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Good Governance, International Aid and its Implications for Development

1. *Introduction*

The fact that the world has a very unequal distribution of wealth is an indisputable fact. Terms have been coined to denote this separation: the developed and developing[1] world, the Global North and the Global South. With this uneven outcome, there is a sense of responsibility of redistribution, thus creating the notion of international aid. Yet there exists a debate as to how effective international aid has been in its mission of helping developing countries. In recent years, the effectiveness of aid has been tied to the concept of *governance*, "the manner in which power is exercised in the management of a country's economic and social resources for development" (World Bank, 1992). As Santiso explains: "The reinforcement of good governance in developing countries has become an *objective* and a *condition* for development assistance. However, combining these two aims in aid policies represents a daunting challenge for development institutions (Santiso, 2001: 3)."

This paper will first provide a theoretical framework of the divergent ideas about the topic of aid and governance in developing countries. Then, it will analyze a specific case, the case of Chile, to demonstrate how aid promoted economic development, and helped build the structures that cemented good governance, making Chile an important economic force in Latin

[1] For the purpose of this essay, the terms "developed" and "developing" countries, will be used.

America that has since then separated itself from aid. All of this will serve to illustrate the following argument: Democratic accountability and good governance are essential for development; therefore, international aid should be focused on building state capacities. Moreover, apart from aid, there should also be an emphasis on bottom-up approaches towards economic growth.

2. *Mapping of the Debate*

Although development scholars all have a similar objective– to increase the standard of living of the citizens of developing countries– there have been incredibly contrasting views as to what approach must be taken to reach this goal. Is aid essential or not? Moreover, is it beneficial or detrimental? Is good governance a necessary element for development or should the focus be on building a competitive economy? On the two extreme sides of the debate there are those who argue that international aid is immensely beneficial and fomenting the economy is the main key, and on the other hand, there are those who stand by the idea that aid has been harmful and building good governance should be our main focus. There are also authors who argue for a middle ground, proposing a balance between these two perspectives. The following paragraphs will now elaborate on these main schools of thought, and then dive a bit more into the literature surrounding aid effectiveness and the concept of governance.

Certain development advocates have stated that the importance of aid is unquestionable. As economist Jeffrey Sachs states: "The issue is not "yes" or "no" to aid. Aid is needed, and can be highly successful. The issue is how to deliver high-quality aid to the world’s poorest and most vulnerable people (Sachs, 2014)." Sachs considers that if countries are able to get out of the "poverty trap" (Sachs, 2005: 56), they will be able to defeat the downward spiral of impoverishment, hunger and disease (Sachs, 2005: 2). Moreover, he has said that politics cannot explain, for example, Africa's prolonged economic crisis, and that Africa's governance is poor because of it economy is poor (Sachs, 2005: 190). As a very strong proponent for aid, Sachs argues for a top-down approach, with a five-part plan which has an emphasis on Millennium Development Goal- based poverty reduction strategies (Sachs, 2005: 273-274), and he even stated that with the right policies and key interventions, extreme poverty could be eradicated within 20 years (Sachs, 2005: 1). In more recent years, Sachs has recognized that "aid is one development tool among several; it works best in conjunction with sound economic policies, transparency, good governance, and the effective deployment of new technologies (Sachs, 2014)."

On the other side of the debate, there is a plethora of authors who argue that aid has been ineffective for developing countries; some have even extended to say that it has been perjudicial. For example, Zambian economist Dambisa Moyo claims that development aid is "the single worst decision of modern developmental politics (Dambisa, 2009: 124)." One of the main opponents to Sachs' top-down approach is William Easterly, who explicitly states that the "poverty trap" argument is a myth (Easterly, 2006: 39), given that is it immensely difficult for foreign aid to "give a big push" to countries to achieve a takeoff into self-sustained growth (Easterly, 2006: 48). Furthermore, Easterly states that bad government is one of the main factors that impedes a country's economic growth, and that "average democracy is significantly correlated with long-term growth in most specifications (Easterly, 2006: 44)." Others agree that it has been difficult to establish any significant correlation between aid and growth rate of GNP in developing countries (Mosley, 1987). As an alternative, authors of this school of thought have proposed a bottom-up approach, in which countries determine their own priorities (Deutscher & Fyson, 2008). This idea emphasizes the need of developed countries to make an effort to understand developing countries' needs. Moreover, for countries to achieve greater development, they must step aside from the intricacies of bureaucracy, and work with entrepreneurs on the ground. Easterly is hopeful that “even when the West fails to ‘develop’ the Rest, the Rest develops itself (Easterly, 2006: 363).”

Still, there are some authors that argue for a combination of the top-down and bottom-up approach, understanding the pros and cons of both. One framework, proposed by Paul Farmer, advocates for the building of public sector capacity with aid (Farmer, 2001: 22), prioritizing the transfer of aid functions to local authorities (Farmer, 2013). He says that the idea that foreign aid does not work is a myth, because "if we are able to strengthen in-country capacity so recipients can manage their own affairs, one day we will eliminate the need for anything other than partnerships. We can do this by partnering with discernment and building systems of transparency and accountability (Farmer, 2013)." On a similar note, in this intersection between aid and grassroots approaches, some have said that for aid to be maximized efficiently and most optimally, donations need to be directed to areas such as local industries, franchises, or profit centers in third world countries. By doing so, these actions can sustain health related spending and result in growth in the long run (Garrett, 2007). In this sense, countries can merge the "local solutions for local problems" idea (Farmer, 2013) and the use of international aid and redistribution to their benefit.

Regardless of whether we consider aid is detrimental, beneficial or a combination of the two, in the current economic and institutional framework, it would be very difficult to step back from the conventions and aid projects that institutions, such as the World Bank and the International Monetary Fund have, and will continue to, implement. Luckily, in the last years, there has been a realization that aid effectiveness is important. In consequence, there have been several conventions and measures taken to address this issue. In 2005, the Organisation for Economic Co-operation and Development (OECD) presented the Paris Declaration on Aid Effectiveness which endorsed a plan to focus on five mutually reinforcing principles: o*wnership*, of developing countries and their own development policies and strategies; a*lignment*, between donors and national development strategies; *harmonisation* and coordination between donors; *managing for results*, and focus on the tangible difference of aid, in poor people's lives; and lastly, *mutual accountability* (OECD: 2005). Later, in 2008, the Accra Agenda for Action stated that transparency and accountability are essential elements for development results, as well as drivers of progress, and expanded on the Paris Declaration with three main areas where progress toward reform is still too slow: country ownership, building more effective and inclusive partnerships, and achieving development results—and openly accounting for them (OECD: 2008). In 2011, there was another Forum on Aid Effectiveness in Busan, South Korea, with a similar objective.

Granted that aid will continue, we can observe how institutions are making an effort to make aid as effective as they can, and one of the main topics that is being discussed is that of building better governance, because "for years already, the evidence is available that not only economic policies matter for aid effectiveness, but at least as important are good governance and corruption control (Kaufmann, 2009: 27)." In 1998, the UN Secretary General, Kofi Annan, even stated that "good governance is perhaps the single most important factor in eradicating poverty and promoting development (ODI, 2006: 1)." So what should donors do? Hyden, Court and Mease state that donors' first step should be to support more independent, rigorous and detailed governance assessments – drawing on the views of local stakeholders, and building up local capacity to conduct such assessments (Hyden, Court & Mease, 2004). This will permit aid institutions to allocate their funds, and determine strategies, based on how they identify useful governance interventions, and important governance issues. From here, aid can be tailored to the needs of the country. For well governed poor countries it makes sense to provide more aid, over longer periods, through direct budget support to governments, and for the range of development activities defined by the country. On the other hand, for poorly governed countries, the approach could mean the provision of limited amounts of aid, for short periods and for humanitarian response, directed through NGOs and oriented towards improving governance (ODI, 2006: 4). Peter Evans, in his piece on the Development State expresses how government is a very important aspect of development. He states that, "the question is not whether the state must take on a broad and aggressive role if development is to succeed in the twenty-first century. The question is whether there are plausible paths for the emergence of states with the institutional capacity and political character that will enable them to play the role required for developmental success (Evans, 2008: 229)."

To conclude this theoretical mapping it is important to establish that, even if we grant that governance is important, there is still the question of what this concept entails. Although this is a complex debate, for the purpose of this argument we will focus on the following six main areas of governance: civil society, political society, government, bureaucracy, economic society, and judiciary (ODI, 2006: 2). Furthemore, we will concentrate on the following six core principles of good governance: *participation*, the degree of involvement by affected stakeholders; *fairness*, the degree to which rules apply equally to everyone in society; *decency*, the degree to which the formation and stewardship of the rules is undertaken without humiliating or harming people; *accountability*, the extent to which political actors are responsible to society for what they say and do; *transparency*, the degree of clarity and openness with which decisions are made; and *efficiency*, the extent to which limited human and financial resources are applied without unnecessary waste, delay or corruption (Hyden, Court & Mease, 2004).

Now that we have established a theoretical backing on the investigation of international aid for developing countries, the question of what role government plays in this debate, and the different measures that have been taken to improve aid effectiveness, we will pass on to analyze a specific Latin American country, Chile, to further develop the argument previously established.

3. *The Case of Chile*

Chile, a politically stable, upper-middle income, developing nation of 17.76 million people (World Bank) located in the Southern Cone of South America, is a country with a greatly diverse and interesting political history. Achieving full independence from Spain in 1818, it established a mass electoral democracy from 1932 until 1973, year in which the military intervened against the leftist government of Salvador Allende, who was socializing the economy (Hudson, 1994). After this year, right-wing military Augusto Pinochet came into power until 1989. During this government, statist economic policies were reversed by rapidly implementing changes that liberalized trade and investment, privatized firms, and dismantled the welfare state (Meyer, 2014: 2). The Pinochet era came to an end in 1989, and the year of 1990 served Chile as an era of "the return of democracy," moment in which the center-left *Coalition of Parties for Democracy*, (Concertación de Partidos por la Democracia) came into power. Currently, Michelle Bachelet, of the Concertación, serves as the president.

A common misconception is that in the stage of democracy, neoliberal models were dropped. The Concertación government negotiated a variety of free trade agreements to obtain access to important consumer markets and fuel export-led development, institutionalized countercyclical fiscal policies to ensure stable government funding during economic downturns, and built a modest social safety net (Landerretch, 2012). During the two decades of Concertación rule, Chile's economy grew by an average of 5.1% annually, and the percentage of Chileans living in poverty fell from 38.8% to 15.1% (El Mercurio, 2010). In 2013, according to many analysts, Chile had the most competitive and fundamentally sound economy in Latin America. (Schwab, 2013) Strong economic growth and targeted social programs have produced considerable improvements in development indicators in Chile over the past years, with the percentage of Chileans living in poverty falling from 38.8% in 1989 to 14.4% in 2011 (Meyer, 11). Chile also offers important lessons on methods to carry out infrastructure investments with more probity and public-private partnerships (Kaufmann, 2009: 29). Nonetheless, we must acknowledge the fact that there are still many social challenges that Chileans face, such as high levels of inequality, with a very high Gini coefficient of 0.50 (in opposition with the average of 0.31), and very low intergenerational mobility, mostly manifested in problems in the education sector (OECD, 2012; OECD, 2013; La Nación: 2011).

Despite the problems previously mentioned, Chile has become a crucial actor in the Latin American economy, and has now even served as an important donor (Gutierrez & Jaimovich, 2014). This coincides with the phenomenon that Park is talking about, when he states that "in the past decade, the aid environment has dramatically changed, because emerging economies which are still receiving aid from Western countries, have become donors themselves (Park, 2011)." Still, we must look back to understand what aid Chile received in the past, and how it influenced the country's economy. During the 1950s and 1960s, with the goal of promoting economic development and preventing the election of a communist government, the United States provided Chile with extensive assistance; President Kennedy made Chile the centerpiece of his "Alliance for Progress," providing over $1.7 billion (constant 2011 dollars) in economic assistance between 1961 and 1963 (USAID, 2011). Following the 1970 election of Socialist President Salvador Allende, assistance declined. After this, it slightly increased during the early years of the Pinochet dictatorship and then increased again following the transition to democracy, but has overall remained low. In recent years, Chile has only received about $1.3 million in U.S. assistance in 2011, $1.2 million in FY2012, and an estimated $1 million in FY2013 (Meyer: 15).

Still, it is important to state that "Chile is an exception to the current Latin american travails (Easterly, 2006: 361-362)." It is interesting to see the way in which other countries, such as Argentina and Venezuela, have tried to simulate the Chilean economic prosperity (Colitt, 2014). This relies on the fact that other countries did not build institutions as strong as Chile's, to be able to support this economic growth (Dumitru, 2015). Hence, with the case of Chile, we can see how international aid and the promotion of good governance, helped improve both economic and social indicators, making this nation an example for other developing countries.

4. *Concluding thoughts*

The topic of international aid and good governance, and its relation to development, is a subject of heated debate between development scholars. While there are some who completely endorse or oppose the necessity for aid, there has been a convergence between various authors in recent years that agree with the statement that aid is important, but its effectiveness must be held accountable for. Moreover, many have argued that aid should be primarily administered to countries that are well-governed and have adequate institutions that oppose corruption. For countries that do not count with a strong State, there should be a focus on building state capacities, and fomenting democratic accountability and transparency. The case of Chile serves as a very interesting example of a country of the developing world which, by strengthening its institutions and economy, was able to improve the living standards of its citizens in relation to many other countries of the region.

After examining these different theories, I must say that I stand by the idea that governance matters for development performance and aid effectiveness, and that more attention needs to go towards assessing governance issues in a comprehensive, rigorous and independent manner, drawing on the views of locals, to both benefit poor people in developing countries and reassure taxpayers in donor countries (ODI, 2006: 4). Under my point of view, regardless of the amount of funds that are injected to foment a developing country's economy, if the correct institutions are not in place, this will only lead to a spiral of corruption and misallocation of funds. On a similar note, a combination of the bottom-up and top-down approaches are the ideal framework, given that under the current world dynamic, it would be very hard to dismantle institutions such as the World Bank and the IMF, but there should also be a growing emphasis on understanding the necessities of the citizenry of developing countries.

Still, there are many questions that are left unanswered under the scope of this paper. What truly defines good governance? Is it economic prosperity, respect for human rights, or promotion of equality? Can the case of Chile, which received aid under a very controversial period, the Pinochet dictatorship, be endorsed as a model for development?, In the OECD Survey on Monitoring The Paris Declaration, 2008, Mary Robinson defined transparency as "a basic expression of mutual accountability". How effective can a top-down approach to accountability be and how do "limits and contradictions of democratic accountability in the modern era" (Agarwala, 2013: 30) manifest themselves in developing countries? Will it ever be possible for external actors to build better governance in other countries? Lastly, under the world's turbulent economy, with social and political instability in both the developing and the developed world, will the goals of the Paris Declaration and Accra Agenda come to fruition?

There is still much work and deliberation to be done around the topic of development. Nevertheless, for now, I will state that the words “aid”, “good governance” and “development,” should not be looked at as opposing terms, but can be combined in debates, policies and frameworks, that have the ability to achieve truly beneficial results.

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