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## **MAKING DEVELOPMENT WORK: THE QUALITY OF GOVERNMENT APPROACH**

**Bo Rothstein, Marcus Tannenberg**

# Making Development Work: The Quality of Government Approach

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# Preface

How to address the challenge of eradicating poverty and promoting development and what donors should prioritize in order to be effective are fundamental questions for international development cooperation. Over time, focus in development cooperation has continuously changed in the search for practical answers to these questions. Measures considered to be promising have been applied for some time, later to be abandoned in favour of other initiatives and possibly more promising solutions.

In this report, Professor Bo Rothstein and Marcus Tannenber from the University of Gothenburg, synthesize the current knowledge on why some countries have developed into prosperous societies while others have not, and put forward conclusions for development policy. They show that so called *quality of government factors*, i.e. factors such as control of corruption, the rule of law, and administrative competence, have a strong positive impact on most standard measures of human well-being (e.g., infant mortality, life expectancy and child poverty) and that good quality of government is central for development. Hence, if the aim is to improve human well-being, it is key to promote high quality of government and control of corruption.

The importance of well-functioning institutions and the need to address corruption is indeed well-known by policy makers. Since the late 1980s, governance has been a major concern for both donors and their partners in developing countries and good governance has been highlighted by several world leaders. In a well-cited quote, former UN Secretary-General Kofi Annan noted that “good governance is perhaps the single most important factor in eradicating poverty and promoting development”. Recently, the importance of governance has been reiterated in the global agenda 2030, where building effective, accountable and inclusive institutions is highlighted. Hence, there is obviously a broad understanding on this issue. How come then, that in spite of numerous measures to promote institutional development and to combat corruption, there has been relatively little progress?

In the report, the authors address the question of why the development agenda has failed, and what donors should do to get it right. They argue that there is a need for a better understanding of the nature of the problem. “Good governance” is a term that has been widely used in the donor community at large but there is no clear agreement on what it entails. In Sweden, on the other hand the term



“democratic governance” has been frequently used. But as the authors point out, all good things do not necessarily go together, and democratization is not necessarily the road forward to eradicate poverty and promote development. Of course, democracy has an intrinsic value in itself, as is underlined by Rothstein and Tannenberg, but in order to promote development it might be more important to improve the exercise of power than promoting the access of power.

Swedish development cooperation has a relatively long history of institutional capacity building. In the 1990s Sweden was one of the first donors to start projects in recipient countries which had the stated objective of making government work. Over time, new perspectives and initiatives have been added to the Swedish agenda. The authors show that Swedish support for public administration constitutes a relatively small part of the Sida portfolio today, and that it has declined over the past ten years.

Rothstein and Tannenberg recommend increased resources to strengthen the quality of government and the capacity of the public administration. However, increased quality of government is not only achieved by broadly targeting the public administration per se. The authors outline five distinct institutional factors which have been shown to influence the perceived quality of life; a functioning and legitimate system of taxation, meritocracy, universal education, gender equality and “good auditing”. These are factors that development cooperation could address in order to promote transformative change.

The overall goal for Swedish development aid is to create better living conditions for people living in poverty and oppression. In light of the poverty agenda, this report calls for some serious reconsideration of the focus of Swedish development cooperation.

The work on this report has been accompanied by a reference group which I had the pleasure of chairing. The analysis, views and recommendations presented in the report are the sole responsibilities of the authors.

Stockholm, December 2015



Lars Heikensten

# Sammanfattning

Denna rapport syftar till att sammanfatta resultaten från forskningen om samhällsinstitutionernas kvalitet vad gäller dess betydelse för utvecklingsbistånd. Med samhällsinstitutioner förstås i detta sammanhang de offentliga organ som ansvarar för genomförandet av den offentliga politiken, dvs. den offentliga förvaltningen inklusive rättsväsendet. Samhällsinstitutionernas kvalitet (hädanefter QoG = Quality of Government) har i både kvalitativa och kvantitativa studier visat sig ha en starkt positiv inverkan på de flesta standardmått på mänsklig välfärd såsom t.ex. spädbarnsdödlighet, förväntad livslängd och barnfattigdom. QoG har också en positiv inverkan på subjektiva faktorer såsom om människor uppger att de är nöjda med sina liv och om de uppfattar att man i allmänhet kan lita på andra människor. Betydelsen av QoG framgår inte minst om man jämför med vilken effekt demokratins kvalitet har i ett land. I dessa jämförelser har det visat sig att QoG har en betydligt kraftigare inverkan på mänsklig välfärd än vad graden av demokrati har. Ett exempel är att det auktoritärt kommunistiska Kina numera överträffar det liberal-demokratiska Indien på i princip samtliga mått på mänsklig välfärd. Detta gäller också när man mäter i vilken grad människor i olika länder uppfattar sitt styrelseskick som legitimt. I dessa studier visar det sig att medan demokratiska rättigheter visserligen har betydelse så har QoG-faktorer såsom låg korruption, respekt för rättsstatens principer och förvaltningens effektivitet klart större betydelse för i vilken utsträckning människor uppfattar sitt styrelseskick som legitimt. Till detta kommer ytterligare ett problematiskt resultat, nämligen att införandet av demokrati i ett land inte visat sig vara ett säkert botemedel mot korruption och andra liknande företeelser som innebär låg QoG.

## Mål och forskningsresultat

Betydelsen av samhällsinstitutioner har kommit att inta en dominerande ställning i den forskning som avser att förklara varför vissa länder är betydligt mer framgångsrika än andra när det gäller att skapa mänsklig välfärd. Vad gäller denna forskningsinriktnings relevans för biståndspolitikens utformning lyfter rapporten fram ett

antal problem. Det första är att ännu efter snart 25 års intensiv forskning inom detta område så kan man inte peka ut ett enda specifikt biståndspolitiskt initiativ som visar sig påtagligt kunna reducera korruptionen i något mottagarland. Detta visar sig hänga samman med att många av de institutionella faktorer som man i denna forskning kunnat påvisa ha påtagligt stor statistisk förklaringskraft när det gäller att förklara skillnader mellan t.ex. fattiga och rika länder, ligger på en så grundläggande strukturellt-historisk nivå att de inte är mottagliga för politiska åtgärder. Länder som dominerats av lutheranism, som är geografiskt relativt små, som inte haft en historia av kolonial utplundring och som varit relativt etniskt homogena har i allmänhet klarat sig bäst. Dessa resultat är förvisso värdefulla att känna till och mestadels vetenskapligt korrekta, men de pekar ut faktorer som är oåtkomliga för politiska insatser vare sig dessa skulle genereras från länderna själva eller genom biståndspolitik. De kan liknas vid att en cancerpatient inte har någon nytta av om läkarens råd innebär att patienten borde haft andra föräldrar.

Rapporten påvisar också andra skäl till varför biståndspolitiska insatser för att öka QoG i mottagarländer i huvudsak hittills varit utan framgång. Ett sådant är brister i den konceptuella specifikationen av problemet. Standarddefinitionen på t ex korruption har varit varianter på temat "missbruk av offentlig ställning för privat vinning". Problemet med en sådan definition är dels att vad som skall räknas som "missbruk" inte varit specificerat vilket innebär att definitionen är tom på substantiellt innehåll. Det andra problemet med denna definition är att den inbjuder till relativism i så motto att vad som kan anses vara "missbruk" i ett land inte behöver vara det i ett annat land. Rapporten pekar ut ett alternativ till denna definition som innebär att QoG skall förstås som respekt för principen om *opartiskhet* i genomförandet av offentlig politik. Med en sådan definition står det klart vilken grundnorm som måste upprätthållas av de som ansvarar för genomförande av offentlig politik. Rapporten visar också att en sådan universell norm om vad som är QoG har ett omfattande empiriskt stöd i aktuell forskning.

Ett ytterligare skäl till att åtgärdsprogram mot låg kvalitet i samhällsstyrningen ofta visat sig sakna effekt är att de byggt på en felaktig teoretisk föreställningsram om vad som utgör problemets grundläggande natur. Den dominerande teorin, som har namnet *Principal-Agent* teorin utgår från att t.ex. korruption uppstår eftersom den hederlige och allmänintresserade *Principalen* (t.ex. ett lands

regering) för att genomföra sin politik måste använda sig av ett stort antal *Agenter* (t ex offentliga tjänstemän) som dels måste ges ett omfattande handlingsutrymme och dels antas vara egenintresserade nytto-maximerare. Som sådana kommer de då att använda sitt handlingsutrymme för att gynna sig själva istället för att lojalt genomföra *Principalens* åtgärdsprogram. Medlet för att lösa detta problem är därför att rekommendera *Principalen* att förändra de incitament som styr *Agenternas* beteende så att deras fruktan för att bli straffade för sina oegentligheter är högre än de potentiella inkomster de kan få från sitt maktmissbruk.

Problemen med denna teori är följande: Om t.ex. korruption var ett incitamentsproblem skulle det ha varit enkelt att lösa och därmed löst för länge sedan. Är det något som är välkänt så är det hur man ändrar incitament. Det värre problemet är att teorin bygger på en aktör som enligt teorin inte ska existera. Teorins grundantagande är att mänskligt handlande styrs av egenintresse och nyttomaximering men den centrala aktören som enligt teorin skall åstadkomma förändring är av en helt motsatt sort, nämligen allmänintresserad och därmed beredd att avstå från fördelar som gynnar honom eller henne själv. Det är välkänt att inkomster från t.ex. korruption oftast färdas "uppåt" i ett korrupt system och lika välkänt är de enorma tillgångar som avsatta korrupta politiska ledare ackumulerat. Detta betyder att den aktör som enligt teorin skall åstadkomma en förändring genom att ändra systemets incitamentsstruktur inte har några incitament för att ändra incitamenten i systemet.

Rapporten presenterar ett teoretiskt alternativ till hur korruption och andra former av låg QoG skall förstås. Detta alternativ bygger på att problemet skall subsumeras under teorin om *kollektivt handlande*. I denna teori är hög QoG något som ligger i "allas" intresse men det kan bara åstadkommas om aktörerna har förtroende för att "nästan alla" andra aktörer också är beredda att agera hederligt. Aktörerna i denna teori antas inte vara styrda främst av egenintresserat nyttomaximerande utan av hur de uppfattar hur "alla andra" aktörer i samma situation handlar. Aktörer är då beredda att agera hederligt om de uppfattar att de *kan lita på* att de flesta andra i deras situation också agerar hederligt. Grundnormen som styr aktörernas agerande antas då vara *reciprocitet*.

Denna teori har visat sig få ett omfattande stöd i nyare experimentell forskning (något teorin om egenintresserat nyttomaximerande inte har). För politiska åtgärdsprogram mot t.ex.

korruption innebär detta att de som vill råda bot på problemen med låg QoG måste åstadkomma institutionella förändringar som är av ett så pass omfattande slag att de förändrar aktörernas uppfattning inte bara om hur de själva bör agera men också deras uppfattning om sannolikheten i vad "alla andra" aktörer i deras situation kommer göra. Aktörerna antas således vara beredda att göra "det rätta" men bara under förutsättning att de tror att de flesta andra aktörer agerar likaledes.

## Sveriges biståndspolicy och kvalitet i samhällsstyrningen

Då detta är en rapport till den svenska regeringens *Expertgrupp för Biståndsanalys* analyserar vi även hur den svenska biståndspolitiken relaterar till QoG problematiken. Syftet har inte varit att utvärdera svensk biståndspolitik i denna dimension utan enbart att ge en deskriptiv beskrivning. Man kan konstatera att frågor om t.ex. korruption fått ett starkt ökad genomslag i offentliga styrdokument men att man haft som utgångspunkt att ökad demokratisering också skall leda till bättre samhällsstyrning vilket inte visar sig ha stöd i forskningen. Bistånd till att öka effektivitet och kompetens i de offentliga förvaltningsorganen förekommer också men utgör en mycket begränsad del av det som kallas "demokratibistånd".

## Slutsatser och rekommendationer

En central slutsats från rapporten är att om syftet med svenskt bistånd är att öka "mänsklig välfärd" så borde den del av biståndet som går till att stärka kvalitén i samhällsstyrningen och öka kapaciteten i den offentliga förvaltningen stärkas. En annan rekommendation som följer av denna rapport är att det skulle vara en fördel om den svenska utvecklingspolitiken i både sin praktik och officiella policydokument gjorde åtskillnad mellan demokratibistånd och stöd för att öka kvaliteten i samhällsstyrningen.

Rapporten avslutas med en presentation av fem olika institutionella förändringar som i empiriska analyser visat sig ha ett positivt samband med ökad kvalitet i samhällsstyrningen. Dessa är a) ett fungerande och legitimt skattesystem, b) en meritbaserad rekrytering och befordring av offentligt anställda, c) allmän och fri skolutbildning, d) jämställdhet mellan kvinnor och män i den offentliga sfären och e) en professionell

nationell revisionsverksamhet vars resultat görs allmänt tillgängliga. Teoretiskt grundade argument för varför dessa reformer kan förväntas ha positiva effekter på samhällsstyrningens kvalitet presenteras. Dessa institutionella ordningar må förvisso vara svåra att åstadkomma men de ligger åtminstone teoretiskt inom det möjligas gräns. De kan samtliga innefattas i en "indirekt" istället för en direkt (incitamentsbaserad) ansats för att skapa QoG i linje med teorin om *kollektivt handlande*. De utmärks också samtliga av att de sänder tydliga signaler till medborgarna om att principen om opartiskhet är central för den offentliga verksamheten.

# Summary

This report aims to summarize the results of research from the Quality of Government approach in terms of its importance for development and aid policy. Quality of Government (henceforth QoG) is understood as pertaining to the public institutions responsible for the implementation of public policies, i.e., the public administration and the judiciary. Qualitative as well as quantitative studies have shown that QoG factors, such as control of corruption, the rule of law, and administrative competence, have a strong positive impact on most standard measures of human well-being (e.g., infant mortality, life expectancy, and child poverty). QoG also has a positive impact on subjective factors, such as whether people state that they are satisfied with their lives, and if they perceive that they in general can trust other people in their society. The importance of QoG for human welfare becomes clear if compared with the effect that the quality of democracy has on the same measures. Such comparisons show that QoG has a significantly greater effect on human well-being than democracy has. One example of this is that authoritarian Communist China outperforms liberal-democratic India on virtually all standard measures of human well-being. This also applies when measuring the degree to which people in different countries perceive their government as legitimate. Survey-based studies show that while democratic rights are important for political legitimacy, QoG factors such as low corruption, the rule of law, and efficiency in the public administration have a greater significance on the extent to which people perceive their governments as legitimate. Added to this is another problematic result, namely that the introduction of democracy in a country shows not to be a safe cure against corruption and other forms of low QoG.

## Purpose and findings

Understood as formal or informal “rules of the game”, institutions have come to occupy a dominant position in research that intends to explain why some countries are more successful than others in creating human welfare. As for the relevance of this research for aid policy, the report highlights a number of problems. The first is that

even after almost twenty-five years of intensive research, it is not possible to identify one single aid policy initiative that can be shown to have had a significant effect on reducing corruption in recipient countries. This shows to be related to the fact that many of the institutional factors that this research points out as having a statistically high explanatory power are located on such a fundamental structural-historical level that they are not susceptible to political action. For example, the research shows that countries dominated by Lutheranism, that are geographically relatively small, that have not had a history of exploitation by colonial powers, and that have been relatively ethnically homogenous, in general have fared better. These research results are certainly valuable and usually scientifically correct, but since they point to factors that are inaccessible for current political action, in the form of aid policies, they have no or very little policy relevance. These results can be likened to if a cancer patient, when asking her doctor for a possible cure, would get the advice that she should have had other parents.

The report also points to other reasons for why aid policies for increasing QoG in recipient countries have, by and large, been unsuccessful. One reason is deficiencies in the conceptual specification of the problem. The standard definition of for example corruption has been variations on the theme "misuse of public position for private gain". The problem with this definition is partly that it does not specify what counts as "abuse", resulting in a definition that is empty of substantial content (Rothstein, 2011, Heywood and Rose 2015:19), and partly that it invites relativism in the sense that what can be considered "abuse" in one country is not necessarily considered so in another country. As an alternative to the standard definition, it is argued that QoG should be understood as respect for the principle of *impartiality* in the implementation of public policies. This definition makes clear the basic norm that must be respected when public policies are implemented. The report also shows that such a universal definition of QoG has an extensive empirical support in current research. This is important because if aid programs in this area do not specify how the opposite of corruption should be understood, policies for increasing QoG will lack a clear direction.

A further reason for why policies for increasing QoG have been ineffective is that they have, for the most part, been built on a misguided theoretical conception of what constitutes the basic nature of the QoG problem. The dominant approach, which is named the



"Principal-Agent" theory, is criticized for lacking connection to reality. According to this theory, corruption occurs because the honest and common good oriented *Principal* (e.g., the President in a developing country), in order to implement policies, have to make use of another type of actor called *Agents* (e.g., *civil servants*). Corruption occurs because these *Agents* must a) be given broad discretionary power and b) are assumed to be self-interested utility-maximizers. As such, they will use their discretion to favor themselves rather than loyally implement the *Principal's* policies. The means to solve this problem, as recommended by this theory, is to convince the *Principal* to change the incentives for the *Agents'* behavior so that their fear of being punished for their irregularities becomes stronger than the benefits they can get from malfeasance.

The problems with this theory are the following. First, if corruption was simply an incentive problem, it would have been resolved long ago since it is well-known how to change incentives. The second, and worse, problem is that the theory is based on a type of actor which according to the assumptions of the theory does not exist. The theory's basic assumption is that human behavior is governed by self-interest and utility maximization. The central actor, however, who is supposed to bring about change, is of a completely opposite kind, namely benevolent and willing to forgo personal advantages for serving the common good. It is well known that rents from corruption usually "travel up" in a corrupt system. Another well-known fact is the huge assets corrupt political leaders have been able to accumulate in foreign bank accounts. This implies that the actor that according to theory should bring about a change by changing the incentive structure does not have any incentives to change the incentives. It is argued that this focus on changing the incentive structure has derailed many anti-corruption policies.

The theoretical alternative held forth is that corruption and other forms of low QoG should be subsumed under the *theory of collective action*. According to this theory, high QoG is something that is in "everybody's" interest, but it can only be achieved if the actors have confidence that "almost all" other actors are also prepared to act honestly. The actors in this theory are not assumed to be driven primarily by self-interested utility-maximization. Instead, their actions are strategic in the sense that what they do depends on what they believe most others will do. Actors are according to this theory prepared to act honestly if they feel they can trust that most others in

their situation also will be honest. The basic norm governing actors' performance is according to this theory not utility-maximization but *reciprocity*. Simply put, most actors are willing to “do the right thing”, provided that they trust that most other actors are also “doing the right thing”.

This theory has received wide support in recent experimental research (which the theory of self-interested utility-maximization has not). For policies aimed at increasing QoG, this implies that for change to occur, the institutional changes launched must be of such a comprehensive nature that they do not only change the individual stakeholders' perceptions about “how to play the game”, but also (and foremost) her perceptions of whether “most other” stakeholders in her situation are also willing to change their behavior.

## Swedish aid policy and Quality of Government

Since this is a report to the Swedish Government's Expert Group for Aid Studies, we also analyse how Swedish aid policy relate to the QoG problem. The aim has not been to evaluate Swedish aid policy in this dimension, but to provide a descriptive account of how consecutive Swedish Governments and the Swedish International Development Cooperation Agency (Sida) have acted. It is noteworthy that issues about corruption have received increased attention in central policy documents. However, the main assumption behind handling “bad governance”, namely that increased democratization should work as a solution to the problem, is not supported by our research findings. In general, the official policies have not made a distinction between democracy and state capacity in the form of QoG. Assistance to increase efficiency and competence in the public administration bodies in developing countries has been launched, but represents a small part of what is called “democracy assistance”.

## Conclusions and recommendations

A key finding from the report is that, if the purpose of Swedish development policy is to increase “human well-being”, then the proportion of aid resources for strengthening the quality of government and the capacity of the public administration ought to be increased. Another recommendation that follows from this report is

that it would be an advantage if the Swedish development policy, in both practice and official policy documents, makes a distinction between aid for increasing quality of democracy and aid for increasing quality of government.

The report concludes with a presentation of five distinct institutional changes which in empirical analyses have been shown to have a positive effect for QoG. These are a) a functioning and legitimate system of taxation, b) a merit-based system of recruitment and promotion of civil servants, c) universal and free education, d) gender equality in the public sphere, and e) a professional national audit agency whose results are made publicly available. Theoretically and empirically based arguments for why these reforms can be expected to have positive effects on QoG are presented. These institutional arrangements may indeed be difficult to achieve, but they are at least theoretically possible to influence, not least with development policies. They can all be included in an "indirect" rather than a "direct" (incentives based) approach to create QoG in line with the theory of collective action and emphasize the creation of a social contract. All five institutional devices would also imply clear signals from a government to its citizens that the principle of impartiality is central in the implementation of public policies. For most developing countries plagued by systemic corruption, such a social contract, based on impartiality in the exercise of public power, would be a transformative change.

# 1. Introduction

In the pursuit of world development – to end poverty and human suffering – a central question is: what is it that has made some countries develop into prosperous societies while others remain stagnant or diverge in relative terms? With suggestions ranging from geographic layout, historically inherited legal structures, and dominant religion to lack of market fundamentalism, a single definitive answer is unlikely ever to occur. However, the fundamental reason for this report is that some answers are likely to be closer to the truth than others. The development of two countries serves to illustrate the Quality of Government (henceforth QoG) approach to this question:

Jamaica and Singapore both gained independence from British colonial rule in the early 1960s. They had roughly the same population size and were both very poor. If the typical social scientist at that time would have predicted the situation now some fifty years later for these two countries, a fair guess is that he or she would have painted a very rosy future for Jamaica and a much bleaker one for Singapore. Jamaica had large areas of arable land, important natural resources, is located close to one of the world's most important export markets, and had the potential to develop a profitable tourist industry, especially since Cuba went out of this business at that time. Everyone spoke English and ethnic-religious cleavages were minimal. Singapore, on the other hand, had no natural resources, no arable land, is far away from major export markets, and had very challenging ethnic-religious divisions. The situation today, however, is completely the reversed of what would have been expected in the early 1960s. Singapore has nine times the GDP per capita of Jamaica and hugely outperforms Jamaica on all standard measures of human well-being. The problem is that, according to the best measures of democracy available, Jamaica has since independence been democratic, while Singapore has never been close to being regarded as a democracy. However, in contrast to Jamaica, Singapore has been able to achieve a comparatively very low level of corruption and high state capacity (Rothstein 2011, cf. Werlin 2007).

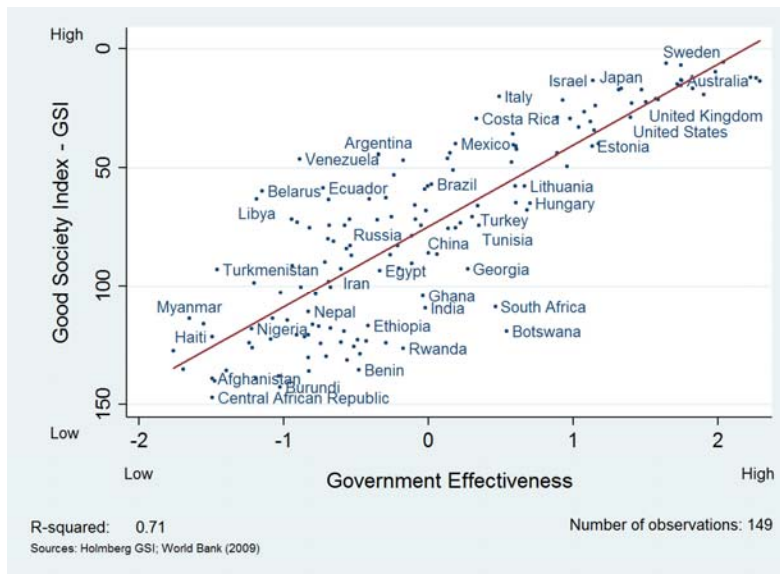
The QoG approach differs from many traditional development perspectives in that it emphasizes the output side of the political system over the input side. This can also be conceptualized as a

distinction between the *access* to and the *exercise* of political power, the latter being the central focus for the QoG approach. Democracy is in this context confined to the “input” side of the political system and consists of “free and fair” elections and a set of political and civil rights. Quality of democracy can thus be understood as a combination of how “free and fair” the elections are and how well civil and political rights are protected. Quality of Government (i.e., output side) consists of things like the rule of law, the quality of the civil service, and the effectiveness of government agencies responsible for implementing public policies. The relevance of this approach can be seen from the two graphs below. They are built from an index constructed by Holmberg and Rothstein (2015) called the “Good Society Index” (GSI). Following the principle of Ockham’s razor, it is deliberately made simple. The reason for this is analytical, namely that variables that can explain the variation in the GSI should not be included in the index. The GSI consists of only three types of data and covers 149 countries. The index combines WHO data on infant mortality and life expectancy and United Nations’ and Gallup’s data on people’s subjective feeling of personal happiness. In a good society, one may argue, newborns should survive and people should grow old before they die. And in between birth and death, people should state that they are satisfied with their lives (Holmberg and Rothstein, 2015). The first figure below shows the simple correlation between this index and one of the standard measures of QoG, namely the World Bank’s measure of Government Effectiveness. The second graph shows the GSI index correlation with a widely used measure of the level of democracy.<sup>1</sup>

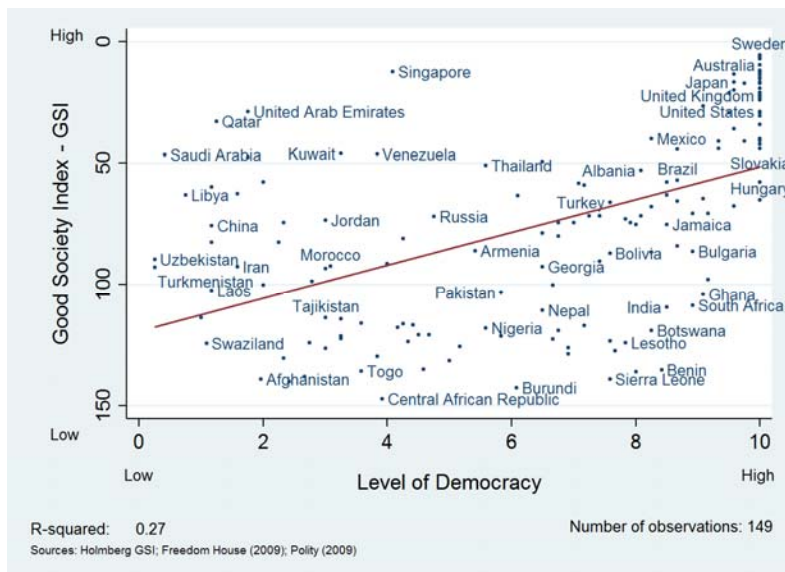
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1 Level of democracy scale ranges from 0-10 where 0 is least democratic and 10 most democratic. The measure is composed by Hadenius and Teorell (2005:95) and consists of an average of Freedom House measures of civil and political liberties and the measures from Polity of electoral participation and competitiveness, as well as constraints on the executive. Hadenius & Teorell (2005) show that this average index performs better both in terms of validity and reliability than its constituent parts do.

**Figure 1. Government Effectiveness and The Good Society Index**



**Figure 2. Level of Democracy and The Good Society Index**



As can be readily seen, while the correlation between this measure of QoG and the GSI is quite impressive, the opposite is the case for the correlation with the level of democracy. This, we argue, is the reason for why development research and policy should pay more attention to issues relating to the Quality of Government.

This report outlines what Quality of Government is, what you get by having it, and what, according to the best of our knowledge, is currently known on how you get it, focusing on what can be influenced by international development assistance. In the light of the United Nations' post 2015 development agenda – which puts a stronger emphasis on how states govern their citizens through goal 16 (“Promote Peaceful and Inclusive Societies for Sustainable Development, Provide Access to Justice for All and Build Effective, Accountable and Inclusive Institutions at all Levels”) and in particular goal 16.5 (“substantially reduce corruption and bribery in all their forms”) – understanding the nature Quality of Government and how it is achieved is perhaps more salient than ever before for development practitioners.

## 2. Democracy and Quality of Government

The waves of democracy that have swept over the world have brought electoral democracy to places where it was unimaginable some fifty, thirty, or even ten years ago. In 2014, the world set a historic record of electoral democracies at 122 countries, a number which has more than doubled since 1989 (Freedom House, 2014), and today more people than ever live in democracies (Teorell, 2010). To the extent that democracy works as a remedy for state mismanagement, serves as a cure against various forms of corruption, and paves the path towards development by reducing poverty, this should be good news.

### Democracy: some unfulfilled expectations

Theory holds that democracy and associated political liberties contribute to better development outcomes by inducing accountability in the relationship between rulers and citizens. True, democracy has enjoyed large success, and we do recognize that a majority of the world's best governed and most prosperous countries are democracies. However, for many countries, liberal representative democracy has failed to deliver on its promises. The mixed performances of democracies was, for example, manifested in a recent essay in *The Economist* (2014), where the question "What's gone wrong with democracy?" is in part answered by the overreach of democratic government, an inherent short-sightedness, and leaders' inability to fulfil electoral promises.

South Africa is a case in point. After the country miraculously managed to transition from the apartheid system into democracy in 1994 without falling into a full blown civil war, Nelson Mandela announced in one of his early speeches that, democracy would not only liberate people, but also dramatically improve the peoples' economic and social situation. Revisiting that statement some twenty years later, there are reasons to be disappointed. Available measures of the economic and social situation show that, over the last twenty years, the country has not increased the average duration children go to school by a single month. South Africa has not only remained



among the world's top three economically unequal countries in the world, but has seen a rise in inequality since the introduction of democracy. Moreover, life expectancy at birth has decreased by close to six years, and the number of women that die in childbirth has more than doubled.<sup>2</sup> Clearly, in terms of development outcomes, the South African democracy has failed to deliver on many of its promises.

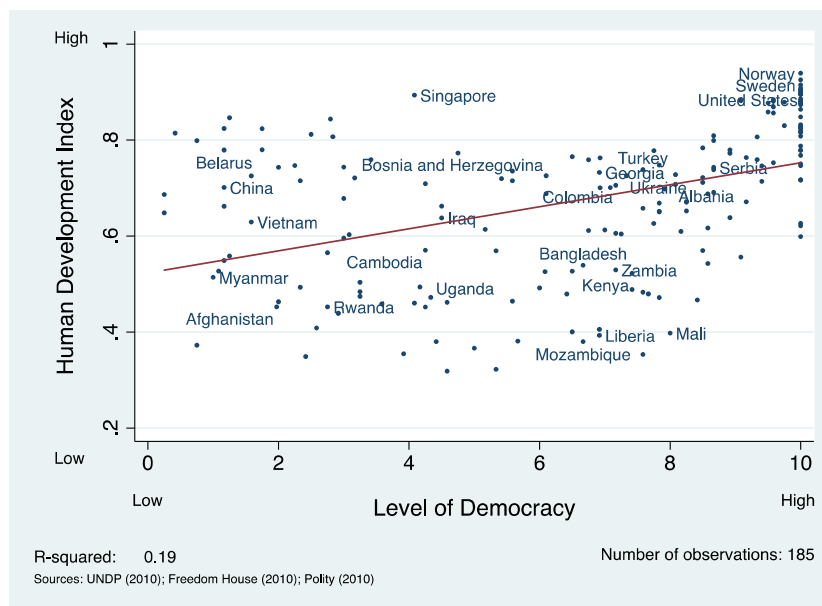
Nobel Laureate Amartya Sen (2011) provides another example in a comparative analysis of the “quality of life” in India and China. Sen has many times hailed the democracy in India as a remedy for famines but now contemplates why communist autocratic China clearly outperforms India, the world's largest liberal democracy, on all standard indicators of human development and well-being, such as infant mortality, life-expectancy, immunization of children, poverty rates, education, and literacy (2011). One possible answer to this is that China has established a highly meritocratic and quite effective special type of public administration, while India is plagued by high corruption, clientelism, and low competence in its civil service (Rothstein, 2015).

In a cross national comparative empirical analysis, Holmberg and Rothstein (2014) examine the relationship between democracy and more than thirty standard measures of human well-being and development, including some related to the potential for public goods provision, such as the capacity for taxation. Ranging from 75 to 169 countries, depending on variable, the study shows either weak, no, or even negative correlations between the level of democracy and the various measures of development. Plotting the level of democracy against the United Nations' Human Development Index (HDI), which aggregates life expectancy, literacy, education, and income, into one score, illustrates the absence of any clear relationship.

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<sup>2</sup> Data from The Quality of Government Institute's Standard Dataset (Teorell et. al. 2015).

**Figure 3. Level of Democracy and Human Development Index**



Halleröd et al. (2013) further add to the dismay of the lack of positive effects of democracy on development outcomes. Their study starts with a measure of child deprivation in 68 developing countries, with data for the access to safe water, food, sanitation, shelter, education, health care, and information. The data covers seven data-points for more than two million cases (children). Their analyses show no positive impact of democracy on any of the seven aspects of child deprivation, even when controlling for GDP per capita, while QoG has a significant impact on four of the measures of child deprivation.

Economists have for long studied the relationship between democracy and economic growth. As could be expected, the results point in various directions. A recent study by among others Acemoglu et al. (2014) summaries much of this research and also produces new data showing that “democracy produces growth”. However, their measure of democracy includes not only “free and fair” elections and political rights, but also a number of QoG variables such as for example the rule of law and other civil liberties. Moreover, in the appendix to the report, the authors state that most of the positive effect for economic growth comes from the QoG type of variables

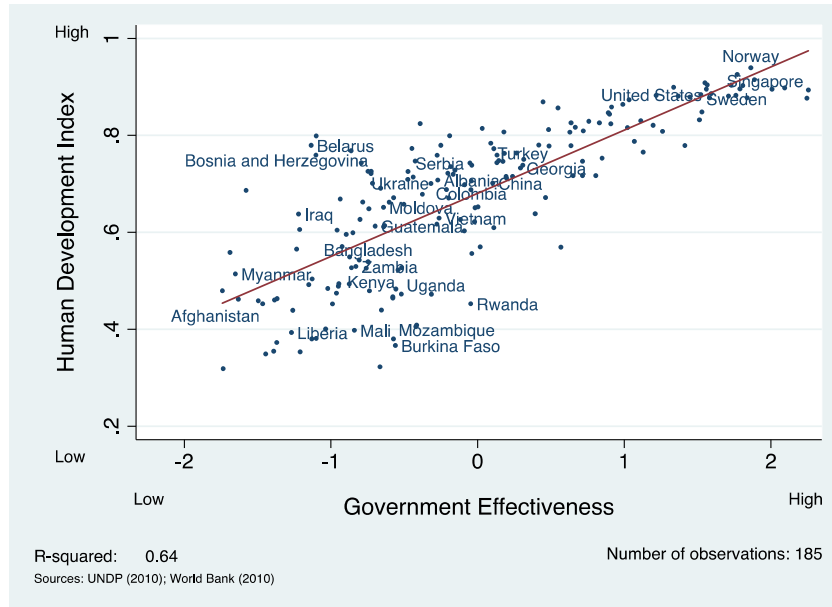
(Acemoglu et. al 2014, appendix A6, p. 36). By not separating variables measuring electoral-representative democracy and state capacity or quality of government, their conclusion, that democracy causes growth, suffers from conceptual inconsistency.

Given the evident discrepancy between the theory about the impact of democracy outlined above and the empirical findings, one is compelled to ask – why have democracy not produced better outcomes? And if it isn't democracy that will bring development and improve human well-being, then what is it? At the 25<sup>th</sup> anniversary for the American democracy-promoting National Endowment for Democracy, Larry Diamond, one of the world's most prominent researchers in democratization, provided an answer to these questions:

There is a spectre haunting democracy in the world today. It is bad governance – governance that serves only the interests of a narrow ruling elite. Governance that is drenched in corruption, patronage, favouritism, and abuse of power. Governance that is not responding to the massive and long-deferred social agenda of reducing inequality, unemployment, and dehumanizing poverty. Governance that is not delivering broad improvement in people's lives because it is stealing, squandering, or skewing the resources. (Diamond 2007: 119)

In a later article, Diamond (2010) traces the failings of many democracies to low Quality of Government, which paves the way for authoritarian options. Comparing the graph below to *figure 3*, it becomes clear that Diamond is on to something. Plotting a common proxy of QoG, the World Bank's Government Effectiveness Estimate, against the United Nations Human Development Index, shows a strong linear relationship between the variables.

**Figure 4. QoG and Human Development Index**



Moreover, Diamond argues that when corruption, nepotism, and clientelism are “deeply embedded in the norms and expectations of” political and economic interaction, it is unlikely that more democracy assistance is a viable cure. Rather, there is need for nothing less than a “revolutionary change in institutions” (Diamond 2007: 119). Indeed, in many of the thoroughly corrupt democratic regimes, rulers who monopolize power, and treat the state as their own patrimony, are succeeded by political competitors with similar ambition (Fukuyama 2014: 86ff). And once in power, they operate in a similar partial manner in distributing state resources through patronage and nepotism (Mungiu-Pippidi, 2006).

One can argue that perhaps a performance-based yardstick, like the ones mentioned above shouldn’t measure democracy. Instead, the normative reason for its promotion could be how well it generates political legitimacy. That is, if people have the right to change their governments through “free and fair” elections, by using their democratic rights, they will find their system of rule more legitimate than if they cannot (Rothstein, 2009). However, recent results from comparative survey data suggest that measures that captures the quality of how states exercise power, such as control of corruption,

the rule of law, and government effectiveness, are more important than democratic rights in explaining why people find their governments legitimate (Gjeften, 2012, Gilley, 2006, Linde and Dahlberg, forthcoming). For example, Dahlberg and Holmberg (2014: 1) found that: “government effectiveness is of greater importance for citizens’ satisfaction with the way democracy functions compared to factors such as ideological congruence on the input side. Impartial and effective bureaucracies matter more than representational devices”. Thus, when it comes to producing political legitimacy, people seem to value the quality of the institutions at the output side of the political system more than the institutions at the input side. As argued by Gilley (2006: 72), this result “clashes with standard liberal treatments of legitimacy that give overall priority to democratic rights”.

One way to theorize about this counter-intuitive result may be the following. On average, a third of the electorate in democratic elections does not bother to vote. Even fewer use their other democratic rights, such as taking part in political demonstrations, sign petitions, or write “letters to the editor”. When a citizen does not make much use of her democratic rights, usually nothing happens. However, if her children cannot get medical care because she cannot afford the bribes demanded by the doctors, if the police will not protect her because she belongs to a minority, if the water is polluted because the incompetence of the local water managers, if she is denied a job she has the best qualifications for because she does not belong to the “right” political party, or if the fire brigade won’t come when she calls because she lives in the “wrong” part of the city, these are things that can cause real mayhem in her life.

## Does democracy produce Quality of Government?

What does the existing research have to say about the effect of regime type on QoG? It is ambiguous to say the least. As Fukuyama (2014b:1338) has argued, it would of course be best if “all good things go together”. However, as he shows, there seem to be no clear relationship between establishing electoral democracy and increasing state’s administrative capacity. One strand of the literature emphasizes that democracy positively affect several proxies of QoG, in particular that: democracy reduces corruption (Billger and Goel, 2009); democracy, accompanied by press freedom reduces corruption (Chowdhury, 2004); and universal suffrage, competitive elections, and

checks and balances, determines the strength of property rights (Acemoglu et al., 2002).

Others have argued that electoral democracies allow for more political corruption through vote-buying and illegal party financing (Porta and Vannucci, 1999). For example, Chang et al. (2007) found that electoral accountability has a limited effect on constraining corruption, and that corrupt politicians, in fact, stand a good chance of being re-elected.<sup>3</sup> Yet another strand of literature found that democracy has no effect on proxies of QoG when looking at corruption (Brunetti and Weder, 2003), economic growth, and development (Przeworski et al., 2000). Democratization in countries with low QoG may also increase nepotism, clientelism, and other practices that decrease QoG (Fukuyama, 2014b). In political science, a debate about “sequencing” has occurred, where several authors have argued that if democratization takes place before a certain level of state capacity and quality of government has been established, this can have detrimental effects on economic and social development. One reason is that without a fairly well established merit-based, semi-independent, and competent civil service, the temptation of elected politicians to use the state apparatus as a spoils system for “buying” political support by giving jobs to their political supporters may become overwhelming. Another argument is that without state capacity, governments will not be able to deliver much public goods, which will inhibit the establishment of a social contract between the political elite and citizens (D'Arcy and Nistotskaya, 2015). Fukuyama (2014a) argues that this explains the comparatively bad performance, not only of many developing countries, but also the current problems in countries like Greece and Italy. Others have warned that premature democratization may even lead to civil wars (Mansfield and Snyder, 2005, Lapuente and Rothstein, 2014). While this debate is far from conclusive (cf. Møller, 2015, Berman, 2007), it should be noted that all the “elite democracies” in North-western Europe managed to out root systemic corruption and establish fairly high levels of state capacity well before representative democracy was established.

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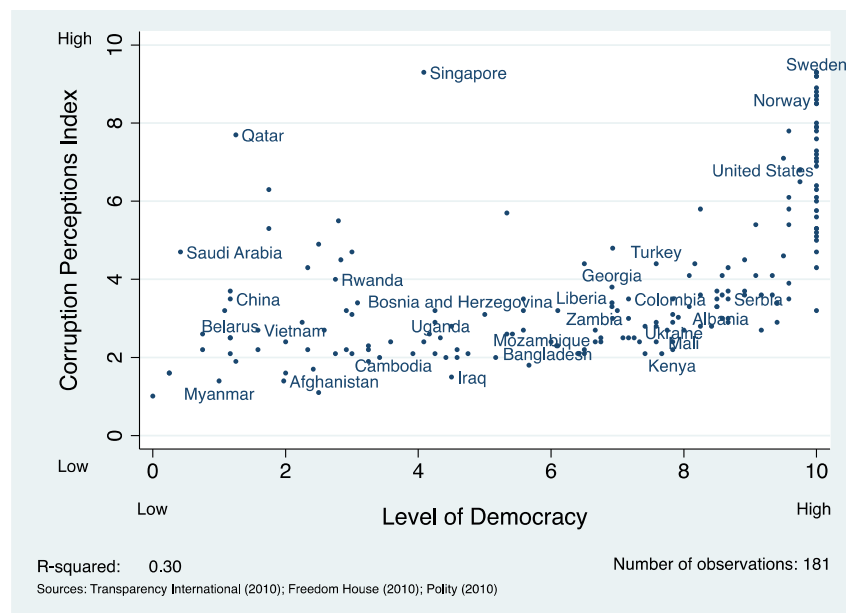
<sup>3</sup> This is not a general law. A recent study has shown that political parties in countries in Central and Eastern Europe that mobilize on “clean government” have been remarkably successful in elections (Bågenholm and Charron, 2015). One may interpret this as a tendency that “clean government” in some countries are becoming a separate political dimension.

Despite half a century of testing theories of the effect of the level of democracy on economic growth, delivery of public goods, and control of corruption, there is still no consensus on the impact of regime type on QoG. This is highlighted by the development of corruption levels across countries over the last two decades:

Of the 21 countries that have made significant progress on control of corruption since 1996, 12 are electoral democracies – but so are 10 of the 27 countries where control of corruption has weakened. (Mungiu-Pippidi 2013: 102)

Clearly, not all democracies are equally blessed with the mechanisms that curb corruption and enable a state's administrative capacity. To visualize this, the graph below plots the level of democracy, on one hand, and another widely used measure of QoG, namely Transparency International's Corruption Perception Index, on the other.

**Figure 5. Level of Democracy and Level of perceived Corruption**



In the top right corner, we find consolidated democracies, like the Scandinavian countries, New Zealand, Australia, Canada, and Japan, where democracy is rated as both very free and fair, and where we also

observe low corruption. In the top left quadrant of the graph we find autocratic and semi-autocratic regimes like Singapore, Qatar, and The United Arab Emirates, who display high levels of QoG, and who are outperforming consolidated democracies, such as Greece, Italy, and Slovakia. The J- or U-shape observed in *figure 5* above indicates that there is no straightforward relationship between democracy and QoG. However, a curve linear relationship does not equal a null effect between the two. Rather, it indicates that some forms of democracy can at times be worse than none, although a lot of democracy seem to be better than some. In other words, the effect of democracy on QoG tends to be negative under certain circumstances and positive under others. The question is then which these circumstances are, and what particular features of a democracy make democratic countries more prone to corruption than their autocratic counterparts?

Recent studies have explained this ambiguous relationship to be dependent on the age of the democracy (Keefer, 2007, Keefer and Vlaicu, 2007), the depth of democracy (Bäck and Hadenius, 2008), the wealth of the country (Charron and Lapuente, 2010), and the size of the middle class (Tannenberg, 2014). Keefer and Vlaicu's show that: "...in 2004 more than one-third of all democracies exhibited as much or more corruption than the median non-democracy." (2007: 372). Their argument builds on the fact that in a country that has recently democratized, politicians have no or low reputation and thus no means of making credible electoral promises to the citizenry. Politicians must therefore rely on local patronage networks and provide targeted goods to their supporters in a direct exchange for votes. In other words, in order to attain office and to stay in power, they undermine QoG by for example handing out public sector jobs and/or target benefits directly to their presumed political supporters. Consequently, a young and fragile democracy will typically overprovide targeted goods, such as public sectors jobs, public work projects, etc., while at the same time underprovide non-targeted goods, such as universal healthcare, education, the rule of law, and the protection of property rights (Keefer, 2007). This result is supported by a recent study of D'Arcy, showing that between 1985 and 2008, the scores for measures of QoG for countries in sub-Saharan Africa, have decreased to a considerable extent, and that this negative development is "primarily driven by the 39 countries which have experienced increased levels of democracy" (D'Arcy 2015:111).



Bäck and Hadenius (2008) on their part argue that two distinct types of governance – steering and monitoring from above and from below – determine a country's QoG. Autocracies are particularly apt at the former, by utilizing strict hierarchies and their repressive capacity to create an incentive structure deterring corrupt practices. Conversely, democracies are better suited for the latter because of effective mechanisms that exert accountability through regular elections (Bäck and Hadenius, 2008). A country that have lost its ability to govern from above – due to the shift from autocracy to democracy – and not yet gained the ability to govern from below will, according to their analysis, be worse off. A lack of, for example, free media or active and knowledgeable voters, which are required for the mechanism of bottom-up control to functioning properly, can explain the bottom arch of the J/U-shaped curve.

Charron and Lapuente (2010) question if it is always preferable for rulers to supply, and for the ruled to demand QoG, and put forward an argument that low-income countries over-value a state which deliver goods for immediate consumption, such as patronage jobs, or even direct cash transfers distributed through clientelistic networks, and undervalue medium-to-long term investments in reforms, such as establishing a meritocratic bureaucracy, upholding the rule of law, and contract enforcement. With higher levels of economic development, however, the need for immediate consumption disappears, allowing the citizens to take a more long-term perspective and plan for their future. With this follows a change in preferences since the citizenry will be less impatient to consume. In response, democratic rulers' incentives to provide long-term investments and reforms change as well (Ibid.). Autocratic rulers, on the other hand, are not expected to be responsive to the citizenry in the same way, but rather follow their interest to maximize their own revenues (Olson, 1993). This explains how autocracies, at low levels of economic development, can ignore the impatience of the citizenry, and provide a somewhat higher degree of public goods. Indeed, lest the rulers have access to rents from natural resources, it may very well lie in their interest to provide some public goods that raise productivity in sectors from which they then can extract rents. Empirically, Charron and Lapuente (2010) show that the marginal effect of democracy on QoG change, from negative to positive, when a country move from having low to high GDP per capita. Building on this argument, another study shows that in addition to the overall

wealth, it may also matter how this wealth is distributed in society. In democracies, the relative size of the middle class – that is those who are not too poor to plan for their future, yet not the elite who are beneficiaries of the corrupt system – is positively related to QoG, while in autocracies this relationship is insignificant (Tannenberg, 2014).

Indeed, having democracy or QoG is desirable, but it may not be enough. Norris (2012) argues that a democratic system of government, in which their constituents elect officials, combined with high QoG, results in highest economic growth rates. In a similar vein, Hanson (2010: 5) states that “the combination of democracy with high levels of state capacity should be more potent... than the additive effect of each factor”.

To summarize, electoral representative democracy alone seems not to be a safe cure against severe poverty, child deprivation, increased economic inequality, illiteracy, low school attendance, maternal and infant mortality, short life expectancy, lack of access to safe water and sanitation, gender inequality, low interpersonal trust, low trust in the state, or being unhappy and dissatisfied with one’s life. Democratic or not, dysfunctional and corrupt governments have detrimental economic and societal effects. This is from our side certainly not an argument against the system of liberal electoral democracy, which we think is indispensable, but more so for its intrinsic values than for its ability to produce valued outcomes in terms of human well-being. Thus, while the continuing spread of democracy certainly should be celebrated, we should maybe rejoice for the, for us, normatively essential values associated with democracy, rather than its ability to deliver development and eradicate poverty. This, however, still leaves us in search of what it is that does deliver increased human welfare and economic development.

As an alternative to electoral democracy, civil society organizations have been held forth as promoters of both democracy and development (Rose-Ackerman, 2005, Grimes, 2013, Putnam et al., 1994). However, so far, the empirical evidence that aid for supporting civil society organizations’ work for democratization and development is meagre (Mungiu-Pippidi 2015:172ff). The reasons are that all voluntary associations cannot be counted as supporters of democracy or development – this is the famous “Hells Angels” or “Ku Klux Klan” problem (Rothstein 2005). Secondly, what may on the surface look as a development and democracy promoting voluntary

association in a developing country, may, when scrutinized more closely, in reality be something completely different (Henderson, 2002, Sadiku, 2010). Thirdly, the historical record that civil society organizations can always be counted as a safe promoter of democracy has turned out to be false (Armony, 2004, Encarnación, 2003). For example, studies of the collapse of the German democracy in the 1930s show a flourishing civil society, strongly engaged in destroying civil liberties, and persecuting ethnic minorities, working in a close alliance with the Nazi party (Berman, 1997, Satyanath et al., 2013). As Grimes (2013) has shown, using data from no less than 133 countries, it is only under a number of quite demanding conditions, such as the existence of real political competition, openness and transparency in the public administration, a free press, and also, a strong judicial framework, that can guarantee that corrupt actions will be punished, that the density of the civil society in a country is an effective remedy against low QoG. Usually, these are institutional conditions that are either weak or non-existent in developing countries. Another problem is that when civil society organizations receive support from development agencies, the organization in question may come to be seen more as a donor agent than a voluntary organization (Howell and Pearce, 2001).

### 3. Development Theory - Institutions and Development

Institutions entered the stage of development theory when Nobel Laureate Douglas C. North linked them to economic growth (1989), challenging the then dominating views, namely that structural factors, such as, economic power structures, natural resource endowment, and geographical location were key in explaining variations in social and economic outcomes.<sup>4</sup>

Broadly understood, institutions refer to formal and informal rules that influence all actors and sectors in a society – be that, citizens, organizations, the economy etc. At the center of such rules are governments, who not only create, administer, and enforce the rules, but whose very operations are also legitimized by some and constrained by others (Andrews, 2013). These “rules of the game” affect the size, procedures, and reach of governments. For example, formal budget rules, property rights, taxation systems, regulation on access to information, and also the corresponding informal rules, such as social trust, political legitimacy and norms about information disclosure. These institutions are all connected to governments in one way or the other.

Institutional theory holds that different institutional configurations generate different incentive structures, which in turn lead to different behavior, resulting in different outcomes (North, 1989). Since the launch of institutionalism, the theoretical debate has by and large shifted in favor for the importance of institutions, to a point where there is close to a consensus that the quality of institutions matters more than anything else in terms of impact on development (Acemoglu and Robinson, 2008, World Bank, 2002), or in the words of Rodrik et al. (2004) – “institutions rule”.

Following this, the key for development theory is thus to identify the “right” institutional framework, the specific rules of the game that produce desirable outcomes. As will become clear, which particular

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<sup>4</sup> It should be noted that the Swedish economist and Nobel Laureate Gunnar Myrdal already in his writings about the lack of development in India in the 1960s pointed at this problem, which he labelled “the soft state”.

institutions matter, how they matter, and how they can be created where they are now absent, is an ongoing controversy. In order to understand institutionalism, and why it has become the dominant theory in the field of development studies, we first need to understand the alternative explanations, posing challenges to institutionalism. These are primarily to be found under the theoretical umbrellas of structuralism and behaviorism.

## Alternative theories

Structuralism is comprised of numerous theories that attribute today's development levels to various forms of structural determinants. One example is geographical factors, such as, the latitudinal distance from the equator, lay of the land, proportion of landmass located in the tropics, and whether or not a country enjoys coastal access. Research by Jared Diamond and Jeffery Sachs provide the most prominent arguments in this tradition (Sachs, 2001, Gallup et al., 1999, Diamond and Ordunio, 2005). The argument is that because these geographic factors are key determinants of climate, disease prevalence, natural resource endowment, and transportation costs, they affect agricultural productivity, population health, and trade, thereby explaining present day variation in economic development between nations.

Quickly eyeballing a map of the globe offers intuitive support for this hypothesis. Indeed, the latitudinal distance from the equator is clearly positively related to income levels. Yet, in competition with measurement of institutional quality, such geographical variables has turned out to be insignificant in predicting countries' economic prosperity (Rodrik et al., 2004), or variation in life expectancy (Holmberg et al., 2009).

More sophisticated structural explanations interact several of these geographical factors with historical heritage, such as, colonialism and argue that these circumstances have led to the adoption of certain types of institutions. Thereby, the structural factors have indirect effects on development levels. Acemoglu et al. (2001) and Acemoglu et al. (2002) find that former colonies that had high levels of settler mortality, high concentration of indigenous population, and natural resources, prompted the colonizers to set up *extractive* institutions that were harmful to local development. In contrast, areas that were sparsely populated, with low endowment of resources, and a mild

disease environment, allowed for western colonizers to settle down leading to the establishment of what they call *inclusive* institutions, such as, property rights, and the rule of law, that foster economic growth. Thus, the colonial legacy effectively left the cards stacked against high quality institutions in some regions of the world.

In line with this strand of literature, Easterly and Levine (2003) find that neither tropics nor germs, or crops, affect income levels directly other than through institutions. Similarly, the well-documented resource curse – which as the name suggests emphasizes the negative effect of having an abundance of natural resources – also affect development indirectly (Sachs and Warner, 2001). This is done first by diverting resources away from manufacturing or agriculture (tradable goods) towards natural resources and service sectors (non-tradable). Known as the Dutch disease, this impedes growth, not only by crowding out investment and human capital from productive sectors, but also through abundant natural resources in the economy driving up foreign exchange rates, further undermining the competitiveness of industry and agriculture. A second effect of the resource curse is that windfalls from natural resources tend to encourage rent seeking and state looting by the economic and political elites. The effects on institutions come from the fact that easily accessible revenue from resource extraction alienates governments and citizens as the former are not in need of taxing the latter. The crux of the problem lays in that the connection, or social contract, between citizens and their government to a large extent depend on transactions between the two. When the citizens are not taxed, they are less likely to demand public goods in return, or to hold their rulers accountable, simply because of a feeling that it is not ‘their money’ that is lost to corruption (Collier, 2007, Persson and Rothstein, 2015).

Mehlum et al. (2006) highlight the endogeneity of this relationship and show natural resources to be a curse only for states suffering from poor institutions, whereas it is a blessing for a state with relatively strong institutions, such as, Norway. Botswana is often heralded as the exception to the rule among developing nations. As the authors argue, Botswana’s success was enabled by the existence of relatively sound institutions at the time of discovering the country’s natural wealth in forms of diamonds (2006).

Even as geographical and historical constraints account for some variation in levels of development, especially though their indirect effect on institutions, they are of little or no relevance for

development policy. Just as a patient is not helped by the knowledge that to avoid contracting a particular form of hereditary cancer, she should have had a different set of parents, the government in, for example Nepal, benefit little from knowing that being landlocked, let alone mountainous, have a negative impact on the country's prospects of development. From a scientific point of view, both the doctor and the development economist may be perfectly correct in making these observations, yet from a policy perspective this knowledge is not of much use. A cancer patient, as well as political actors in a country plagued by systemic corruption, will find it very difficult to circumvent such structural, genetic, or geographic factors. As stated by Collier (2009: 1), "the cause of a problem is not necessarily a guide to its solution".

In sum, while structural explanations, like geographical and historical constraints, may be scientifically valid in explaining variations in levels of development, they offer little or no relevance for development policy. Similarly, explanations that focus directly on human behavior often boil down to the need for changing deeply held culturally embedded norms and values without references to how these are influenced, by institutional settings. Telling a systemically corrupt country that what it needs is a "re-orienting public officials towards becoming reflective public officials" is like saying that in order not to have corruption, do not have corruption in the first place (Collins 2012: 4). What remains are the institutional explanations. In the words of Mancur Olson:

the large differences in per capita income across countries cannot be explained by differences in access to the world's stock of productive knowledge or to its capital markets, by differences in the ratio of population to land or natural resources, or by differences in the quality of marketable human capital or personal culture. [...] The only remaining plausible explanation is that the great differences in the wealth of nations are mainly due to differences in the quality of their institutions and economic policies. Olson (1996: 19)

So if "institutions rule", what follows is that the key for development theory is identifying the "right" institutional framework, that is, the specific rules of the game that produces desirable outcomes. The issue is of course which particular institutions that matter, and how they can be created. Our analysis will contribute by highlighting those institutions for which there are reasonably good empirical indicators

that they have an effect and which are, at least theoretically, possible to influence through development policy.

Given the acclamation given to North's theory, one would think that how to create QoG institutions is well known. Unfortunately, the opposite turns out to be the case. For example, in the *Handbook of Institutional Economics* published in 2005, Avner Greif first states: "such institutions exist "in a few advanced contemporary countries and only in recent times". He then adds that "*we know surprisingly little, however, regarding the institutional development that led to these modern successes*" (Greif 2005: 737, italics added). Likewise, in a recent much acclaimed book, Francis Fukuyama writes that the international development and aid community "would like to turn Afghanistan, Somalia, Libya and Haiti into idealized places like 'Denmark' but it doesn't have to slightest idea of how to bring this about" (Fukuyama 2014a: 25). Even in countries that once managed to make the transition from clientelism and corruption to QoG, historians and economic historians have given surprisingly little attention to this question (Teorell and Rothstein, 2015, Rothstein and Teorell, 2015). Moreover, while "good governance" and improving QoG has become central issues for many international and national aid and development organizations, a recent report by Robert Klitgaard (2015) shows that the international aid and development community so far cannot show one single case where a donor led policy have resulted in a sustainable lowering of corruption (see also Mungui-Pippidi 2015:207). Improvements of QoG have occurred in some countries, but they have not been spurred by policies from aid and development organizations.

## Formal and informal institutions

To understand the nature of institutions, Andrews (2013) analogy of an institutional iceberg is helpful. The tip of the iceberg represents the visible formal rules that are in play, such as, written laws, freedom of information, freedom of expression etc. The submerged base of the iceberg consists of all informal rules that shape interactions, both normative and cultural-cognitive (Andrews, 2013). As the analogy suggests, any given formal institution does not operate free of underlying informal institutions. While the first may be possible to tweak and rewrite, the latter are more intangible as these rules are informal, unwritten and seldom visible.



Countries at comparable levels of development exhibit a striking variation in formal institutions. It suffice to point at the fact that established “elite” democracies, such as, Denmark, Canada, and Switzerland, present us with a huge variety in the specific institutional configurations of their democratic systems. Another example is Italy, for which several studies show remarkable difference in corruption and economic prosperity between the southern and northern regions (Guiso et al., 2008, Rothstein et al., 2013), despite the fact that Italy is a country that has had the same national institutions, laws, and regulations, for 150 years. These variations may in part be explained by the iceberg analogy, which suggests that the relationship between policy and actual governance heavily depend on informal institutions, such as, norms about social trust. A glance at the development of property rights in Russia and in China provides a telling example. Russian legislation offer private property rights that by and large resemble those of other Western European nations, while China’s property rights still operate in a socialist legal system. Yet, even without formal private property rights, entrepreneurs in China have felt confident enough to make large investments contributing to China’s remarkable growth over the last decades. In Russia, on the other hand, the expectations of investors have been, to put it mildly, different. A low trust in the formal institutions is believed to have yielded comparatively low levels of private investment in the economy (Rodrik et al., 2004).

When exporting institutional settings from one country to another, North (1993), reminds us to expect “very different performance characteristics [in the recipient economy] then the first economy because of different informal norms and enforcement”. A case in point is Uganda, which after numerous interventions by the World Bank and many bi-lateral donors had established an institutional framework that according to The Swedish International Development Cooperation Agency was “largely satisfactory in terms of anti-corruption measures” (Sida, 2006). In fact, Uganda’s formal institutions of anti-corruption regulation scores 99 out of a 100 points in the think tank Global Integrity’s index (2009). Thus, the top of the institutional iceberg may shine bright, but the underbelly is a very different matter. After almost a decade of impressive legislation and a government that rhetorically assured a non-tolerance for corruption, the problem of corruption remains rampant (Persson et al., 2013), and Uganda now

ranks 142 out of 175 countries on Transparency International's Corruption Perceptions Index (Transparency International, 2014).

This discrepancy between formal and informal institutions highlights that, although “formal institutions can be changed by fiat”, informal institutions evolve in ways that are still far from completely understood and therefore are “not typically amenable to deliberate human manipulation” (North, 2010:50). We still do not fully understand the workings behind informal institutions, such as, social trust, or what is known as a social contract (Persson and Sjöstedt, 2015). However, years of deliberate human manipulation of both formal and informal institutions have generated lessons from which we can learn.

## 4. Development Practice – Good Governance and Development Policy

### Rise of the good governance agenda

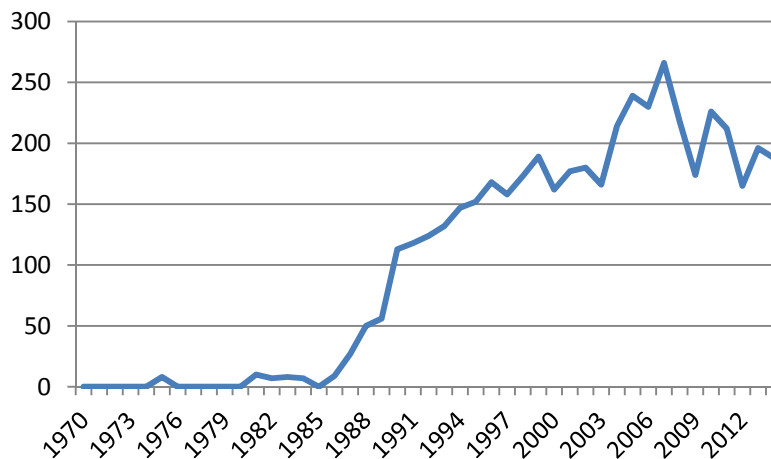
The “institutional revolution” in social sciences, described in the previous section, provided a challenge for the development community. This turn prompted the start of a quest for policies and interventions that foster institutional frameworks conducive for growth and development. Such frameworks have become known as “good governance”, and today good governance enjoys a prominent position on the agenda of most of the major development organisations. Aid packages and interventions not only frequently target a country’s system of governance, with aims of improving it, but also condition specific types of development assistance on countries’ governance performance.

In what is likely the most widely cited quote on the matter, former UN Secretary General Kofi Annan argued that “good governance is perhaps the single most important factor in eradicating poverty and promoting development” (UN, 1998). Echoing this, the current World Bank president Jim Yong Kim stresses that “[it] will be difficult to reduce extreme poverty – let alone end it – without addressing the importance of good governance” (2014). Furthermore, The World Bank talks about good governance as a precondition for functioning markets and also as a determinant of the effectiveness of aid (World Bank, 2002).

### Ideological gatekeepers

As is evident from the graph below, the good governance agenda started to gain traction in the early 1990’s, and projects addressing good governance are now commonplace in the World Bank and many other donor organizations. Before this surge took place, a number of ideological gatekeepers had effectively excluded good governance, in general, and corruption in particular, from consideration in development policy.

**Figure 6. Number of projects related to Good Governance at the World Bank**



Source: World Bank Projects & Operations (2014)

First, the so called dependency theory held that the dismal state of affairs in many developing countries depended primarily on their position in the *capitalist world system*, not on systems of governance (Wallerstein, 2004, Sunkel, 1989). Pointing out that poor governance and rampant corruption worked as an impediment to development in the third world was by many dependency researchers seen as a form of blaming the victim, in this case for its peripheral position in a rigged and grossly unjust economic world system based on exploitation.

Secondly, the field of public administration has traditionally kept the study of institutions, and particularly corruption at an arm's length. The reasons for this is puzzling, perhaps it could be because public administration scholars did not want to give public administration a bad reputation (Rothstein 2015)

Thirdly, and arguably the most powerful gatekeeper of the three, neo-classic economic theory found the governance aspect disturbing and unsettling, as it predicted that a small state apparatus and a hands-off approach would enable the market to work its magic. Public institutions were seen as inferior substitutes to private markets, which led to decades of market fundamentalist reforms that not only kept institutions at bay, but also undermined existing ones (Burki and

Perry, 1998). As stated by Nobel Laureate Gary Becker (1994): “To root out corruption, boot out big government”.

Institutions didn’t get past this last gatekeeper until the neo-classical economic focus on development had been tested long enough, without its promised success anywhere in sight. The approach, often referred to as the *Washington consensus*, held that economic growth would be created by systematic deregulation, austerity of public expenditure, strong property rights, a small public sector, and large-scale privatizations. Good governance only entered the game gradually after it became evident the structural adjustment programs initiated by this approach, in developing nations during the 1980s, and the “shock therapy” capitalist reforms in post-communist Eastern Europe in the beginning of the 1990s, had – to put it mildly – failed (Holmberg et al., 2009).

Despite successive structural adjustment loans to developing countries in Latin America, Africa, and Asia, most recipient countries experienced zero growth in GDP per capita from 1980 to 1998 (Easterly, 2001). In the post-communist countries, the rapid marketization reforms proved to be “more shock than therapy” and resulted in widespread corruption, fraud, and severely dysfunctional markets (Gerber and Hout, 1998). As a case in point, the Russian economy suffered a decrease of GDP of close to 50 per cent between 1989 and 1996 (Stiglitz, 2002). Noted development economist Dani Rodrik has neatly described the unproductive relationship, between the neo-classical approach in economics and development policy as follows:

The encounter between neo-classical economics and developing societies served to reveal the institutional underpinnings of market economies. A clearly delineated system of property rights, a regulatory apparatus curbing the worst forms of fraud, anti-competitive behavior, and moral hazard, a moderately cohesive society exhibiting trust and social cooperation, social and political institutions that mitigate risk and manage social conflicts, the rule of law and clean government--*these are social arrangements that economists usually take for granted, but which are conspicuous by their absence in poor countries* (Rodrik 2007: 153-154, italics added)

The list of institutions that Rodrik points at as necessary for development is not only long but also includes both formal and informal ones. With time, legal systems that defined and enforced

property rights, bureaucracies that provided public goods, regulatory structures that enabled capital markets to take form, came to be considered productive complements to markets (World Bank, 2002), and the previous ideal of the ‘minimalist state’ was replaced by that of the ‘effective state’. Simply put, it was not size of the state but its quality that mattered, as has recently been shown empirically by Oto-Peralías and Romero-Ávila (2013). It may be added that the state apparatus in well-governed ideal “Denmark” can by no means be considered as small.

## What is good governance?

So far, we have discussed “good governance” without more than alluding to what is included in the term. While good governance has become almost like a mantra among development organisations, there is no clear agreement on what it entails (Fukuyama, 2013). Yet, most development organisations tend to propose that the term should include several (if not all) of the following: rule of law; property rights; contract enforcement; accountability; transparency; anti-corruption measures; democratization; civil society participation; predictability; and respect for human rights (Gisselquist, 2012, Grindle, 2004). From the table below, we can observe overlaps in many of the working definitions of governance and good governance in the development community, but also note one clear difference. The multilateral institutions exclude any references to democracy, or democratic governance, which are often included in the definitions of the bilateral donors. An exception is United Nations Development Program, which works extensively with promoting ‘democratic governance’.

| Source                 | What is good governance?   |
|------------------------|--|
| World Bank (2010)      | Inclusiveness and accountability established in three key areas: 'selection, accountability and replacement of authorities (voice and accountability; stability and lack of violence); efficiency of institutions, regulations, resource management (regulatory framework; government effectiveness); respect for institutions, laws and interactions among players in civil society, business, and politics (control of corruption; rule of law)  |
| Kaufman et. al. (2004) | Can be measured along six dimensions (voice and external accountability; political stability and lack of violence, crime, and terrorism; government effectiveness; lack of regulatory burden; rule of law; control of corruption   |
| IMF (1997)             | 'ensuring the rule of law, improving the efficiency and accountability of the public sector, and tackling corruption'  |
| USAID (2005)           | Democratic governance: 'transparency, pluralism, citizen involvement in decision-making, representation, and accountability; focusing particularly on five areas: legislative strengthening, decentralisation and democratic local governance, anti-corruption, civil-military relations, and improving policy implementation'   |
| DFID (2008)            | Seven key governance capabilities: to operate political systems which provide opportunities for all people ... to influence government policy and practice; to provide macroeconomic stability ... to promote the growth necessary to reduce poverty; to implement pro-poor policy; to guarantee the equitable and universal provision of effective basic services; ensure personal safety and security ...; to manage national security arrangements accountably ...; to develop honest and accountable government ...' |

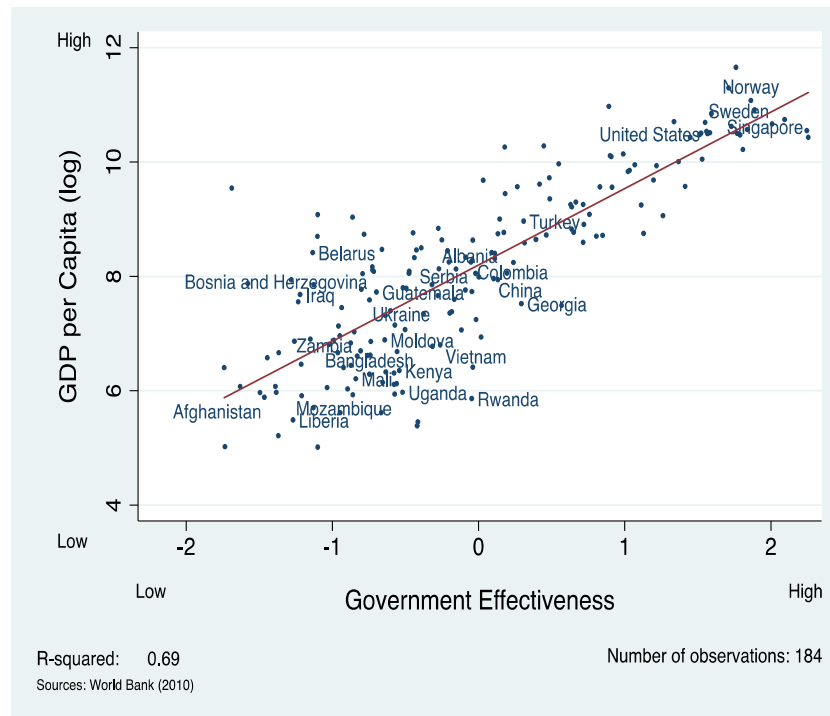
|             |   |
|-------------|---|
| SIDA (2002) | The Government of Sweden defines “good governance” as a good system of government encompassing the state’s way of exercising its political, economic and administrative powers. It maintains that both institutions and processes ought to be based on the principles of the rule of law and should be characterised by responsibility, openness, integrity and efficiency. Furthermore, it emphasises that a democratic state and its public sector ought to be characterised by a democratic culture and the rule of law. |
|-------------|---|

Table 1- Definitions good governance (Gisselquist, 2012, Grindle, 2004)

During the last two decades, a large literature has connected good governance with desirable development outcomes such as: economic growth (Olson Jr et al., 2000); poverty reduction (Chong and Calderón, 2000); food security (Sacks and Levi, 2007); subjective wellbeing (Helliwell, 2006); and life expectancy (Holmberg et al., 2009). As an example, the graph below plots the strong positive relationship between GDP per capita and a common measure of Good Governance from the World Bank. From this point of view, promoting good governance, as well as conditioning certain aid allocation on governance performance may certainly be justified. But is it possible to simultaneously push such a wide agenda?



**Figure 7. GDP per capita and Good Governance**



## Critique and problems with the good governance agenda

As should be expected, the good governance agenda has not been without its critics. One strand of literature questions the direction of the causality between good governance and its suggested outcomes, such as economic growth (Kurtz and Schrank, 2007). For example, Goldsmith (2007) argues that “greater transparency, accountability, and participation are often a result, rather than a direct cause of development” (p. 165).

Others argue that the endogeneity between good governance and economic growth provides a chronically methodological problem that has resulted in an overestimation of the effects of good governance (Przeworski, 2004). Indeed, a complete endogeneity would mean that we at best could find the reciprocal impacts between good governance and economic growth.

From the recipient side of development assistance, critique has been voiced that to the extent that good governance is equated with western liberal democracy, using governance criteria in the allocation of aid impose political conditionalities (Nanda, 2006), thus falling outside of the mandate of several multilateral donor agencies. The fuel for this opposition is to be found in the relativist argument that argue that good governance standards are not applicable outside of the specific political context of the west (Bukovansky, 2006, Heidenheimer, 2002).

While not challenging potential good of good governance per se, some scholars argue that the term is ill-defined and conflated (Fukuyama, 2013). For example, Grindle (2004) argues that the laundry list of the good governance agenda is simply unrealistically long, and this is particularly problematic when “there is little guidance about what's essential and what's not, what should come first and what should follow, what can be achieved in the short term and what can only be achieved over the longer term, what is feasible and what is not” (2004: 525). Thus the agenda does not consider issues of historical development and matters of sequencing.

For a concept that is so broad and include so many items, empirical analysis hinge on the definition used in any given study (Holmberg et al., 2009). Gisselquist (2012) warns that the lack of conceptual clarity makes measuring and deriving evidence based policies problematic, and suggests disaggregating the concept into seven distinguishable components. Furthermore, interchanging good governance, sometimes as the means to an end, and sometimes as the end itself, is confusing and results in a catch-22 situation. Its “like telling countries that the way to develop is to become developed” (Andrews, 2008: 380).

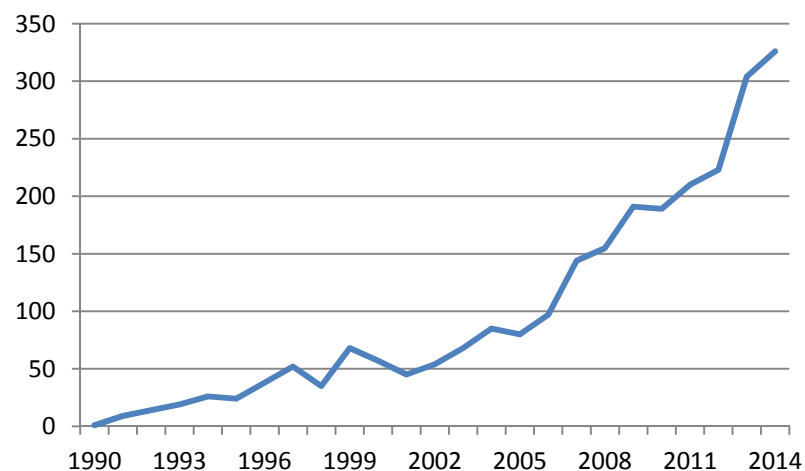
Lastly, there are those that agree with the notion that good governance causes economic growth, yet they oppose the relevance of the good governance agenda for development assistance. Critique from this point of view is based on the understanding that economic growth does not by default function as a tide that lifts all boats, and they question how good governance effect poverty reduction and inequality (Shepherd, 2000).

## Good governance and corruption

Within the development community, combating corruption has become one of the key pillars of good governance policy. The United Nations lists corruption one of “the greatest threat to good governance” (UN, 2015), and the U.N. report *Global Program of Corruption* asserts that “the most significant achievement in governance during the 1990s was the shattering of the taboo that barred discussion of corruption, particularly in diplomatic circles and among intergovernmental institutions” (2015: 17). The shattering of this taboo is perhaps best manifested by adoption of *The United Nations Convention against Corruption*, which provides a legally binding international anti-corruption instrument.

The reluctance to engage with corruption was also prevalent in the social sciences in general. In fact to such an extent that before the mid 1990’s, the issue of corruption was close to non-existent in scholarly debate and research. As an example, the term corruption is not listed in any of the indexes of the four volumes of the *Handbook in Development Economics*, published between 1988 and 1995 (Holmberg et al., 2009). Furthermore, a search in the Thompson’s Web of Science database for scholarly articles that include the term “political corruption” as a key word, illustrates the relative novelty of the field and the very recent surge in interest in corruption research.

**Figure 8. Articles published on Political Corruption**



Source: Thomson Web of Science, 2015

This growing body of literature is now rich with studies on the effects of corruption on various outcomes. First, in regards to economic effects, an earlier strand in the literature argued that corruption could have a positive effect on economic development (Nye, 1967, Khan, 1996). For example, that bribes could enable economic growth by bypassing cumbersome bureaucratic red tape holding back transactions (Khan and Sundaram, 2000), or that corruption could work to grease the wheels of poorly governed societies, facilitating some basic provision of public goods. Huntington summarized both these arguments: “In terms of economic growth, the only thing worse than a society with a rigid over-centralized dishonest bureaucracy is one with a rigid over-centralized, honest bureaucracy” (Huntington, 2006: 386).

These authors have been strongly challenged by overwhelming empirics showing that corruption is more likely to *sand the wheels* of development by choking opportunity and economic growth (Méon and Sekkat, 2005, Mo, 2001). It is argued that corruption is detrimental for development and human well-being in particular because it: deters foreign direct investment; decreases private investment (Mo, 2001); increases inequality (Gupta et al., 2002); stifles innovation and entrepreneurship (Anokhin and Schulze, 2009); undermines the legitimacy of the state (Dahlberg and Holmberg, 2014); negatively impacts spending on healthcare (Transparency International, 2006); lowers the return of investment in the health sector (Lewis, 2006); lowers education attainment (Akçay, 2006, Kaufmann, 2004); and lowers social trust and social capital (Rothstein, 2005, Rothstein, 2011).

There are several mechanisms at play here. In general, it can be said that corruption acts as an illegal tax that distorts competition and incentives towards non-productive behaviour. For example, paying bribes to obtain an investment or business licence is a clear disincentive for investments, and by favouring established producers and companies, corruption effectively holds back innovators and entrepreneurs (Anokhin and Schulze, 2009). The message from this now vast literature is clear – corruption negatively impacts almost all outcomes that are associated with development and is anathema to “good governance”.

## The problem with “governance”

A central problem in this conceptual discussion is that there are (at least) two other and very different ideas of what constitutes “governance” in the social sciences. The first has its background mainly in public administration and public policy analysis of western democracies. Its basis was the recognition, beginning in the early 1990s, for an increasing number of empirical studies that had shown that western democracies no longer relied mainly on government authorities when trying to reach public or collective goals. It was argued that traditional public administration structures, that used to have a monopoly, or at least was the main actor, in implementing public policies, had been weakened, replaced, or challenged by various forms of public-private partnerships and more loose networks of organizations, including also various civil society organizations, trade organizations, and private companies (Pierre, 2000). The empirical studies showed that various forms of market solutions were also used for providing what were essentially public goods, such as for example publicly financed charter school systems and pseudo-market systems in the provision of healthcare. This development was seen as a result of a long-standing critique in western democracies of the traditional type of Weberian type of public administration as being “rigid and bureaucratic, expensive and inefficient” (Pierre and Peters, 2005: 5).

The critique of the Weberian top-down model of bureaucracy as not being able to function well for the more interventionist and “human-processing” public policies has been almost endless (Du Gay, 2000, Rothstein, 1998). In this line of research and theory, governance is seen as a society’s pursuit of collective goals, through various forms of steering and coordination, independently of the formal status of the actors that are involved (Pierre and Peters, 2000, Levi-Faur, 2012). Normatively, as well as empirically, this approach to governance can preferably be labeled the “policy approach”, where the main idea was built on a critique of the classical top-down Weberian model of public administration. The critique pointed at the fact that this top-down steering of public administration lacked participatory elements and that it was incapable of handling the type of complex implementation tasks that modern western societies were in need of. Especially, what came to be known as implementation research, showed a number of pathological trends, when central policy ambitions and programs meet reality on the ground (Rothstein 1998, ch. 3). Under umbrella terms, such as, “new public management”, both more market oriented

governance systems, as well as more network and participatory systems, were supposed to provide more flexibility and increased adaption of steering measures to a more demanding and competitive oriented society (Lynn, 2012). A large part of this literature also argued that the public administration should use more of competition and performance based measures imported from the private sector (Laegreid and Christensen, 2013).

This post-Weberian policy approach to governance has become a fairly large enterprise, judged by number of publications and citations (Levi-Faur, 2012). For example, it almost completely dominates the recently published 800 pages *Oxford Handbook of Governance*. It is noteworthy that the index of this handbook has only five entries about *corruption*, but fifty about *participatory governance* and forty-eight on *network governance*.

The problem is that the conceptualization of governance in this approach is not overwhelmingly precise. On the contrary, leading scholars in this approach tend to make a virtue of conceptual ambiguity (Levi-Faur 2012, 3). In a critical analysis, Claus Offe (2009) has pointed to the fact that the concept is empty of agency. There is no verb form of the word so nobody speaks of how a country is “governancing” itself. In a parliamentary democracy, a government can govern more or less well but what does it do for accomplishing governance? Put differently, what is it that members of a network of governance are doing? In reality, the concept tends to capture all forms of collective social co-ordination, outside pure market relations or the family. The problem is that such a broad understanding of governance makes it difficult to distinguish it from all other forms of social co-ordination. To paraphrase what Aaron Wildavsky (1973) said about another once popular concept (yes, many years ago): “If planning is everything, maybe it’s nothing”.

In this policy approach to governance, there is now a widespread discussion of entities like “global governance”, “corporate governance”, “interactive governance”, and “network governance”, just to name a few. Governance in this public administration and public policy approach should be seen as a meta-concept for all possible forms of order (or disorder) in a number of different settings – from the very local to the global, and from the very political and state-centered, to various private networks that exists outside and has a minimal relation to the state. It may be possible to assess the quality of governance in specific sectors with this approach (see Levi-Faur

2012b). However, it goes without saying that “assessing the quality of governance”, as it is understood in this policy approach, for a whole country, region, or even a city, cannot be accomplished in any meaningful way. Leading scholars in this approach also argue that it is not a feasible enterprise to try to establish quantifiable measures of this type of governance for comparative analyses. Instead, they argue for qualitative “process-tracing” case studies of specific areas like housing, health care, and education (Torfing et al., 2012: 84). While this policy approach to governance empirically captures an important development in Western liberal democracies, the conceptual net is simply too big for assessing what goes on in a country as a whole. A second problem is that there are very few normative analyses of what should constitute “good” or “high quality” in this approach to governance since it is usually unrelated to the type of measures of human well being discussed above.

A second different approach to “governance” is what has become known as “participatory governance”. This approach emphasizes the role that ordinary citizens can play in influencing politics outside (or beside) the traditional channels in representative democracy, such as, voting and activity in political parties. A strong focus in this approach is given to various forms of deliberative practices in which citizens can discuss and form opinions about how to solve various collective problems (Bevir, 2010, Bellina, 2009). This is inspired by theories emphasizing the importance of broad based and open systems for collective deliberation in public decision-making, either as a complement or as an alternative to the system of representative democracy. Another important part of this approach is how various “grass-root” civil society organizations can become involved and consulted in policymaking as well as taking responsibility for the provision of public services. The development of this approach can be seen as a response to what has become known as the “democratic deficit” problem in many international organizations, the paramount example being the European Union. It is, however, also applied at the very local level when citizens are given possibilities for “voice” outside the electoral-parliamentary system, such as, in public hearings and other organized deliberative processes (Bevir, 2010, Popovski and Cheema, 2010).

The discussion about the advantages of new and more participatory forms of engaging citizens in public decision-making in liberal democracies, and the effects of increased possibilities for deliberation,

is in itself interesting. In our view, the problem of an increasing “democratic deficit” is in many cases real. There are, however, two main problems with “democratic governance”. One is that “democratic governance” blurs the distinction between “access to power” and “exercise of power”. A country’s quality of government is a something different than its quality of democracy. If these are not held separate, we will not be able to study if, how, and when democratization leads to better QoG, and thereby improved human well-being (Fukuyama 2014b). The second problem is that, so far, the lack of conceptual precision in this approach has prevented the production of any standard of measure for this concept that can be used in comparative research.

As should be obvious, “public policy governance” and “democratic governance” are very different from the “good governance” approach in development studies, which emphasizes things like the rule of law, government effectiveness, property rights, implementation capacity, and control of corruption, and how these concepts can be operationalized and measured. Our conclusion is that this terminological and conceptual confusion of what governance is has become entrenched to such a degree that establishing anything even close to a universally accepted conceptual precision of the concept in the social sciences has become impossible. As will be explained in the next section, this is one of the main reasons why we prefer to use the term “quality of government” instead of “good governance” for achieving conceptual precision in this discussion.



## 5. The Quality of Government Approach

Accepting that institutions matter for development outcomes, we are still left wondering which particular institutions matter the most, and if some matter at all. The striking variation in institutional set-ups that produce positive development outcomes is puzzling. It is apparent that countries that are generally considered to have high quality governments can look very different in terms of visible institutional configurations (Andrews, 2010). Some have big governments (Denmark), others have small (Singapore). In some, political power is centralized (Sweden), in others it is decentralized (Switzerland). Most are democratic, but some are not. Moreover, among those that are democratic, we observe a great variation in how their democratic institutions are arranged. Some are presidential, others are parliamentary. Some have two-party systems, others have proportional multi-party systems. In some, civil society initiatives for referendums are an integral part of the democratic system, while in others this function does not exist at all.

So, while we can be fairly sure that populations and countries generally suffer when governments are dysfunctional, ineffective, or predatory, we still need a more thorough understanding of the nature of the problem, and what high or low quality of government actually entails. This requires identifying the common denominators amongst the varying institutional settings that produce good outcomes. Given the striking variation in visible (formal) institutions, we should expect to find at least some of these common denominators in the submerged, non-visible, informal, part of the institutional iceberg.

### Conceptualizing the Quality of Government

As we noted in the previous section, governance is used for very different entities in a society. Striving for conceptual clarity, the Quality of Government (QoG) approach, we argue, provides what Fukuyama has asked for in this discussion, namely a “theory of institutions, that can be generalized, and that will provide the basis for policy guidance in poor countries” (Fukuyama 2004: 22). The

definition of QoG as “the impartiality of institutions that exercise government authority” (Rothstein and Teorell, 2008), as will be shown, is specific and precise enough to be operationalized for assessing governance across countries and regions.

As pointed out by Gisselquist (2012), a lack of conceptual clarity and the following debate to remedy this, is not only of concern for the academic community. If our definitions of what constitutes high or low QoG are vague or ambiguous, this severely limits attempts to operationalizing and measuring it, and thus will not help us answer the question why some countries are more successful than others in providing “valued outcomes”.

### Uni- or multidimensional?

One central question is if the definition of QoG should be uni- or multidimensional. Notably, many definitions of good governance take on a multi-dimensional approach. For example, Kaufman and his colleagues at the World Bank, who produced what are the most widely used empirical indicators of governance, define governance as “the traditions and institutions by which decisions are made and authority in a country is exercised.” Including:

“the exercise of authority through formal and informal traditions and institutions for the common good, thus encompassing: (1) the process of selecting, monitoring, and replacing governments; (2) the capacity to formulate and implement sound policies and deliver public services, and (3) the respect of citizens and the state for the institutions that govern economic and social interactions among them” (Kaufmann 2003: 5)

Furthermore, as noted in the previous section, most development organizations take a multi-dimensional approach and include several (if not all) of the following into the concept of good governance: rule of law; property rights; contract enforcement; accountability; transparency; anti-corruption measures; democratization; civil society participation; predictability; and respect for human rights. This is a fairly long list of attributes.

A key problem with such broad definitions is that they are not much more precise than any definition of “politics”, and as noted by Andrews (2013), they may be closer at describing development itself

than good governance. Moreover, they fail to differentiate between the issues relating to the *access* to political power (such as election and party systems) and those that relate to the *exercise* of power, such as, the judicial system and the public administration. Without this distinction, we cannot analyse if better “access to power”, in the form of democracy, will result in better “exercise of power”, in the form of lower corruption. Furthermore, such definitions also conflate the *content* of policies with the *procedures* of governing, and fail to distinguish between various institutional particularities and what can be considered basic principles of governing (Grindle, 2004).

Keefer (2004: 5) notes that “(if) the study of governance extends to all questions related to how groups of people govern themselves... then there are few subjects within political science and political economy that do not fall within the governance domain”. Or as Rothstein and Teorell paraphrase: “if QoG is everything, then maybe it is nothing” (2008: 168).

Including what we wish to explain in the definition is a non-starter from the beginning. If we, for example, wish to explain why high QoG makes some states’ public administration more efficient than others, we cannot include efficiency in the definition of QoG, lest we will end up concluding that efficiency explains efficacy. By the same reasoning, suggestions like “good decision-making” (Agnafors, 2013) and “capacity” (Fukuyama, 2013) are not desirable either, since we want to explain variation in “capacity” and “good decision-making”.

In a similar vein, some attempts to define QoG as “what can be shown to be good for development”, and particularly economic growth, are equally functionalist, and border on being tautological. Using such an approach has the inherent problem that you cannot define a country’s level of QoG without first having to measure the effects of QoG. It thus becomes an impossible enterprise to find a generalizable definition of what QoG is, as what causes growth in one country may be very different from the next (Rothstein and Teorell, 2008). This tautology was described in the *The Economist* (June 4, 2005), as the following never-ending circuit: “What is required for growth? Good governance. And what counts as good governance? That which promotes growth. And what is required for growth...” A useful definition of QoG would need to tell us what aspects of politics matter more than others, and in particular, which norms or basic principles are the common denominator in societies with high QoG.

How about including democratic governance? Several development organizations hold good governance and democracy as mutually supportive, and indeed often include democracy in the very definition of good governance (Fukuyama, 2014b). In contrast, the QoG approach purposely excludes “democratic accountability” and other traits of democracy, like participatory governance etc. The reason for this is not that we do not like democracy per say (on the contrary). However, we want to be able to both theorize and also empirically test the relationship between the two. Collapsing QoG and democracy, so that one is defined into the other, would simply not allow for such inquiry. As mentioned above, we would not be able to analyse if more or different forms of democracy lead to lower corruption.

To summarize, following the reasoning of Van Parijs (2011: 1), “it is sound intellectual policy... not to make our concepts too fat” because “fat concepts hinder clear thinking and foster wishful thinking”. Therefore, the QoG approach provides a “lean and mean” operational definition. To follow Van Parijs again, “by packing many good things under a single label, one is easily misled into believing that they never clash” (2011).

One of the uni-dimensional conceptualizations of QoG is viewing it solely as the absence of corruption. Although, a thoroughly corrupt society can be said to be the very antithesis to having high quality of government, the latter concerns more than just the absence of corruption. For instance, such a definition run the risk of excluding practices of nepotism, clientelism, cronyism, patronage, discrimination, high incompetence, and situations where governmental agencies are “captured” by the very interest groups they are in place to regulate (Rose-Ackerman, 2005).

## Normative or empirical

In addition to the questions regarding the issue of uni- or multidimensionality, we also need to decide if QoG should be defined by a specific norm regarding how government power is carried out, or if QoG is more empirical, like bureaucratic “autonomy and capacity”, (Fukuyama, 2013) or “inclusive” institutions (Acemoglu and Robinson 2008). The QoG approach argues for a normative approach for a number of reasons.

First, a risk with empirical definitions is that they easily become tautologies. For example, Acemoglu and Robinson (2012: 73) state that, in order for a society to be successful, its institutions should be “inclusive”, by which they mean institutions that “allow and encourage participation by the great mass of people in economic activities that make best use of their talents and skill and enable them to make the choices they wish”. The problem is that the existence of such institutions cannot be the explanation for why some societies are successful, because they are a description of what constitutes a successful society. In other words, there is very little, if any, distance between the variable that, according to their theory, carry the main explanatory force and what is to be explained.

Secondly, both good governance and quality of government include the terms “good” and “quality”, which both are inescapably normative. Governance and government can only be “good” or of a certain “quality” in relation to a specific norm or norms. Thus, those terms are only meaningful if we have a clear understanding of this norm. In other words, “[trying] to define good governance while ignoring the normative issue of what should constitute “good” defies logic” (Rothstein 2013: 12). However, by normative we by no means imply that QoG-research is confined only to normative issues as understood by the distinction between philosophical-normative and positive-empirical social science. On the contrary QoG-research is based on large amounts of empirical findings but these empirics include how people handle and view normative issues. Thus, the term refers to the conceptualization of QoG.

Thirdly, as mentioned above, recent survey studies have shown that whether or not citizens perceive their governments as legitimate, depend more on how governments exercise power, then on the citizens’ rights on the “access” or “input” side of the political system (Gilley, 2013). Because perceptions regarding political legitimacy by nature are normative, this further calls for an identification of this norm. The great variation in institutional configurations on the input side of the political system, indicate that legitimacy for the system is not generated by something empirical. Rather, legitimacy for the democratic design is, according to Dahl, based on the simple norm of *political equality* (1989). Following this reasoning, we should expect a variation of institutional configuration also for the output side of the political system. The logic of this parallel is that because people’s perception of the legitimacy of their governments depends to a larger

extent on their perceptions of the output side of the political system, there should exist a corresponding basic norm that generates this legitimacy.

The question is then if we can identify the specific norm for when a state organizes its public administration that will generate legitimacy. Such a norm should govern who works in this administration, how decisions are made, and how these are implemented. Moreover, if this norm is followed, should this result in greater administrative capacity and better outcomes that increase political legitimacy? Putting the basic norm of impartiality, as suggested by Rothstein and Teorell (2008), to the test, seems to generate the answer – yes. For example, if government agencies operate according to the basic norm of impartiality, this will not only exclude corruption, clientelism, and nepotism. It will also result in making recruitment and promotions of civil servants based on merits, instead of, for example, political connections or nepotism. This will result in a higher competence in the civil service, leading to higher state capacity and in turn to better development outcomes, in terms of increased levels of human well-being (Dahlström et al., 2012).

## Policy substance or political procedures

Furthermore, there is the question if QoG should be defined by reference to political procedures, or rather defined by reference to certain policies. One example of the latter is the previously quoted definition by Kaufmann (2003) which includes “sound policies” in his long list of things that should make up “good governance”. Heywood and Rose (2015: 122) point at “integrity”, which they define as “doing the right thing”, but they do not provide a clear definition of what this “right thing” is. Political philosophers, on the other hand, have argued for including the “moral content” of the enacted laws or policies into the definition (Agnafors, 2013). There are several problems with defining QoG in reference to the content of specific laws and policies.

Firstly, such approaches jeopardize the universal applicability of the concept as we may well expect people to have very diverse opinions on what constitutes “sound policies” or what makes the content of a law “moral”. Furthermore, what is a “sound policy” in one country under certain circumstances may not be very “sound” in

another country under different circumstances. Here it is interesting to consider Andrews' (2010) study, in which he compared public financial management in a number of high performing OECD and Non-OECD countries. The study found that there was no best-practice model to be derived from these successful countries, and no particular common "sound policy". Thus, Andrews concludes that good public financial management means different things in different countries.

Second, the policy substance approach results in what is commonly known as the "Platonian-Leninist" problem. If those with superior knowledge in this case often international economic experts (or during Lenin's reign, those with superior knowledge in Marxism-Leninism) – are to decide, the democratic process will be reduced to a handful of non-substantive issues.

The downside with *procedural* definitions, on the other hand, is that they do not offer any guarantee against morally deplorable decisions. As is often pointed out, the "dark side" of electoral democracy is the tyranny of the majority, which can discriminate and violate the rights of minorities (Mann, 2005). This is one of the reasons why most democratization proponents speak of democracy *and* human rights as two integrally connected concepts. The same problem of (and solution to) normatively undesirable outcomes also applies to procedural definitions of QoG, such as ethical universalism (Mungiu-Pippidi, 2006), bureaucratic autonomy, and capacity (Fukuyama, 2013), or the one suggested in this approach, impartiality in the exercise of power (Rothstein and Teorell, 2008).

One argument brought against defining QoG by reference to impartial procedures is that a Nazi extermination camp could theoretically be administrated in an impartial way (Agnafors, 2013, Fukuyama, 2013). To this it should suffice to point out that the lion share of research on Nazi Germany outlines a system characterised by political favouritism, personalistic rule, clientelism, disregard for and manipulation of the principles of the rule of law, ad-hoc decision making, and so on and so forth. Secondly, the same problem exists for all standard definitions of electoral democracy since there is nothing hindering the majority to make all kinds of ethically problematic decision. Furthermore, there is certainly nothing wrong with promoting QoG (or democracy) and human rights simultaneously. However, for the sake of conceptual clarity, these should be kept as two separate concepts.

If a political system manages to produce “sound policies” or laws that are in accordance with high moral standards, this should be subsumed under a theoretical discourse that could be labelled “quality of democracy”, which we argue should conceptually be held separate from “quality of government”. Therefore, “quality of democracy” ought to be a discussion about the quality of how political power is accessed and the results of this process in the form of enacted laws and policies. As we have shown above, there are good reasons for distinguishing between the “access” to political power (the input side of the political system) and the exercise of political power (the output side) when analysing the causal effects from politics to human welfare.

Lastly, because there is little agreement in most countries on what should constitute what economists consider “sound policies”, or what the political philosophers hold as the correct “moral status of the law”, a policy approach to defining QoG is unlikely to gain broad acceptance. On the other hand, if the political system operates in accordance with procedures that can normatively be motivated as fair, it is more likely that it will be accepted on a broad basis. This is the main advantage with a procedural approach for both the input and the output side of the political system. In this defence, defining QoG as impartiality builds on the strategy suggested by the well-known political philosopher John Rawls. His central idea is that if a society structures its systems for making and enforcing collective decisions in a fair way, this will increase *the likelihood* that the outcomes will also be normatively and substantively just.

## Universal vs. relativistic

If we accept a uni-dimensional, normative, and procedural definition of what should be viewed as QoG, we also need to discern if this concept is universally applicable or culturally relativistic. The relativistic critique of the good governance agenda, in general, and of the anti-corruption agenda, in particular, argues that these agendas promote and impose western liberal ideals that simply are not compatible with the rest of the world, thus implying a cultural difference in the understanding of corruption (Nanda, 2006, Heidenheimer, 2002). Along the same avenue, Philip (2008: 312) argues that because political systems operate in very different ways and under such diverse circumstances, it is “deeply implausible” that



we can find any universal agreement for what should count as corruption.

Indeed, one of the problems with the commonly used definition of corruption, “the abuse of public power for private gain” is that it invites for a relativistic understanding of the concept because the norm or principle of what constitutes “abuse” is not defined (Rothstein and Teorell, 2008). There are a several compelling arguments against a relativistic conception of corruption. Firstly, accepting a relativistic definition of corruption or QoG would mean abandoning all efforts to make empirical comparisons between countries or regions in the world. It would, in fact, be impossible to prove that “Denmark has less corruption than Nigeria since what is counted as corruption in these two political cultures is in the relativistic approach completely different” (Rothstein 2013: 20).

Secondly, there are strong normative arguments against a relativistic understanding, building on the foundations of the universal applicability of Human Rights. Indeed, the right not to be discriminated against, the right to not have to pay bribes for what should be free public services, and the right to get treated with equal concern and respect by the judiciary, are in fact very similar to what is accepted as universal human rights. If we concede to a relativistic understanding of concepts such as human rights, democracy, or gender equality, the government of Syria, China, and Saudi Arabia, can legitimately claim that they too respect human rights, have democracy and full gender equality, but, because of their cultural characteristics, their definitions are just slightly different from what these concepts otherwise entail (Rothstein, 2014).

Lastly, albeit not fully conclusive, there is empirical support for a universal approach to QoG. For example, survey research conducted in regions in India and in Sub-Saharan Africa has found that most people in these societies strongly oppose corruption and express a similar understanding of the issue, as that of the World Bank or Transparency International (Widmalm, 2008, Widmalm, 2005).

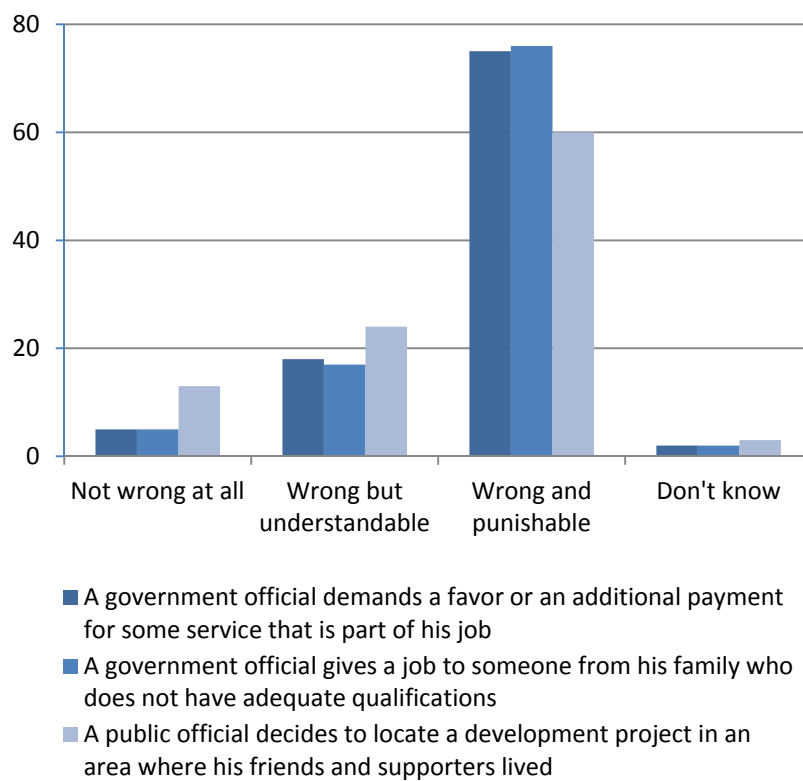
To illustrate this, respondents to the Afrobarometer’s 2006 survey in 18 African countries<sup>5</sup>, were asked of their views on the following

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5 Benin, Botswana, Cape Verde, Ghana, Kenya, Lesotho, Madagascar, Malawi, Mali, Mozambique, Namibia, Nigeria, Senegal, South Africa, Tanzania, Uganda, Zambia, Zimbabwe

scenarios were an official: “decides to locate a development project in an area where his friends and supporters live”; “gives a job to someone from his family who does not have adequate qualifications”; and “demands a favour or an additional payment for some service that is part of his job”. A clear majority of the 25 086 respondents considers all three hypothetical actions of the official as “wrong and punishable”, while only a small minority view such actions as “not wrong at all”. Furthermore, the group that deems these actions “wrong but understandable” is also surprisingly small.

**Figure 9. Understanding of corruption**



Source: Afrobarometer (2006), n = 25 086 for Benin, Botswana, Cape Verde, Ghana, Kenya, Lesotho, Madagascar, Malawi, Mali, Mozambique, Namibia, Nigeria, Senegal, South Africa, Tanzania, Uganda, Zambia, Zimbabwe

Corroborating what this data suggest, Widmalm (2008, 2005) finds similar result in the Indian context. In a survey study on the village level, the author finds that, there is a surprisingly large support amongst the populations for what is often referred to as the Weberian civil servant model. A whole 77 per cent of the villagers responded that they deemed it “very important” that civil servants “treat everyone equally, regardless of income, status, class, caste, gender and religion” and also that civil servants “should never under any circumstances accept bribes”. Yet another study, analysing grassroots organizations’ mobilization against corruption in culturally diverse places, like India, the Philippines, Mongolia, and Uganda shows that these organizations have a very similar perception of what type of malpractice they are up against (Landell-Mills, 2013).

In addition to the cross-cultural similarities, historical studies offer further support for the universal applicability of the concept. Analyses of what was seen as corrupt practices in distant historical eras suggest that notions of corruption in the Roman Empire (MacMullen, 1988), or 13<sup>th</sup> century France (Jordan, 2009), did not differ significantly from our modern day understandings of the concept.

Another study by Rothstein and Torsello (2014) that utilizes a large database of anthropological analyses finds that corruption has been reported in all types of pre-industrial societies in all the regions of the world. They put forward a public goods theory of corruption that argues that “all societies, no matter their level of development, have to produce some set of public goods. At the minimum this can be collective organization for physical security, collective supply of water and food, organized support for orphans, etc.”, and that the universal understanding of corruption stems from the observation that people generally view it as morally wrong when the persons responsible for managing these public good transform them into private goods.

These empirical findings strongly challenge the notion that the public’s acceptance of – and what is generally considered as – corruption varies significantly across countries and cultures as suggested by Heidenheimer (2002), Bukovansky (2006) and others. It should be added that although it is not a landmark of conceptual precision when it comes to the definition of corruption, the United Nations Convention Against Corruption (UNCAC) that was established in 2003 has now been ratified by no less than 170 countries, which indicates that the problem is universally recognized.

Rothstein and Torsello (2014) explain their puzzling finding by what they call “a public goods theory of corruption”. This is based on the idea that every society, no matter how “primitive” or small, in order to be a society at all has to produce at least a minimum set of public goods. These can be things like basic security, arbitration of internal conflicts, and the provision of basic infrastructure or taking care of orphans. Such public goods are to be used and distributed according to a logic that is different from that of private goods. What is universally seen as morally unacceptable, and thus instances of corruption, is when those that are supposed to manage such public goods convert them into their private goods. Different societies have very different bundles of public goods, but the logic of what is seen as corruption is connected to this public-private goods distinction and not to the specific set of public goods.

### Quality of Government as impartiality

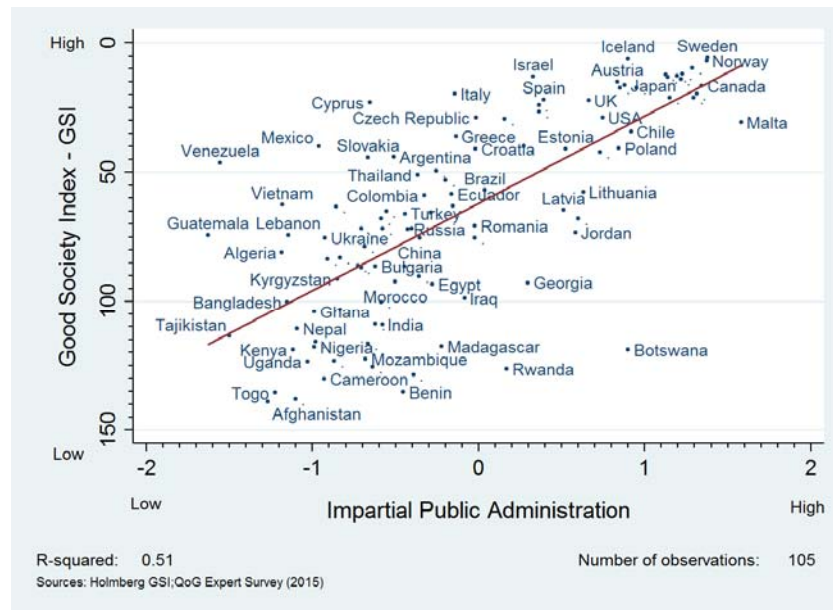
To summarize, the QoG approach opts for a definition of QoG that is normative, procedural, universal, and that can be operationalized and measured. It excludes the input side of the political system, such as representative democracy, participatory governance etc., because we want to be able to empirically test the relationship between the concepts. The definition also excludes efficiency, capacity, and human rights, as we want to be able to determine how QoG affects these things.

In finding the corresponding principle to Robert Dahl’s *political equality* as the basic norm of the input side of the political system, Rothstein and Teorell (2008) suggest ‘impartiality in the exercise of public power’ as the equivalent on the output side of the system. More precisely defined in the following way: “When implementing laws and policies, government officials shall not take anything about the citizen or case into consideration that is not beforehand stipulated in the policy or law” (Rothstein and Teorell 2008: 170).

The definition is fairly precise, and because neither experts nor ordinary citizens seem to have any difficulty understanding and responding the battery of survey questions the QoG institute have developed for this definition, it can evidently be operationalized and measured (Dahlberg et al., 2013). It should also be noted that these measures perform as expected in correlations with the standard output

measures of development. The QoG Institute has carried out an expert survey covering 105 countries in order to capture the degree of impartiality in the public administration. A number of questions from this survey have been used to construct an “impartiality index” (Rothstein and Teorell 2012). As shown from the figure below, the correlation between impartiality in the exercise of public power and the “Good Society Index” is substantial.

**Figure 10. Good Society Index and Impartial Public Administration**



While it can be argued that “government effectiveness” used in Figure 10 above is conceptually close to the variables in the Good Society Index (GSI), the same cannot be said of impartiality. The correlation between impartiality in the public administration and the GSI is twice as strong as for democracy and GSI (see Figure 2). Moreover, a recent paper by Ahlerup et al. (2015), analysing twenty countries in Sub-Saharan Africa, shows that countries whose governments are perceived as impartial by the population are more likely to experience sustained economic growth. They conclude that “in order to ensure economic

development, it is not only important to choose the “right” policies, but also to implement these policies in a fair manner” (2015).

Clearly, impartiality cannot be the fundamental principle for policies pursued by interest groups and political parties on the input side of the political system, as interest groups and political parties are by their very nature partial. Thus, many of the policies that are set in the input side of the system are partial. For example, policies aimed at increasing social justice by directing resources towards, or providing extra opportunities for underprivileged groups are indeed very partial policies. However, the supporters of such programs typically do not want the civil servants tasked with implemented the policies to do this in a partial way, favouring certain underprivileged individuals or groups over others (Tebble, 2002). Therefore, when we move from the input side, governed by *political equality* to the output side, the norm of impartiality takes overhand. In other words, “when a policy has been decided upon by the political system, be it deemed just or unjust... impartiality implies that it has to be implemented in accordance with the principle of impartiality” (Rothstein 2013: 27). This implies that in the implementation process, civil servants as well as professions (and semi-professions) working for the public sectors should not take into consideration anything about the citizen or the case that is not on beforehand stated in the policy or the law (Strömberg, 2000). Or as Cupit (2000) notes, “To act impartial is to be unmoved by certain sorts of consideration – such as special relationships or personal preferences. It is to treat people alike irrespective of personal relationships and personal likes and dislikes”.

Impartiality is not the same as the rule-of-law principle. The reason for this is that when states produce public goods and services they do not only, or even for the most part, rely on personnel that have a legal training or orientation and implement laws and regulation in an “impersonal manner”. Instead, both the developed and developing states use a number of professions or semi-professions such a doctors, teachers, school principals, nurses, urban planners, architects, engineers, social workers, etc. when implementing public policies. For many of these professions, the idea that they would be working according to “the rule of law” in the sense that they implement rules in an impersonal manner makes little sense. They are of course supposed follow the laws, but more important for them are the professional knowledge, norms and ethical standards that is established by their professions. Moreover, we do not want nurses, teachers, people that

work in elderly care, or doctors to be rigid rule followers when they do their job. On the contrary, we want them (and they usually also want) to be personally engaged in their job. Especially when it comes to “human processing” services, these professions are supposed to fine-tune their competence and efforts to suite the specific needs of each individual case. However, impartiality implies that this fine-tuning should be based strictly on their professional knowledge and ethics and not on things like personal sympathies, bribes, friendship, ethnicity, or political affiliations. Thus, the principle of impartiality encompasses the rule-of-law but has also a wider application to a number of areas of public service where the latter principle is not the most important norm.

One way to think about the logic of impartiality in the exercise of public power is to make an analogy to sports, for example football. The clubs in a national (or regional, or local) football league are in stark competition and they all really want to win the league, almost at all costs, thus they (and their fans) are thoroughly partisan (like members of political parties or interest groups). However, the football clubs also want to secure the existence of a functioning and well-organized league that has legitimacy both among their own club’s supporters as well as among supporters in general. If this is going to work, the clubs will have to come together and produce three institutional devices. One is a set of rules for the games that all “reasonable” clubs are willing to accept. Secondly, they also need a set of rules for the organization of the league (how transfers of players should be done, how to handle teams whose supporters interfere with the matches, etc). For this to work, the third institutional device that is needed is officials (referees and league managers) who are guided by the principle of impartiality. For example, individuals that are “die hard” fans of a specific club in the league will not be accepted as referees. A referee that is willing to favor a team for money will be seen as corrupt and shunned by supporters of all teams. If club A knows that club B has bribed the referee, they will either leave the game or they will start overbidding in bribes and then the league will collapse (as was the case in the famous 2006 football corruption case in the Italian national league). Also, players usually do not like to play in a team where they can take for granted that some of their teammates are “on the take” (this is apparently why so many players from South America prefer to play in Europe).

It should be noted that the importance of impartiality in the governing a football leagues seems to be universally understood and accepted. The Confederations of African and the South American Football Confederation do not differ in this respect from their European or North American counterparts. Clubs and supporters from these parts of the world do not think of the rulebook produced by the *Fédération Internationale de Football Association* (FIFA) as a Western Imperialist Post-Colonial treaty alien to their cultures. After all, we are talking about the world's most popular sport.

This sports analogy can also help to explain why high levels of corruption are so prevalent in the world and why there are comparatively few countries with high QoG. Note that hardly any spectators at a sports event can be seen cheering for the referees. This is strange because as stated above, without impartial referees there will be no further matches. But spectators are cheering for their favorite teams, like in politics citizens are “cheering” for their favorite political party or interest group(s). The implication is that QoG as impartiality has no “natural” constituency in politics, which is why it is so rare. If politics is understood just as an interest struggle (as in Marxism or in standard neo-classical economics), an impartial institution is a mirage. As stated by for example Zingales, market based capitalism can only work properly if there are also agents that are not primarily driven by their narrow self-interest but who are prepared to act according to norms “that discourage behavior that is purely opportunistic even if highly profitable” (Zingales, 2012: 179).

As stated above, some have argued that it is necessary to take the “substance” of policies and laws into account when defining what should count as quality of government. Here, it is important point is that the referees (or league managers) do not decide any rulings or make and official judgments about the substance of how well the team plays. In this respect, “the input”, that is, how teams are playing, what system of defense of tactics they use, is not in the domain of the “public officials” that are responsible for the organization of the league. The referees, in wielding their absolute power over the rulings in the game, also do not have anything to say about if the teams play “beautiful football”. A team does not get extra points from the referees for playing well or “doing the right thing” (cf. Heywood and Rose 2015). Thus, if the input in the match is “good or bad”, to use Agnafors term, “the morality of the laws”, is outside the domain of what the public officials are to decide about. A team that plays really



bad, what in Swedish is known as “pig football”<sup>6</sup>, but that makes more goals than the opposing team, will still be the winner. Using the terminology from the World Bank, the officials in this example do not make decisions about which tactics or strategy on the field is to be counted as “sound football”. In this, the league managers and the referees can also be seen as the civil servants administrating the election process in a democracy. They are to count the votes and arrange for the elections to be “free and fair” without favoring and of the contesting parties or making judgments which of the political parties have the “soundest” or most “moral” political program. As Pippa Norris (2015) have recently shown, one major reason for why democratic elections fail and why the outcome is regarded as flawed and becomes contested in many new democracies, is the lack of an impartial and professional election administration.

To go back to our illustration from sports, note that a league with good impartial referees (and league managers) are likely to play much better and more fair football than a league that lacks this “quality of government”, but there can of course be no guarantee. We simply have to hope that the foremost political philosopher of our time, John Rawls, was right when he stated that “... substantive and formal justice tend to go together and therefore that at least grossly unjust institutions are never, or at any rate rarely, impartial and consistently administered” (Rawls 1971, 59).

Rawls also states that “it is supposed that if institutions are reasonably just, then it is of great importance that the authorities should be impartial and not influenced by personal, monetary, or other irrelevant considerations in their handling of particular cases” (Rawls 1971, 58). One should note here that the demand for “reasonableness” pertains only to when the clubs decide about the rules (institutions) for the league and the rules for the matches, not for how the different teams should be playing, i.e., the input side. The clubs do not come together and reason if they all should use the 4-4-2 system or some other set-up when they play football.

In politics, this is equivalent to a situation where the opposing political parties can hopefully come together and try to be reasonable when deciding about a state’s constitutional and administrative

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<sup>6</sup> This is when a team, after having scored the first goal, goes for an extreme defensive strategy trying only to destroy any organized play by the other team.

arrangements but not about their specific programs. Thus, this is where Rawls' famous "overlapping consensus" between otherwise conflicting political parties and interest groups can occur (cf. Rothstein & Teorell 2008).

While this is not the place for presenting a full fledged philosophical analysis of this issue, it should be noted that impartiality is an alien concept for most contemporary theories in the social sciences (Rothstein and Varraich, 2016). Theories based on neo-classical economics such as rational choice or public choice theory do not have a conceptual space for impartiality since all forms of agency is understood as interest based. The same can be said for traditional Marxism and also for its more contemporary versions such a post-colonial theory. Likewise, impartiality does not exist within feminism, post-modernism, or the type of theories used in much of what is known as "cultural studies" inspired by Michel Foucault. Our point is that an analysis that focuses on the importance of impartiality challenges most of what goes on in contemporary social science.

## 6. Understanding Institutional Change

By now, corruption and QoG has been high on the agenda in policy circles and in the donor community for close to two decades. How has the governance regime worked in the case of combating corruption? Due to the prominent position on the development agenda, many countries in which corruption is widespread have undergone various anti-corruption reforms with the support of international donors. These countries are to large extent, but not exclusively, located the developing regions of the world. While there have been some remarkable changes in corruption levels, in for example Chile, Uruguay, Estonia, Singapore, Taiwan, and Botswana, these have primarily been in settings where corruption levels were high but not systemic. Among developing nations that experienced systemic corruption 20 years ago, most still do and successful cases are few and far between. Despite having undertaken a set of prescribed anti-corruption reforms, most countries remain systemically corrupt, and in some cases it seems as if the problem have worsened along the efforts to curb it (Lawson, 2009, Johnston, 2005).

Rhetorically there have been much talk amongst development agencies about the need to fit the reforms intended at institutional change to specific country settings, still the prevailing approach to anti-corruption reforms has been to apply a “tool kit” of ideas that imply that “one size fits all” (Levy and Kpundeh, 2004, Andrews, 2013). Most such efforts supported by the development community have followed the logic of an approach based on the Principal-Agent theory (Ivanov, 2007, Johnston, 2005, Lawson, 2009).

### The principal-agent theory

The Principal-Agent theory is by a clear margin the theory that dominates corruption research and policy (Rose-Ackerman and Søreide, 2011). The theory, which is an outcome from the standard neo-classical theory in economics, is a useful tool for describing and understanding any given situation where one actor delegates the performance of a task to another actor, for example that of exercising government authority in law enforcement. The theory makes two basic assumptions. First, there exists a goal conflict between the Principal, that commonly is assumed to embody the public interest,

and the Agent who are assumed to act out of self-interest. Second, the Agents have access to more information than the Principals, resulting in an information asymmetry between the two (Klitgaard, 1988).

The crux of the problem, from the principals' point of view, is this asymmetry as the agents will attain information about the task they have been assigned to carry out, which they may be unwilling to disclose to the principals, and at the same time these agents may have private goals other than carrying out the delegated task. Corruption is what occurs when the Agents abuse the trust of the Principal and chose to act in their own self-interest, instead of performing their entrusted duty (Persson et al., 2013).

The necessity for the Principal to give the Agents discretion when implementing policies enables the Agents to pursue their self-interest in ways that are rewarding, such as accepting bribes or diverting goods and services, however, doing so also entails risks. If detected, the Agents risk punishment. They can be fined, fired, or even imprisoned. It becomes clear that in the Principle-Agent model, the occurrences of corruption ultimately depend on three factors: the motivation, i.e. the gains of acting corrupt (value of bribe); the probability of getting caught; and the punishment received if caught (Teorell and Rothstein, 2012). For the agents, these three factors are taken into account in their cost benefit analysis of betraying the principal. Acknowledging this, counteracting corruption could for example be done by: lowering the motivation by hiking civil servants wages; increase risk of being detected by increased monitoring; and deterrence by harsher punishments. These measures would in theory alter the calculus of the agents.

Within the development community, viewing corruption through the principal-agent lens gave rise to a wide array of policies designed to tweak the incentives of the agents to deliver the public goods desired by the principals. Indeed many development programs have been framed through such a perspective, all of which build on the assumption that the principals are genuinely interested in "good governance", and that the key problem is persuading the agents to provide this. In particular, programs have aimed at increasing the principals' capability of control and auditing, with the goal of minimizing the information asymmetry between the two, limiting the opportunity for corruption and increasing the risk of being detected. This has traditionally been done with two focuses.

In the first, the supply-side focus, politicians or rulers are considered the Principals and the civil servants in the bureaucracy the Agents. This perspective resulted in good governance programs directed at the Principals, such as supporting ministries, establishing control agencies and anti-corruption bodies, and enacting legal anti-corruption frameworks aimed at strengthening control over the bureaucracy and getting their civil servants “in line” (Mungiu-Pippidi, 2013). The implicit assumption here is that governments are led by people who are not self-interested utility maximizers, but instead by people who are genuinely benevolent and thus concerned with the economic and social development of the people in their countries. It is assumed that their goal is to provide high QoG for the benefit of the population at large. A quick recap of the history of high-level corruption across the globe shows this assumption to be overly optimistic, if not naïve. Thinking of the extent of embezzlement of country leaders – such as of Mobutu in Zaire, the Duvaliers in Haiti, Fujimori in Peru, Suharto in Indonesia, Viktor Yanukovich in Ukraine – it is not surprising that a genuine good governance regime failed to materialize. Moreover, if the main problem with corruption was how to get bureaucrats to respond to the will of benevolent leaders, we would most likely have made satisfactory progress towards high QoG already, as it is well known how to change and manage incentives. A paradox thus arises, as the actors who have the power to reduce corruption, because of that power also are the ones to benefit the most from corruption. In other terms, in most cases it is unlikely that the Principals have an incentive to change the incentive for the corrupt Agents.

Using panel data for 130 to 189 countries, Mungiu-Pippidi shows that the existence of an anti-corruption agency or an ombudsman office has no statistical impact on control of corruption (2011), indicating the limitations of incentive-based direct approaches. One answer to why this may be is provided by Mr. Nuhu Ribadu, a former Nigerian anti-corruption official who – after having charged high-level officials in his country for corruption – was dismissed and forced to flee his country: “If you fight corruption, it fights you back”. For example, in one of the early steps of his incumbency, South African president Jacob Zuma abolished the investigative agency and fired the chief prosecutor who had been building a corruption case against him and one of his close political aides. In sum, it seems that the more

acute problem from the Principal-Agent perspective is how to control the principals.

The realization that the problem of corruption may very well lie with the rulers – and that “the [big] fish won’t fry themselves”<sup>7</sup> – flipped the supply-side perspective on its head in favour for a demand-side focus. In which the consumers of public goods, i.e. the citizens, take on the role of Principals, and both the bureaucracy and politicians are viewed as Agents, hell-bent on corrupt behaviour. From this perspective followed good governance-programs that fall under the umbrellas of transparency and accountability, such as citizen participation, voice and empowerment programs, community monitoring of public services, etc. (Booth and Cammack, 2011, Persson and Tabellini, 2002). In such programs, the underlying assumption is that citizens have a rather unproblematic demand of QoG and at the very least the potential to press their leaders to supply this. However, as shown in section 1 about the problematic relation between representative democracy and QoG, the electorate in many cases do not use their vote to punish politicians responsible for on-going corruption.

Irrespective of how the Principal-Agent relationship is modelled, if it is from the supply or the demand perspective, the theory always assumes that the problem and risk of corruption lies with the agents alone. And moreover, that the principal is genuinely benevolent and interested in controlling corruption and will take on the role to monitor the agents (Mungiu-Pippidi, 2006). If on the other hand there are several principals with incoherent goals, or if the principals are corrupt as well, pursuing their own self-interest instead of that of the society, the Principal-Agent model breaks down (Andvig et al., 2001). As pointed out by Teorell and Rothstein (2013: 7): “The general problem is that [the Principal-Agent] theory is built on the presumption that there will be (benevolent, non-self-interested) agents that, according to theory, does not exist”. In other words, the theory is built on the existence of an actor that according to the basic assumptions of the theory is not supposed to exist.

Persson et al. (2013) point out that contrary of the assumptions of the Principal-Agent theory – instead of monitoring, reporting and

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<sup>7</sup> Former Kenyan anti-corruption chief John Githongo on the difficulty on going after big fish within the government (New York Times, 2009)

punishing corrupt practices – political leaders and citizens often seem to passively uphold a corrupt system. For new governments assuming offices in the developing world it has become something of a standard procedure to denounce the corruption of their predecessors and promising to ‘clean the house’. Yet, this seldom translates into genuine and credible commitment to detect and punish corruption, and instead it is dirt equally standard to bring some more into the house, and continue to operate the state in partial manner by distributing public resources through patronage and nepotism. It is simply their ‘turn to eat’ (Wrong, 2009).

As regards the citizenry, it is important to acknowledge the groups of people who – sometimes at great personal risk – are challenging corrupt and abusive governments. Still, in their individual encounters with civil servants, a majority seem to choose to play the corrupt game rather than abstaining from it. In countries where corruption is rife, reporting of and conviction rates in corruption cases are continuously low (Levy and Kpundeh, 2004), vote buying is prevalent (Porta and Vannucci, 1999), and corrupt politicians stand a good chance of being re-elected (Chang et al., 2007, Johnston, 2013b). In this context it is hard to envision the existence of the highly “principled principals” assumed in the Principle-Agent model, neither amongst the leaders, nor the citizens. As argued by Booth and Cammac (2011: 15) regarding reform in the African context: “governance challenges in Africa are not fundamentally about one set of people getting another set of people to behave better in the interest of development. They are about both sets of people finding ways of being able to act collectively in their own and in others’ best interest”. In sum, there is not much that speaks in favour of the Principle-Agent theory as a useful tool for achieving institutional change from low to high QoG. The dominance of this approach is probably one reason why so many anti-corruption programs have failed to deliver.

## Public ethics theory

Another approach to institutional change is the soft power or public ethics theory. Rebuking the assumption that actors are rational utility maximizers, the public ethics approach takes aim at culturally specific social norms governing the ethics of agents on the assumption that it is that latter that determines their action (see Richter and Burke 2007, Collins 2012). In contrast to the Principle-Agent approach, the

problem is not the incentive structures in place, but rather the historically ingrained culture and the level of enlightenment.

This view have spurred donor sponsored “sensitizing” programs, with the objective of teaching citizens in systemically corrupt societies that corruption truly is unethical and morally deplorable. However, in the light of the empirical evidence presented in section 4 – showing that most citizens, also those living in deeply corrupt countries, consider various forms of corruption, such as bribery, clientelism, and nepotism, as both wrong and punishable – the public ethics approach seem to be misguided. Furthermore, such programs may run the risk of achieving nothing more than condemning those that have few options to act differently (Bracking, 2008). Instead of teaching what is already known, or searching for actors that does not exist, it should be of interest to ask why citizens and rulers do not act in accordance their principles. The *collective action theory of corruption* put forward by Rothstein (2005) and by Persson et al. (2013) provides one explanation to this conundrum of how to understand the basic nature of the corruption problem.

## The theory of collective action

Collective action theory is helpful in understanding all types of public goods provision. The problem of acting collectively arises from the fact that public goods have benefits that are collective and can be enjoyed by everyone regardless of their contribution in creating them. The possibility to free-ride in the event of weak monitoring and punishment gives rise to a collective action problem of the “first order”, where individuals have the option to either comply or defect. When on the other hand collective action arises through group norms (impartiality in their interaction), each actor instead faces four alternatives, resulting in what Ostrom (1998) calls a collective action problem of the “second order”. Thus, in thoroughly corrupt societies, where corruption is the rule rather than the exception, institutional change (for example to do away with bribery), provides individuals with four options; *full cooperation* – not acting corrupt and report misconduct; *hypocritical cooperation* – acting corrupt, but report misconduct; *private cooperation* – not acting corrupt, but abstain from reporting; or *full defection* – both acting corrupt and abstain from reporting (Heckathorn, 1989).



However, in a “rotten game” in a thoroughly corrupt setting, being honest (‘cooperating’ by not engaging in corruption and also sanction it) has very high short-term cost because it is unlikely to change the game (Porta and Vannucci, 1999). For example, it is in all likelihood not only useless, but probably also very dangerous, to be the only honest police officer in a corrupt police force, such as those we find in parts of Mexico. Furthermore, the risk of losing your child to a preventable disease is a high price to pay for being the only parent who refuses to bribe the village doctor in order to receive vaccination (Rothstein 2015).

The Collective action theory of corruption, assume that whether or not actors participate in corruption depends on their perception of what most others do. If you believe that most others in society are acting corrupt, you are likely to act corrupt. In a study consisting of more than 60 in-depth interviews with high level officials, NGO representatives and journalists, Persson et al. (2013), show that for most actors in systemically corrupt societies (in this case in Kenya and Uganda) the cost of acting fairly is greater than the benefits of acting corruptly in the short term. As a consequence, even if most actors agrees that corruption is morally wrong and understand perfectly well the detrimental impact on the society and economy, very few actors seem to be prepared to fight it.

There are, however, some empirical reasons for optimism. In particular experimental research in behaviour economics and related approaches have shown that, rather than always acting rationally in their own self-interest or following a strict moral compass, actors base their actions on the principle of reciprocity. Instead of being plain “homo economicus” or “mother Theresas”, most people base their actions on what they think most other agents are likely to do (Bicchieri and Xiao, 2007, Bowles and Cooper, 2012, Bowles and Gintis, 2011, Bowles et al., 2005, Henrich and Henrich, 2007, Ostrom and Walker, 2003, Sønderskov, 2011). To cite a typical result from this research, Fehr and Fischbacher (2005: 167) state that: “If people believe that cheating on taxes, corruption and abuses of the welfare state are wide-spread, they themselves are more likely to cheat on taxes, take bribes or abuse welfare state institutions”. It is noteworthy that John Rawls in his writings about social and political justice did clearly see this problem between social justice, institutional fairness, and reciprocity, as based on generalized trust.

For although men know that they share a common sense of justice and that each wants to adhere to existing arrangements, they may nevertheless lack full confidence in one another. They may suspect that some are not doing their part, and so they may be tempted not to do theirs. The general awareness of these temptations may eventually cause the scheme to break down. The suspicion that others are not honoring their duties and obligations is increased by the fact that, in absence of the authoritative interpretation and enforcement of the rules, it is particularly easy to find excuses for breaking them (Rawls, 1971, 240).

It is clear that Rawls pointed to the problem of reciprocity in the form of trust in others (“confidence”), and that he argues that it is the existence of institutional arrangements that can handle “free-riding” and other forms of anti-social and opportunistic behaviour that are needed to avoid that systems based on principles of justice break down. One conclusion from this is that every theory or public policy that solely builds on the idea of agents being motivated solely by their self-interest will lead to a situation where the agents will outsmart themselves into a suboptimal (i.e., low QoG) equilibrium. Experimental as well as “real world” research nowadays give ample evidence that this is also the case (Ruske 2015, cf. Rothstein 1996).

Luckily, contrary to being utility-maximizers, in general people are prepared to “do the right thing”, even if they materially stand to lose from it, but only if they believe most others will “do the right thing” as well (Bicchieri and Xiao, 2007). Thus, reforms aimed at escaping the sub-optimal equilibrium that pervasive corruption has trapped society in, will need to be so strong that they alter the perception of what ‘most others’ will do.

In an analysis of what caused the transition from low to high QoG in Sweden during the second half of the 19<sup>th</sup> century, Rothstein (2011) suggests that such transformations took the form of a “Big Bang” change. In this in-depth study of the Swedish case, Rothstein has found that the Swedish bureaucracy was far from the QoG ideal until the mid-19<sup>th</sup> century. Public positions, notably within the military, could be bought, and it was not uncommon that one and the same civil servant held five or six full time positions that they could lease out to someone else in exchange for a share of the salary. Public positions were considered comparable to feudal property that the ‘owner’ could use to extract private resources. Furthermore, there was no clear distinction between the civil servants’ private means and state

property. The income of civil servants mainly came from direct payments from citizens, which encouraged corruption. The skills and merits of civil servants were limited, and personal contacts were more important than qualifications for getting employment.

The change towards a more Weberian-style rule-bound civil service came with the initiation of a very large amount of reforms that took place between 1855 and 1875. Fixed wages and pension systems were introduced, and prohibitions on position purchasing were established. A new general criminal code, which included a novel law on misconduct in public office, was introduced, and the knowledge and skills requirements for the recruitment and promotion of public officials increased significantly. The process can thus be characterised as a “big bang” change of the sort that the theory of collective action points out as necessary for obtaining sustainable change that breaks with corruption, partiality, and clientelism.

In an attempt to explain this drastic transformation, Teorell and Rothstein (2015) have gathered a unique material of court hearings on malfeasance in public office from 1720-1850, and have found a significant increase in such court hearings between year 1800-1830 followed by a dramatic decrease after 1840. A similar trend has been identified in Denmark. A plausible explanation is the traumatic loss of Finland in the war against Russia, which gave rise to “the revolution of 1809”. The leading actors behind the coup d’état seemed to have been under the impression that the country’s future existence as a sovereign nation-state was severely threatened. The military defeat was largely blamed on the incompetence of the army, which was held to be a direct consequence of the so-called accord system within the army. There seems to have been a widespread notion of an approaching national crisis that became a strong motivation for reforms. In the parliamentary debates from the 1820, we can observe straightforward demands in debates and parliamentary commissions that the current clientelistic, partially corrupt system must be reformed. However, it would take another forty years before charges against malfeasance in public office were deployed more efficiently and on a larger scale. The rise of political liberalism also seems to have influenced perceptions of the kind of reforms that were needed (Rothstein and Teorell 2015).

Change of this magnitude is not an easy thing to accomplish or to write out policy recommendations for. If agents need to trust that most other agents will cooperate for a common good, like achieving QoG, we need to know how such generalized trust can be

manufactured. The problem is that to the best of our knowledge, it is produced by people's perception of the quality of their public institutions that (are supposed to) deliver public services. We thus have a perfect circular theory. High quality institutions are most likely to be produced and sustained by generalized trust, which in its turn is produced by the very same (high quality) institutions. In ordinary language, we are speaking of two circles, one vicious and the other virtuous. However, this is also what we see in "the real world", as we have hoped to show above. Corruption and other forms of low QoG are both very pressing and very difficult problems, precisely because it has the form of a self-reinforcing equilibrium. Given the detrimental effects on most forms of human well-being of low QoG, if there was an easy "quick-fix", the problem would have been solved long ago. In sum, we should not be surprised by the disappointing results from importing anti-corruption legislation and instruments from contexts where corruption is the exception, to countries where corruption is the expected behaviour.

Although the collective action theory is powerful in explaining a status quo of corrupt equilibria, its main weakness is that it has difficulty explaining how change can occur. If both state actors and citizens are stuck in the social trap of low trust and bad institutions, which make them continue to accept and pay bribes, siphon away state resources etc. as long as they believe that most others are corrupt, then what is it that explain the way out of this corrupt equilibrium?

## 7. Swedish Development Assistance and QoG

In this section, our ambition is not to carry out an evaluation of Swedish Aid and Development policy in relation to QoG. Our modest ambition here is to present how the Swedish government's policies in this area have related to issues about the quality of government.

At the heart of Sweden's development policy is the aim of creating "preconditions for better living conditions for people living in poverty and under oppression" (Regeringskansliet, 2014)<sup>8</sup>. In this endeavor, The Swedish International Development Cooperation Agency (Sida) was in the early 90's one of the first donors to pursue projects in recipient countries, which had the stated objective of 'making government work', marking the institutional turn in development policy (Sida, 1991). Predating this turn, Swedish aid has prioritized support to this area under the auspices of public sector support and capacity building. Programs in this portfolio has varied over the years, with one of the more common forms being long-run partnerships between Swedish agencies and their counterparts in recipient countries, such as the tax Authority and the National Audit Office (Wohlgemuth, 2012).

The focus on corruption, on the other hand, has not had the same continuity, and began slowly to receive consideration in the 90's. This can, for example, be seen in the Swedish Government's official communication document on development policy throughout the years. In 1993, corruption is only mentioned twice in this lengthy document, and the primary concern was to safeguard Swedish funds from corruption. In the 1997 official document, corruption received more attention with five mentions, and in 2005 the problem was noted nine times. However, our reading of these documents gives the impression that the problem was for the most part seen as avoiding corruption within the Swedish development programs, and not primarily directed in helping recipient countries curbing corruption. However, in between these documents and earlier equivalents a change in the understanding of the magnitude of the QoG problem seems to

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<sup>8</sup> On the June 1st 2015, the current government initiated the work to replace the existing Aid Policy Framework, its understanding of institutional change and corruption is unlikely to change significantly.

have taken place. In the current Aid Policy Framework document from the Swedish Government, corruption is an important issue and is mentioned no less than 19 times (Regeringskansliet, 1993, 1997, 2005 and 2014). Throughout the Framework document and various country specific steering documents, it is evident that corruption is increasingly conceived as an obstacle for fulfilling the objectives of Sweden's international aid program. Still, corruption is primarily addressed as an issue of aid effectiveness, and reducing corruption is to a lesser extent seen as a central goal for development assistance. While anti-corruption has been a strategic priority for Sida for more than a decade, the increased awareness is reportedly reflected in the organization. There is a gradual change in focus of Sida's anti-corruption work, from primarily focusing on safeguarding Swedish aid from misuse and corruption to mainstreaming and integrating anti-corruption in all sectors (Lien, 2015).

Most of the Government Offices of Sweden's bilateral strategies for development cooperation outline a general guide-line to focus efforts on areas in which Sida and its partners enjoy a 'comparative advantage'. Among others, depending on the host country in question, the areas of 'democratic governance' and 'work to combat corruption' are often mentioned<sup>9</sup>. Insofar as the experience of absence of corruption makes one more knowledgeable in the area of combating corruption, and to the extent that having enjoyed a stable democratic system for a century makes one an authority on democratization, Sweden certainly enjoys a comparative advantage in these areas. However, having been one of the worlds' top performers in terms of QoG for several decades may not make Sweden an expert on change itself, but it does provide a certain reputation and status of role model:

A good reputation and tradition of democratic, open and effective administration gives Sweden special advantages in the area of good governance where it has been possible to carry on a critical dialogue, particularly as far as corruption is concerned – MFA (2013: 4)

For the purpose of this report, it is of interest to discern how the Swedish government understands low QoG and corruption and their impact on development, and which strategies it applies in its foreign aid to promote institutional change and to tackle corruption.

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<sup>9</sup> See for example Strategy for development cooperation with Uganda 2009-2013 or Tanzania 2014-2019;

## Good (Democratic) governance and corruption

In the context of development assistance, neither the Swedish government nor Sida make frequent use the term ‘good governance’, other than in relation to programs run in cooperation with other donors. Instead the term ‘democratic governance’ is often used which in addition to the most donors’ technical notion of the concept – to no surprise – includes a strong emphasis on democratization, participation, support for democratic institutions, and a democratic culture. As mentioned above, one implication of this approach is that there is no conceptual distinction between the “input” and the “output” sides of the political system. Moreover, it is taken for granted that democratization will work as a cure against corruption and other forms of low QoG. As we have shown in section 1, there is not much empirical evidence that speaks in favor of this idea. Sida considers that “good governance entails that responsibility and transparency are reinforced, and that real participation is fostered, which implies that the link with democracy becomes clearer and that good governance reinforce democracy and vice versa”, and that “neither of these concepts can be retained in the long term without the other” (Sida, 2002: 3).

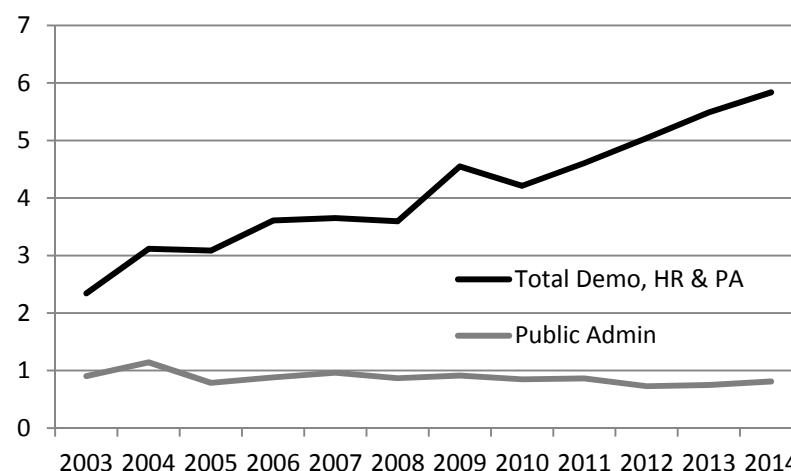
As regards the connection between democracy and corruption, there is ample evidence of a view that democratization will contribute to lower corruption (See MFA 2010). However, at the same time, combating corruption is viewed as one of the tools necessary to strengthen democracy. For example, the stated goal of Sweden’s support in the area of anti-corruption in South Eastern Europe was to “strengthen democracy and the rule of law in South-eastern Europe through the prevention and control of corruption” (Sida, 2007). The fight against corruption has been identified as one of Sida’s strategic priorities. Corruption is defined as the: “abuse of trust, power or position for improper gain. Corruption includes among other things the offering and receiving of bribes – including the bribery of foreign officials – extortion, conflicts of interest and nepotism” (Sida, 2015).

In promoting democratic development, the Swedish government takes a rights based approach that incorporates four basic principles, based on a normative framework of human rights that regulate the relationship between the state and individuals. These are: non-discrimination; participation; openness and transparency; and

accountability (MFA, 2010). Democracy and human rights is one of the three thematic priorities of Swedish Development Cooperation (the two others are environment and climate and gender equality and women's role in development), and at Sida the portfolio, "Democracy, Human Rights and Public Administration" accounts for approximately 30 percent of Sida's total disbursements, making it the organization's largest sector (Sida, 2013). Programs aimed at facilitating institutional change fall under various subcategories, such as: elections; support to parliament & political parties; media; anti-corruption organizations and institutions, etc. Judging by the distribution per subsector within the portfolio, "Public Administration" is clearly the odd and minor cousin. Public administration, public financial management, and public sector policy and management receives only a small part of the funds, which are dominated by disbursements labeled under "strengthening civil society", followed by "human rights" (OpenAid, 2015). Supposedly the understanding is that investments in civil society and human rights carry the greatest potential to induce institutional change conducive for development – or as stated in one policy document: "a democracy is not possible without democrats" (MFA 2010: 19). Moreover, from the figure below we can see that this view seems to have been strengthened lately, as the proportion of Public Administration support in the total Democracy, Human Rights and Public Administration portfolio, has declined from about 50 percent in 2003 to 20 percent in 2014.



**Figure 11. Sida's support to Public administration<sup>10</sup> as proportion of the total Democracy, Human Rights & Public Administration portfolio**



Source: Sida (2015)

However, as a collective, the donor community has supported reforms in partner countries to improve formal institutions within the developing states, and has to a lesser degree focused on vertical accountability to citizens. Today, a majority of the countries receiving Swedish development assistance scores high on the (visible) institutional setup rated by Global Integrity. For example, as mentioned earlier, Uganda scores close to the maximum – an outstanding 98 out of 100 – on their legal framework, as does South Sudan. Kenya, which Sida helped develop a national anti-corruption platform, scores slightly lower at 83 (Global Integrity, 2015). However, this score still imply that they have a fairly comprehensive formal legal framework as regarding anti-corruption, integrity, and access to information. The problem seems to lie elsewhere, perhaps with the demand-side:

Sweden's aid should focus on giving citizens the opportunity to demand accountability from their Government, for example

<sup>10</sup> Public administration includes support to: government administration; statistical capacity; public financial management; public sector policy & management; and decentralization and support to subnational governments.

through support for civil society. The aid should also be structured so as to support those working to promote political and civil rights, and greater transparency and accountability between citizens and the state. (MFA 2014: 5)

In the Swedish policy, civil and political rights are seen as important in their own right, but also as a way to improve the chances of people living in poverty to claim their economic, social, and cultural rights. Seen through the Principal-Agent framework, this is a bottom up approach to institutional change, where civil society takes on the role as the Principal. The existence of an active civil society may be essential on the occasion that there emerge leaders who have the political will to take on corruption. Sustaining such political will is likely dependent on the possibility to reduce corruption without committing political suicide, i.e. that there exist a potential electorate (Klitgaard, 2015). In cultivating an active civil society, Sida, for example, works to support media watchdogs and whistle blowers in their efforts to curb corruption. Ranging from support to local Transparency International chapters to citizen rights education, and initiatives to educate journalists, activists, and officials, to evaluate and disseminate information on the state's budget procedure (Norad, 2011, Sida, 2013).

Other tools to facilitate institutional change and combat corruption that receive less attention (at least in monetary terms) include support to Anti-Corruption Bodies and Ombudsman institutions, which Sida have supported in for example Zambia, Kenya, and Vietnam (Norad 2011). On the other hand, such programs can be seen as top down application of the Principal-Agent framework, where the civil servants in the specific authority, assumes the role of the principals. Furthermore, Sweden actively encourages all partner countries to ratify and implement the UN Convention against Corruption, and to include discussions of its implementations in bilateral consultations.

## Indirect approaches to institutional change

Besides supporting projects specifically targeting corruption, Sida is also taking measures to mainstream anti-corruption throughout its development cooperation portfolio. For example, by supporting projects which are expected to have an indirect effect on corruption and facilitate institutional change. Most types of donor interventions aimed at improving the delivery of essential public goods include working with the public sector and improving the way it functions. The end goal of such reform is transforming the relationship between the government, the bureaucracy, and the citizens. As such, “to promote efficient and effective public administration”, is one cornerstone of the policy for democratic development and of particular interest is the understanding that: “as the level of direct taxation rises, demands for greater accountability and fair decision-making tend to increase. Sweden, therefore, will seek to strengthen the ability of states to mobilize domestic financial resources, primarily by means of wider taxation” (MFA, 2010: 18).

Support through Sida for agency-to-agency cooperation for capacity building can also be seen as an approach to anti-corruption. For example, improving the quality of the audit and tax systems corruption can be addressed indirectly. The Swedish National Audit Office's (NAO) development cooperation's aim is to “help strengthen the capacity and ability of supreme audit institutions to conduct audits in accordance with international standards”. This is done by long-term partnerships with national supreme audit institutions as well as regional and international audit organizations (Swedish NAO, 2015). Since 2004, the Swedish NAO has had an annual budget of SEK40 million to finance its development cooperation, and is working with nine partner countries as of 2015<sup>11</sup>. While the budget is very modest in relation Sweden's overall development cooperation, the policy is said to facilitate long-term commitments to partner agencies in developing countries. The Swedish NAO is for example working with enhancing the independence of national audit institutions in partner countries, and their relationships with parliaments and the judiciary. In addition to national projects, the Swedish NAO supports regional auditing bodies, not only to facilitate knowledge exchange and to reach a greater number of NAO, but also to help reinforcing and proliferate

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11 As of 2014 these include: Georgia, Bosnia Hercegovina, Kenya, Kosovo, Moldova, Palestine, Tanzania, Uganda

international standards and professionalization in a particular region. For example, the Swedish NAO is the largest donor to the African Organization of English-speaking Supreme Audit Agencies (Swedish NAO, 2015).

Other examples of agency-to-agency cooperation are the Swedish Enforcement Authority's cooperation, with its Georgian counterpart, who has the stated objective to "contribute to a stable economic system in Georgia, being guided by the rule of law, and creating awareness among the public of the rights and duties" (SEA 2015), and the Swedish Tax Agency works to improve tax collection and compliance in Kenya and Tanzania among other countries (MFA, 2014b). As opposed to the Swedish NAO, these agencies do not receive an annual budget for development cooperation by the Swedish Parliament, and projects are initiated and financed by Sida.

General budget support intended to finance the partner government's poverty reduction strategies, sectorial budget support, or financing of a specific ministry or agency, can also be used as indirect anti-corruption tool. The possibility to withdraw or redirect aid flows creates a dual understanding of QoG at the same time as it may be viewed as a natural deficit in the developing countries, and thus as something to be built through development assistance. On the other hand, it can be viewed as a condition for receiving aid. Indeed, a clear commitment to anti-corruption by the partner country is listed as one of the conditions a recipient country must fulfill to be eligible for general budget support.

An interesting example is the response to a corruption scandal in Uganda in 2012, when the Ugandan Auditor General exposed a USD 15 million theft from the Prime Minister's office from donor funds. Sweden, in coordination with other bilateral and multilateral donors, suspended aid valued at 1.25% of Uganda's GDP (OECD, 2013), conditioning future payments on a set of short-term measures aimed at forcing repayment of the embezzled funds. Yet, in its 2014 to 2018 strategy paper for development cooperation with Uganda, the Swedish Ministry for Foreign Affairs concludes that the "possibilities for cooperation with the state during the strategy period depend on the progress made by the Government in ensuring respect for human rights and combating corruption" and that the "[Swedish] Government's assessment is that general budget support cannot be envisaged at present" and therefore "working with the state should be avoided as far as possible" (MFA 2014: 4).

The difficulty of providing general budget support, when there is a strong focus on measurable results and attention to corruption, is perhaps illustrated by the decline in such aid. As of 2015, Sida provides general budget support to only two countries (Mozambique and Tanzania), as compared to around eight countries ten years earlier (OpenAid, 2015).

## Gender equality

Promoting gender equality has been a development goal at least since the mid 90's, and "Gender equality and the rights and role of women in development" is one of the main thematic focuses of Swedish development assistance since 2008. Out of the total disbursements in 2013 made by Sida, 75 percent were marked as having gender equality as a significant objective, and an additional 15 percent stated gender equality as main reason for the supported intervention (Sida, 2013). Gender equality is, in addition to the obvious value of equal rights for men and women alike, considered "a prerequisite for long-term democratic development and equitable and sustainable global development." As such, for example programs for training and support for women's leadership, with the explicit aim of increasing female participation in political decision-making bodies, are seen as tools for institutional change.

## 8. QoG – how to get it

In order to get control over or minimize a social problem, a number of things are needed. The first is a grasp of the magnitude of the problem. Is the “quality of government issue” a small or modest problem or is the problem serious and of some considerable magnitude? We hope that we have convinced the reader that the QoG problem is both a serious and a “big” problem, and not only for developing countries. Secondly, you need a correct conceptualization of the problem. In this case, we hope that our definition of QoG as the opposite to corruption, based on the basic norm of impartiality in the exercise of public power, is superior to other definitions, such as “abuse of public power” or the launching of “sound policies”. Thirdly, you need a theory about the basic nature of the problem that correctly identifies the causal links between the various factors that explain the logic of the problem at hand. Here, we have argued that the QoG problem, including corruption, should be subsumed under the theory of Collective Action instead of being seen as a problem about “fixing the incentives” (the Principal–Agent theory) or a problem about culturally induced “bad” moral values. In addition, to get results, you of course need good data and methods for analysing the problem.

Above, we have argued that while the many “structural” explanations for why there is such huge variation in QoG among the world’s nations generally are convincing, and that this information is good to have, they are not very well suited for policy recommendations. Simply put, it is not very productive to tell the leaders of a country that it has the wrong location on the globe, that its population is too heterogeneous, that the majority of the population should have adhered to another religion, that the country should have established electoral democracy a very long time ago, or that the colonial history of the country is dysfunctional for development. Structural and historical factors like these are simply beyond human intervention. As argued by Vollrath (2014), explaining why a country or region got stuck in poverty is not the same as understanding how the country can become rich. In other words, saying that “institutions mattered” is different from stating that “institutions matter”. On the other hand, countries with low QoG are also not much helped by recommendations like “the importance of independent courts”, “codes of integrity in the civil service” or “a

honest police-force”, since this is like saying that in order not to have corruption do not have it in the first place. Factors like these are important but they are too close to, and in many cases identical to the problem, to serve as remedies. This is the reason for why we will concentrate this section on institutions. Following Nobel Laureate Elinor Ostrom’s theory of collective action, we want to point at a number of institutions that can serve to reduce the problem of low QoG. We do not argue that changing such institutions is an easy thing or, to quote Larry Diamond again, can be carried out with some “technical fix” (Diamond 2007: 19). On the contrary, it may be a Herculean task to change them. However, these institutions are both contemporary and “man-made” and are therefore, at least in theory, possible to change. Also, we do not argue that our list below is complete, on the contrary there may exist many other institutions that could also have a positive effect but for which there are yet no, or not sufficiently, convincing analyses.

## Taxation

The very ability to efficiently tax the population may be an indicator of state capacity, but it can also be one road towards QoG. Through survey studies in 20 African countries, Broms (2015a) shows that taxpayers are considerably more interested in politics and the affairs of the state, when compared to non-taxpaying citizens. These findings suggest that expanding and enforcing taxation in developing nations could not only provide the state with much needed revenue, but also help to increase political awareness and facilitate a negotiation of the social contract between citizens and rulers. In another study, Broms (2015b) finds that the relationship between the levels of taxation (as a percentage of GDP) is strongly and positively related to QoG in democratic states, but not so in autocratic states. In other words, the mechanisms available in a democracy enable the social contract to be negotiated between the rulers and the voting population at large, whereas in non-democracies the rulers typically only have to negotiate this contract with a small elite. Using a sophisticated measure of the “magnitude” of the historically established social contract for about 40 countries in Africa, a recent empirical study finds a strong and significant effect for both measures of the rule of law and perceptions of corruption (Persson and Sjöstedt, 2015). Another study by Persson and Rothstein (2015), based on ethnographic material from a highly

corrupt country like Uganda, generates similar results. One reason why people do not mobilise against widespread corruption is that they generally do not pay taxes. The fact that the political elite loots natural resources and arbitrarily spends aid funds is not regarded as a matter of great concern for citizens, since they do not consider the funds spent to be their money. Using quantitative data from a number of countries, Persson and Rothstein further show a positive relationship between low corruption and a high level of public spending. The empirical results challenge the findings of a number of well-cited neo-classical economists, who argue that the root cause of corruption lies in a large state apparatus. The historical roots of systems of taxation seem to indicate that in political settings, in which the population have been accustomed to being taxed for the production of public goods, this has also come with systems for representation, accountability, and transparency. People can of course be forced to pay taxes, but systems that rely only on “brute suppression” have tended to be less effective than systems that are built on some form of “conditional cooperation” (Levi, 1997). If people are going to accept to part with some of the money for public goods, they will be more willing to do so if the system of taxation is reasonably fair and transparent (Brautigam et al., 2008).

## Meritocracy

One insight from what creates high QoG is that there must be some form of constraints on the elites, whether democratically elected or not, so that they do not abuse the system and govern it as their patrimony. The more diverse the interest and goals of individuals within the elites are, the more restricted their power and discretion through the mechanism of mutual control becomes. The separation of power in the American system is an example of a constitutional setup to restrict the concentration of power. Dahlström et al. (2012) put forward another way through which elites can control each other, making it more likely that they will pursue what is good for society at large, over their own self-interests. Because both politicians and civil servants in the bureaucracy must be involved in the governance of the state, it is preferable if they are composed of two separate groups. A modest assumption is that most individuals are to some extent concerned about their careers. If then, career incentives are separate



for politicians and civil servants this could constrain corruption and contribute to better QoG.

Using data for 107 countries from the QoG Expert Survey, Dahlström et al. (2012) find strong support for their hypothesis: that there is a connection between the career incentives and how well the state operates. In particular, meritocratic recruitment of civil servants, as opposed to political appointment, is found to reduce corruption. This remains true even when controlling for a large set of alternative explanations, such as political, economic, and cultural factors, that previously were seen as important for the functioning of the public sector. The conclusion is that a professional bureaucracy, in which civil servants are recruited on the basis of their qualifications and skills, rather than their loyalty to the politicians, is a very important factor for high QoG. One mechanism behind this is probably that, when faced with corruption or inefficient management of public resources, it is easier for civil servants to protest, in such a bureaucracy, than if he or she were dependent on and loyal to the politicians. This is illustrated by subsequent corruption scandals in Spain, a country with a high degree of politization of the bureaucracy, where large networks of civil servants reportedly were aware of active corrupt networks, yet refrained from blowing the whistle or leaking information to the media. This is likely to be caused by fear of or loyalty to their own group, the politicians, or to their party. The chance that someone exposes corruption is simply larger if the potential exposé is not dependent on those engaged in corruption.

Cornell (2014) finds that the implementation of aid programmes can be obstructed if there are high turnover rates among public sector employees, especially if they are recruited on a political basis. The reason is that loyalty among politically recruited public officials lies with the appointing political party rather than with the public institution, and politically recruited officials are therefore often reluctant to take over the implementation of aid programmes that have been established under the former government. This is problematic for development agencies, as the implementation timeline of aid programmes often does not correspond to the term of office of the elected government appointing public sector personnel.

Furthermore, a meritocratic bureaucratic structure that balances political interests has also proven to have a stabilizing effect in times of political turmoil and social conflict. Lapuente and Rothstein (2014) argue that civil servants in such bureaucracy have incentives to

maintain the state's neutrality: taking side in a political struggle would put their careers at risk, and they therefore try to contain the political conflict to the executive sphere. In contrast, civil servants in a politicized bureaucracy may advance their careers by political engagement, which may escalate the conflict, not only within the public sector, but also by transmitting it onto the citizens through their interactions. The authors illustrate this by two case studies of social conflict that played out in the 1930's in Sweden and in Spain. While neutral civil servants within the Swedish bureaucracy mitigated conflict and helped to give birth to one of the most peaceful solutions to class conflict (i.e., the neo-corporatist welfare state), the highly politicized bureaucracy in Spain fuelled the conflict and gave birth to one of the most violent outcomes of class conflict: the Spanish Civil War. An impartial and mitigating bureaucracy can play an active part in political and social conflict, and is yet an example of why politicization of the bureaucracy is detrimental for QoG.

## Universal education

Examining the relationship between historical universal education reforms and present day corruption levels, Uslaner and Rothstein (2016) traces a path-dependence across almost a century and a half. The basis for the study is empirical evidence of a strong correlation between, on the one hand, average years that children spent in school in 1870, and, on the other hand, corruption levels 2010, for 78 countries. The relationship remains after controlling for change in the level of education, gross national product per capita, and democratic governance. Their analysis shows that the highly industrialised countries were not the first to implement universal education reform, indeed Great Britain waited until 1905/6 in doing so. The first nation to implement such reform was the militarised and authoritarian Prussia, who after their defeat against France in 1806 decided to utilize education reform to promote loyalty to and identification with the state. The same impetus drove the Swedish implementation of universal education in the mid 1800's. France follows a similar pattern, after suffering a bitter defeat against Germany in 1877, and establishes a system of mass education to make "peasants into Frenchmen" (Weber 1976: 332). Upon receiving this public good from the state, citizens could be expected to exhibit greater loyalty towards their country's public institutions, which may have been one important

factor contributing to achieving high quality institutions. Education may also serve as an effective policy for creating a common national identity through things like a common language and a common understanding of one's country's history.

The case of universal education in Italy is particularly interesting. While the decision on mass education was taken already in 1859, it was only implemented in the northern regions of the country. In the south, large shares of the population remained illiterate well into the 20<sup>th</sup> century, which is consistent with findings on the huge present day within-country differences of QoG between the northern and the southern regions (Charron and Rothstein, 2014). While education seems to have a positive effect on social trust and thereby contributing to the establishment of a social contract in general, this is not always the case. In societies where the educational system itself is tainted by systemic corruption, or other forms of malpractice, the effect of education on social trust turns out to be negative (Charron and Rothstein, 2016).

## Gender equality

Research on the relationship between gender and corruption took off in early 2000s, after two World Bank connected research groups showed that countries with a high percentage of women in decision-making positions generally had lower levels of corruption, even when controlling for the level of democracy, economic development, and a number of additional factors (Swamy et al., 2001, Dollar et al., 2001). While some critique was brought forward on the grounds of the relationship being spurious, i.e. a well-functioning state both curbs corruption and promotes gender equality, others, in particular feminist scholars, critiqued how women's participation in political life was portrayed as a tool to combat corruption and not a goal in of itself. This school of thought turned the focus around and began studying how male networks shut women out from the inner sphere of political power, where a sizable share of corrupt transactions takes place. It is also argued that women in many countries are tied to the family and private sphere to a larger extent than men are and therefore have fewer opportunities to engage in corruption. It should be noted that this does not explain why women would contribute to lower corruption once faced with these opportunities. A third alternative theory suggests that the effects are sprung from women's and men's

social roles, where women are socialized into avoiding risks and caring for others, thus making their behaviour less detrimental than men's.

QoG-researchers have developed an alternative theory that focus more on rationality and where women's choice of action is active. An underlying assumption is that women as a group not only have less power than men but also less economic resources. Refraining from corruption becomes rational in order to save scarce resources to pay for food, welfare of the children etc., which are seen as the women's responsibility. Wängnerud (2010 and 2015) emphasizes that women who reach political positions often have a different background from their male colleagues. In Mexico, female politicians have typically started their careers within civil society organisations, and thus built their power base there. Because corruption tends to undermine the relationship to the civil society, female politicians have a rational incentive to refrain from corruption in order not to alienate their supporters and jeopardize their political careers. Wängnerud (2010) shows that sub-national regions with high levels of female politicians exhibit lower levels of corruption than other regions. Moreover, regions with particularly large shares of female politicians saw the perceived levels of corruption reduced from 2001 to 2010, indicating that female politicians not only contribute to containing corruption levels but may also help break the sub optimal corruption equilibrium. Wängnerud argues that a high level of female politicians, in particular in developing countries, is often a result of pressure both from domestic and international organisations, and when coinciding with a public debate on combating corruption, this may provide a window of opportunity for change.

Examining the effects of women in parliament and women on executive positions within the bureaucracy on a cross-national level reveal some intriguing results. While the first is correlated with lower levels of corruption, the latter is not. Stensöta et al. (2014) suggest that public institutions mediate the existence of gender differences in different ways depending on the norms governing the particular institution. In the political arena, female politicians must emphasize what differentiates them in order to be elected, for example, by positioning themselves as a 'clean' alternative to their male counterparts tainted by corruption and abuse of power. In the bureaucracy on the other hand, personal attributes are more likely to be deemphasized, especially when the bureaucratic structure is professional. In societies with weak bureaucracies – where norms are

weak or missing – the dynamics resembles those of the political arena and we can thus expect gender to have an effect on corruption levels (2014).

An institutional change, such as increased gender equality, can possibly be a bang big enough to upset a corrupt equilibrium. The starting point is of course that gender based discrimination in politics has been (and to a large extent still is) massive in most countries and significant change in this area is in itself a “big bang”. Secondly, moving from male-dominated politics to increased female representation introduces new players, who can induce elite competition and control, i.e. a form of checks and balance. Thirdly, a significant increase of women representatives also sends a signal throughout society that there is a “new game in town” that typically receives a lot of media attention (Agerberg et al., 2014). To this one can add that most corruption is illegal and, as is well known from criminology, men are grossly overrepresented when it comes to committing serious crimes. Why this is so can be discussed at length and we have neither the ambition nor the competence to resolve this issue. However, following this quite extreme difference in gendered behaviour, it should not come as a surprise that, if women are given more positions of power in a political system, corruption would become less common, since most forms of corruption are illegal. In sum, increased gender equality seems to have a positive impact on curbing corruption but this requires strong actions from political decision-makers to take on both the gender imbalance, as well as the corruption within their own ranks.

## Good auditing

Almost all countries have a national audit agency for scrutinizing the performance of the public administration. As such, national audit agencies can be seen as a meta-institution in a country’s system for the exercise of public power. While the effects of this kind of auditing have been much for some time, no systematic large-n comparative analysis existed until recently. In a study by Maria Gustavson (2015), the quality of systems for national auditing, in 122 countries, are compared. This analysis, based mainly on data from the QoG Institute’s Expert Survey, conceptualizes *good auditing* in three dimensions, namely: the independence of the national audit agency; the professionalism of the auditing personnel; and if the audit agency

generally communicate its results to the public, even when these results are inconvenient for the ruling government. Using the QoG Expert survey, Gustavson has been able to collect data for these three dimensions of what constitutes “good auditing”, and thereby to create a comparative measure for the quality of auditing the public sector for no less than 122 countries. The bivariate correlation between this indexed measure of “good auditing” and various measures of QoG is surprisingly strong. For example, the correlation with the measure of QoG as impartiality is about .65. Moreover, Gustavson’s analysis shows that the impact of “good auditing” for QoG remains statistically significant also after controlling for a number of other variables, such as, GDP per capita, the level of international integration, trade openness, legal structure, press freedom, and measures of globalization. One particularly interesting finding is that the independence of that national audit agency turns out to have the weakest impact of the three dimensions constituting “good auditing”. This is a surprising result since the formal independence of the audit agency has been held forth as very important for achieving high standard and effective auditing. Instead of administrative independence, it is the professionalism of the auditing personnel that has the largest effect. This result is in line with Norris’ (2015) study of what is necessary for creating integrity in democratic elections (i.e., implementing “free and fair” elections), namely that an independent election administration is less important than the impartiality and professional ethos in the civil service. According to Gustavson, the policy implication of this result is that donors should regard support for national auditing agencies as a prioritized area within development aid. In particular support for increasing the competence and skills among the public auditors and their communication efforts to the general public.

### Can donor organizations induce change in Quality of Government?

“The first and most important institution that fragile and failing states lack is an administratively capable state” writes Fukuyama (2015: 51). A central question is of course if international development agencies can promote QoG in recipient countries. First, we should recognize the five institutional devices, which we have pointed out should not be understood as a general cure against low QoG, and that can be

provided universally to every country that needs to improve QoG. As with cures in medicine, each “patient” must be closely examined and diagnosed since some treatments that are known to work in general can have no or even serious side-effects depending on the specificities of the case. And as with all good cures, the patient (or at least some local counterparts) needs to be involved if treatment is going to be successful. Moreover, Bauhr and Nasiritousi (2012) argue that what international aid and development organizations can do is conditioned by the quality of the internal procedures of the donor organization itself. As a complement to the traditional forms of power discussed in international relations (normative and material), they have suggested an additional power dimension labelled “contestation-integration”. This dimension concerns to what extent development organizations contest existing orders in the recipient country or if it instead chooses a strategy for integrating the developing country into the standards set by international organizations. The analysis shows that development agencies can use four different strategies to put pressure on governments in developing countries. These are: international rankings; aid conditionality; socialization into international standards; and conditional membership in international organizations. Their empirical study shows that the contestation-integration dimension is important for understanding the influence of international development organizations. When they contest and challenge existing orders in a state as an outside actor, their influence tends to be limited by a lack of solid knowledge, both of the national context and of the effectiveness of different anti-corruption measures. This may lead them to pressure governments to undertake ineffective or even counterproductive reforms. When international organizations instead chose a strategy for promoting and encouraging public officials in developing countries to follow international standards, their influence is often limited by too low quality in the organization’s internal procedures. One such limit is, according to this study, a lack of motivation in donor organizations to promote QoG, which often has been seen as an inferior policy to marketization and policies. According to this analysis, it is only when donor organizations have QoG as high priority and are themselves perceived as having high quality that this type of development aid works (Bauhr and Nasiritousi 2012)

## 9. Conclusions

The first conclusion from this report is that the quality of government (QoG), including but not confined to issues about corruption, is a very serious and also much underrated problem for development policy, especially if the goal is to improve human well-being. The second conclusion is that democratization is not a safe cure against this type of problem. A third conclusion is that in an area like this, it is important to have a good conceptual and theoretical understanding of the basic nature of the problem. Both these things have for the most part been lacking in development policy. A fourth conclusion is that, while Swedish development policy has recognized this problem, and also recently have given it increased attention in policy documents, in financial terms the support for increasing QoG has been relatively meagre in relation to the total development aid budget. The main part of Sida's democracy assistance has gone to areas that, according to our empirical findings, are not correlated with improved human well-being. Supporting democratization may of course be motivated by the intrinsic values in democratic procedures one may (or may not) have. If the goal of Swedish aid and development policy is to promote democracy as a set of decision making procedures, the current focus on democracy promotion is certainly justified. However, if the main goal is to promote human well-being, increasing support for the quality of government and the capacity of the public administration would be more justified. It should be noted that QoG in the form of impartiality and professionalism in the public administration is, according to Norris (2015), an important factor for establishing electoral integrity and thereby democratic legitimacy.

A fifth conclusion is that by using the term "democratic governance", the important distinction between the quality of democracy and the quality of government has not been recognized in Swedish development policy. This has led to policies that have been based on the notion that increased democratization (including support to civil society) will improve QoG and work as a remedy against corruption. As we have shown, there is hardly any empirical support



for this assumption.<sup>12</sup> Instead, there is much that speaks for the opposite causality – that QoG is a necessary condition for establishing a well-functioning democracy. We have argued that the QoG problem should be seen primarily as a lack of a social contract between the state and the citizens. Since political legitimacy is primarily based on how citizens perceive the quality of government, what is most important for establishing a social contract is likely to be how the state is exercising power at the “output” side of the political system. Several empirical studies show that QoG is more important than democratic rights for creating political legitimacy, which we argue, is a basic condition for a working social contract. Based on recent research, we have pointed at five institutional devices that empirically have been shown to work for creating such a social contract. These are: a functioning system of taxation; universal education; meritocracy; gender equality; and national auditing.

From a policy perspective, the question is of course what can be concluded from these five institutional explanations for the variation in QoG? First, we should state that we do not think of them as “evidence” in the way one uses this term in the natural sciences. Research in this area is, as we noted in the beginning of this report, still very much in its infancy and the possibility to carry out real large scale experiments in this research area are of course limited (cf. Olofsgård 2014, Björkman and Svensson 2009). Thus, we prefer to see the findings we have presented more as “reasonably well-established empirical indicators”. It is also the case that much of the available data used in this research is far from perfect and improvements in data quality, coverage, and quantity may alter the results we have put forward. New and better data may also point to the importance of other institutional devices, which may have equivalent effects for QoG. With these reservations, we can conclude that all five institutional devices we have pointed at share a common denominator, namely the principle of impartiality in the relation between states and citizens. A fair and reasonable well-administrated system of taxation sends a clear “signal” about impartiality. The principle of meritocracy

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12 Sida is certainly not alone in making the presumption that democracy is the key for bringing about development. As noted by Fukuyama (2013), the same can be said of political science research where most efforts have been directed at studying the preconditions for democratization and how to check and limit the state, but very few scholars have been interested in studying how to improve state capacity. A part of the explanation for this, he argues, is probably the strong impact of neo-liberalism and rational choice theory, in which the state is seen as predatory machine.

has the same connotation to impartiality. In most of the countries in the world, and also if we go back in time for the high QoG countries, you got a job in the public sector because you had the “right” family connections, belonged to the “right” political party (or clan, or tribe), or because you had paid someone higher up in the administration to get the job, hoping that you in the future would extract enough “rents” from your position to make your investment worthwhile. The introduction of the notion that the principle of merit should overrule these other principles is a very strong signal about impartiality. The same can of course be said about universal education. The idea that every child, no matter the economic, social, or cultural standing of his or her parents, should get a fair and equal chance from the state in acquiring knowledge and skills is also a very strong signal<sup>13</sup> about impartiality. “Good Auditing” rests to a large extent on securing that public benefits and services are not delivered in a way that stand in conflict with what is stated in laws and policies, and that impartiality, honesty, and fairness in the implementation process are respected.

Lastly, there are certainly many different aspects of what gender equality should stand for and how it should be realized, but we dare to argue that at the heart of the principle of gender equality, at least in the public sphere, is the idea of impartiality. Women and men should be treated equally and if we should not tolerate discrimination or other forms of unfair treatment based on gender, maybe we also should not tolerate such practices based on if people can afford to pay bribes, or their ethnicity, or other similar grounds that can be used for various forms of favouritism.

To summarize, all of these five institutional devices can be said to produce a social contract between the state and citizens that is grounded on the idea of what the political philosopher Ronald Dworkin (1977) has labelled “equal concern and respect” to which every citizen should be entitled. Such a social contract is sometimes referred to as a “credible commitment” from the state to its citizens,

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13 From a Swedish perspective, it should be noted that the “People’s Home” policy launched by the legendary Social Democrat Per-Albin Hansson in 1928 and that later resulted in the decisive “Saltsjöbaden Accord” between the unions and the employers’ federation rested on the notion of the impartiality of the state. To quote Hansson’s famous speech from 1928: “The good home does not recognize any privileged or neglected members, nor any favorite or stepchildren”. As Prime Minister 1933-46, Hansson’s main idea for the successful handling of the hard conflicts between labor and capital was that the principle of the rule of law was to be held above the class interests of the labor movement. (Rothstein 2005, ch. 8, cf. Lapuente and Rothstein 2014).

in the sense that the state is seen as credible in providing these public goods. This in turn will increase the likelihood that most citizens will pay their taxes and refrain from supporting corruption and other forms of dysfunctional acts (Persson and Sjöstedt, 2015, D'Arcy, 2015).

Introducing these five reforms of existing institutions in today's world would indeed imply the "revolutionary change" Larry Diamond points out (see page 19 above) as necessary for curbing corruption for majority of existing countries, not least those who receive international aid. By pointing at the importance of such basic reforms of institutions, we do not deny the importance of effective systems for detecting and punishing corruption and related forms of malfeasance in the public sector. Our argument is that the introduction of such policies as "stand alone" cures against low QoG are very unlikely to be effective if they are not accompanied by more basic institutional changes that serve to produce a social contract between states and citizens, which is based on the idea of impartiality in the exercise of public power. Empirical results do show that, when citizens make up their mind if the government is legitimate, it is the quality of the output side of the political system that matters the most.

Our argument is thus in line with noted corruption researcher Michael Johnston's (2013a) argument that the most effective way for curbing corruption is "deep democratization", although we, following the importance of "output legitimacy" that we have pointed at in section 1, believe the crux of the matter is situated more at the "output" side of the political system than at the "input" side.

Based on the theory of Collective Action, this approach points at the importance of basic institutional changes instead of concentrating the fight directly and solely against corruption, as the Principle-Agent theory would have it. If just changing incentives, such as, increasing the risk of detection and introducing harsher punishment, would be a safe cure against corruption, the problem would have been solved long ago. As stated by Daniel Kaufmann (2013), "We can no longer fight corruption by simply fighting corruption alone. Corruption is a symptom of a larger disease -- the failure of institutions and governance, resulting in poor management of revenues and resources and an absence of delivery of public goods and services".

It should be noted that the Collective Action approach that we have put forward has a clear parallel to the strategy launched by what

most experts hold to be the most prominent military strategist of the 20<sup>th</sup> century, namely Basil Liddell Hart. His famous “indirect approach” in military strategy holds that if the enemy was to be attacked directly, he would easily reinforce his strength at the position attacked and so be very difficult to defeat. Against this, Liddell Hart’s famous “second principle” reads: “*To defeat the enemy one must first upset his equilibrium, which is not accomplished by the main attack, but must be done before the main attack can succeed*” (Liddell Hart, 1967: 167; cf. Danchev, 1999). The “indirect strategy” implies that what is most important is to upset the enemy’s psychological dislocation, which in the terminology applied here would be the same as changing the “logic of reciprocity”, i.e., what can be expected of “the others” in your society. And to emphasize the importance of the ethical changes in the social contract between citizens and the state, which we think are likely to follow from our five institutional devices, we leave the last word to the preeminent political philosopher in our time, John Rawls:

A just system must generate its own support. This means that it be arranged so as to bring about in its members the corresponding sense of justice, an effective desire to act in accordance with its rules for reasons of justice. Thus the requirement of stability and the criterion of discouraging desires that conflict with the principles of justice put further constraints on institutions. They must be not only just but framed so as to encourage the virtue of justice in those who take part in them (1971: 261).

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