Decency: the degree to which the formation and stewardship of rules are undertaken without humiliation or harm of the people;
- III. Fairness: the degree to which rules apply equally to everyone in society regardless of status;
- IV. Accountability: the degree to which public officials, elected as well as appointed, are responsible for their actions and responsive to public demands;
- V. Transparency: the degree to which decisions made by public officials are clear and open to scrutiny by citizens or their representatives;
- VI. Efficiency: the degree to which rules facilitate speedy and timely decision-making.

Comparing those two types of indicators given by - WB and Hyden- it is very clear that they take social, economic, political aspect of governance. WB consciously made quantitative indicators in order to measure the outcome of their given aid. Unfortunately, nobody is concern with the environmental aspect of governance.

#### **4.1 How Governance Linked with Development?**

Santiso (2001, p.2) argues that aid conditionality is not the most appropriate approach to strengthen good governance in developing countries. The practice of international institutions such as the WB triggered a debate whether it was at all possible to transfer models of ‘good governance’ built on Western ideas to non-Western settings (Kjaer, 2004, p.175).

Hyden’s governance work can be seen as a part of this focus on state-society interaction in comparative politics. His approach refers to the literature on democratization processes. He relates it to theories of development and democratization in the Third World. The WB has played an important role of promoting good governance practices attaching various compliance conditions to its loans. The Bank has adopted four components of good governance as policy guide lines in recipient countries such as public sector management (civil service reforms & privatization), legal framework (independent judicial system & legal frame work), accountability (the accountable administration of public funds, an independent public auditor), and transparency and information (Rhodes, 1997, pp. 46-50). With the introduction of good governance practices, many institutional changes have been occurred in developing countries with positive and negative impacts within this period.

Many of the borrowing nations face challenges by virtue of the history of underdevelopment and the approaches such the these models of good governance are difficult to achieve without fair terms of trade and without being used as opportunities to develop the developed nations still further.

During the period from 1989, some countries around the world have experienced internal socio- political issues as a result of implementation of good governance practices introduced by the WB. Some governments bound to sell enterprises and lost their important income sources. Due to civil service reforms, many public employees lost their jobs. Some governments have stopped or reduced recruitments to the government service as per the instructions of the Bank.

#### **4.2 Governance Linked with Context of Aid & Role of International Organizations**

The WB programmes are an illustration of the difficulty of transferring particular models of governance to other countries. The WB and other UN agencies used the notion of good governance as a policy condition. Their programs aim to implement good governance to the countries that get aid from the Bank. The IMF, the WB, and

Western capitalist states have not provided the technical infrastructure and organizational capacity to execute their neo-liberal privatization agenda, which rests on dubious socio-economic assumptions. In this case, Bangladesh is not unique, it has been happening again and again around the World (Uddin, 2007, p.2).

To strengthening the good governance practices in recipient countries, the WB has called for greater transparency, efficiency and accountability of the borrower countries. They advocated to reform public sectors that includes civil service reform and privatization initiatives. The WB and the IMF have encouraged many Least Developed Countries (LDCs) to pursue privatization policies (Cook and Kirkpatrick, 1995; Craig, 2000 cited in Uddin, 2007, p.3). It is difficult for many LDCs to resist. In addition, they suggested developing legal framework of the country. It enforces making rules that allow a market work. They also argued for accountability that aims to strengthen institution to hold the accountability of the government. The last component is transparency and information. This is the keywords for programs that support free media.

#### **4.3 Issues of Conditional Aid**

The WB and other UN agencies work intimately with their own charters. In structural adjustment programs, they are committed to the principles of the Washington consensus. They believe that conditionality is an effective way for improving economic performance, and neither monitored closely the impacts of the programs on poverty or environment (Stiglitz, 2003, p.122). But the poor countries faced the conditionality as a problem not the solution. For example, Mexico, Ethiopia, Indonesia faced tremendous crisis to follow their privatization prescription.

In Bangladesh, studies found no significant evidence of greater efficiency in privatized jute, cotton and textile mills. Denationalized mills performed no better than public sector mills (Uddin, 2007, pp.6-7 and Ahmad, 1994, pp.187-188). According to Stiglitz (2003, p.114), the countries that seemed to be privatized slowly—Hungary, Poland, Slovenia—are the countries that have had the most successful transitions. Studies show that privatization without restructuring and corporate governance does not contribute to economic growth.

The WB many times influenced to the developing world directly. The Bank has introduced compulsory conditions to the developing countries with development assistance. Sometime conditional aid creates devastating impact on receiving country's environment. The WB and other UN agencies are very much indifferent about the environmental aspect of governance. One of such example is cited below about the effect of conditional aid in Bangladesh.

IMF gave conditional aid to Bangladesh government to flourish shrimp culture in the South-western part of the country. Those shrimp (lobster) are exported to the developed countries. But shrimp ponds, require saline water, are made by constructing canals which bring sea water to existing or newly dug ponds. Land previously used for rice cultivation and ponds are taken over by shrimp farming. Salinity of land, surface-water and ground-water is increased by these changes (Chowdhury, 2009, p.8). Livelihood is being put in risk in the various ways. Agriculture is shrinking in the coastal areas, loss of mangrove areas, other public lands and water bodies. Scarcity of drinking water is a serious problem of that area. Women have to walk further to collect drinking water when both ground and surface waters are made saline by shrimp ponds. The ecosystem of that area is badly hampered by this aid project. But the donors are very apathetic about this environmental turmoil.

#### **5.0 Who Decides on the Social, Economic & Environmental Indicators?**

Governance requires an ability to respond to complexity in terms of:

1. Level of participation from imposition to consent to collaboration. It requires a discursive approach to decisions based on communication with those who will be affected by the decision so as to address complex, value laden problems.
2. Governance designs need to ensure balance by considering triple bottom line accounting and accountability (social, economic and environmental) across the following institutions: a) State (legislative, executive and judiciary) and military; b) Market and c) Society (community, neighbourhood and household).

Local-global civil-society advocacy networks have pressured for the WB to apply good governance norms to its own organization in order to become more transparent and accountable in relation to, for example, human rights and environmental issues (Kjaer, 2004, p.184). But the WB and the UN agencies do not consider the possibility of systemic governance in the interests of social and environmental sustainability that spans international, regional and national boundaries in a new kind of federalism based on subsidiarity as suggested by Singer (2002). Systemic Governance is the contextual (social, cultural political, economic and environmental) accountability process of deciding who, gets what, when, why, how to what effect based on: participation, advocacy, compassion and subsidiarity (McIntyre-Mills, 2006, p.325).

Both the WB and IMF are limited by their respective charters. They have shown little or no concern for the environmental effects of its projects. Some projects such as Rainforest destruction and large Dams which

could be created negative impacts to the indigenous people were stopped by the Bank as a result of the influence of NGO campaigns. The WB and IMF were heavily criticized in the early 1990s for their alleged role in funding environmentally destructive programs (Avni, 2007, p.1). Critics asserted that many projects funded by them damaged fragile ecosystems and displaced large numbers of people. While the WB seldom provided a direct response to specific environmental criticisms in the early 1990s, it did attempt to demonstrate an increased focus on environmental issues at the institutional level.

Even though it has humanitarian image, the Bank often shows little or no concern for the welfare of people of developing countries. The Arun III hydroelectric dam project in Nepal was a most criticized project of the bank. In Bangladesh the WB and IMF have been critiqued for energy sector privatization program, shrimp projects in the Southern part of the country and so on. The donors paid a little attention to ecosystem devastation or the misery of the end users/ citizens of the borrower countries.

### **6.0 How to Enhance Accountability?**

Being reputed international organizations, the WB and IMF should be accountable or followed transparent procedures in working and recruiting. Now I will discuss three main critiques delivered to the bank on regard of good governance which are: accountability, transparency and its intervention on domestic policy of recipient countries.

The major criticism is about the accountability of those institutions. The question is to whom the WB should be accountable. And who decides on what constitutes accountability (McIntyre-Mills, 2006, p.326)? As it is a multi-purpose organization with many shareholders, Kjaer argues that the Bank must be accountable to its shareholders. Unfortunately, the United States has an influential power as it is the largest shareholder with 16.62% of the shares (Kjaer, 2004, p.176). That is why the Bank's work on governance reflects the tension between American and 'global' interests. Woods (2000) and Wade (2001) also argue that United States has a big influential hand towards its policy decisions (cited in Kjaer, 2004, p.180). Wade also believes that the WB is much more dominated by the United States' neo-liberal views (Kjaer, 2004, p.181).

The second critique is related to their intervention on domestic policy of the receiving countries. The Bank claims that the money lent to developing countries on condition of market-oriented deregulation is to foster development (Stiglitz, 2003, p.114). But it is true that, the WB governance programs often affect domestic policies (Kjaer, 2004, p.179).

For last fifty years many activities of the WB and the UN organizations were not transparent. They were criticized again and again for this transparency. Many NGOs have claimed that they have insufficient access to deliberation and decision making processes within the WB including the deliberations and recommendations of the Inspection Panel. For last fifty years the appointment of the President to the Bank is not transparency (Woods, 2001, cited in Kjaer, 2004, p.181). The WB and the UN was blamed for nepotism time and again.

Wolfowitz, who was nominated for the bank job in 2005 by President George Bush, joined the institution from the Pentagon, where he was one of the architects of Iraq war (Wroughton, 2007, p.1). He facilitated to recruit and raise a pay for her girlfriend, Shaha Riza. Like Ms. Riza, who served at the WB before her boyfriend became its president, Ms. Ban and her husband worked for UNICEF before Mr. Ban became secretary-general (Avni, 2007, p.2). Until 2005, the wife of the bank's managing director, Shengman Zhang of China, worked directly under him. The bank also employed a brother of its chief economist and senior vice president, Nicholas Stern of Britain, violating its own rule against employing siblings (Feldman, 2007, p.1 and Avni, 2007, pp.4-5).

### **7.0 Conclusion**

Though the concept of governance introduced many years ago, activities of the WB and other international donor agencies towards developing nations are still questionable. They should design Governance to ensure balance by considering triple bottom line accounting and accountability (social, economic and environmental) across the following institutions: a) State (legislative, executive and judiciary) and military; b) Market and c) Society (community, neighbourhood and household).

A good governance system extends beyond the capacity of public sector to the rules that create a legitimate, effective and efficient framework for the conduct of public policy and it implies managing public affairs in a transparent, accountable, participatory and equitable manner (Santiso, 2001, p.5). Systemic Governance is the contextual (social, cultural political, economic and environmental) accountability process of deciding who, gets what, when, why, how to what effect based on: participation, advocacy, compassion and subsidiarity (McIntyre-Mills, 2006, p.325). The WB and other UN agencies should bear in mind that if they don't follow the systemic governance aspect with their program, the outcomes might not be sustainable. In order to ensure better and sustainable future they should follow systemic governance. At the same time they should develop their accountability and transparency.

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