

Reform of Institutions, Reforming the State: The Challenges Ahead

A Contribution to the International Round Table on "The Capable State"

sponsored by

DSE Development Policy Forum, World Bank, Federal Ministry of Cooperation and Development (BMZ)

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Villa Borsig, Berlin, Germany 8 October 1997

Your Excellencies,

Honorable Ministers,

Distinguished Colleagues,

Like all of the other guests at this conference, I would like to warmly thank the DSE and the Government of Germany for joining with the World Bank to create and host this high-level gathering on what it takes to bring a capable state into being. As one of the many acts of development statesmanship in which Germany is engaged, this event signals the determination on the part of Germany to continue adding value to its contributions to the cause of global development.

I am pleased that a number of leaders from the World Bank are joining us here in Germany. My former colleagues have also made yet another tremendous contribution to development with their most recent World Development Report and the discussions it is stimulating in many parts of the world, including here at the Round Table.

Now, after attending the highly energized opening session this afternoon and the dinner we have just been treated to, I am certain that you are all looking forward to a substantive, worthwhile expenditure of time at the sessions that lie ahead.

Meanwhile, however, I find myself confronting a special challenge. Normally, an after-dinner speaker says just enough to ease the transition from mealtime to bedtime, but not enough to disturb anyone's sleep. But the Round Table organizers, to whom I am indeed beholden, have not asked me to present bedtime stories to comfort you, rather they have asked that I present you with the key challenges we face in achieving the capable state. Apparently, the Round Table organizers will not mind at all if you roll around in your bed thinking about some of the things we discuss this evening! So I must apologize in advance should anything I say here disturb your sleep either now (!) or when you go to bed.

Joseph Stiglitz, along with other great thinkers on governance, reminds us that governance is not a physical science but an art form, one that is perhaps

the most complex of all art forms in the social science arena. This is because good governance calls for the ability of a state to anticipate challenges to its well-being, provide core services to its people and then augment these services, act as a catalyst of change for the good, and guide the various forces in society towards harmony. The very capable states in the world, especially in contrast to the very incapable states, demonstrate how the promise of good governance is realized when all these tasks are artfully carried out.

It is right and proper for the global community to be concerned with this art form. It is also logical that an African speak about the difficulties confronting those who would practice the art of good governance. The international community may speak in broad, global terms when they discuss governance issues. But what they are often discussing -- without saying so -- is the situation in Africa.

Certainly, my continent faces more than its share of challenges to good governance. Furthermore, we are beginning to face these challenges. But in discussing Africa, I am also mindful of other areas of the world where there is a tremendous amount of effort going on to improve governance. Indeed, it is possible that not since the creation of the nation-state -- first in Europe and later in the postwar development world -- has so much reform of governments been attempted. One must be optimistic about such fundamental trends. They create a climate for positive change, one in which we can view current challenges to governance not as insurmountable obstacles, but as doable propositions.

Tonight I am going to discuss the four major challenges to good governance that I believe we must confront directly if we are to foster the capable state in Africa: strengthening the components of democracy; providing sound economic management, providing efficient public services, and assuring more effective donor support.

The first challenge -- that of strengthening the components of democracy -- is by no means exclusive to Africa. Whether we talk about Liberia or Serbia, Somalia or Cambodia, Zaire or some of the biggest states in other parts of the world, we find many nations who still need to clarify how -- or, sometimes, even whether -- they will incorporate these most fundamental precepts of good governance into their political structures.

The first task that states aspiring to legitimacy and good governance must deal with is establishing constitutional processes and the rule of law. In some lands, of course, the work of establishing governance of any acceptable sort can start only after peace has been established. But once conflicts have been resolved, laying the base for governance will involve not only the mechanics of fashioning a constitution, but also establishing legitimacy for the government.

Africa, with its failed states, reminds us that establishing this foundation for a state is still a problem. At the start of the century, any government firmly in power was generally considered to be the legitimized state. But as the century ends, society expects -- and rightly so -- that a state's legitimacy must derive from a fair and open consensus of its people.

A special concern today is establishing legitimacy for military states. Not only must these states first engage in a democratic process in order to establish legitimacy, but they must also demilitarize the state. The recent election in Liberia, for example, is a case in point. The election, in effect, was a referendum for peace in that the winning party had previously posed the

largest threat to peace -- and might so again, if not re-elected. And now, if it is to enter the family of nations, this de facto military government must transform itself into a constitutional civilian democracy.

The second issue at stake when it comes to strengthening the components of democracy is fostering the political participation of all citizens on a working, day-to-day basis. This work is beyond merely developing a constitution and installing a popularly elected government. It also demands that a nation move from a policy of political exclusion to one of inclusion, that is, one of incorporating all political parties, all language and ethnic groups, and women as well as men in the process of governance.

External groups can help developing countries with this task. Germany, for example, is engaged in helping strengthen political parties in many countries of the world. And at its 40th-anniversary ministerial meetings next April, the Economic Commission for Africa will highlight the role of women including political participation, and their potential in Africa's development.

As demographic trends unfold, an increasing governance challenge will be to assure the incorporation of the largest generation of adolescents the world has ever seen into productive society while, at the same time, expanding opportunities for the growing populations of older people -- and to do so without helping one generation at the expense of another generation.

The third issue involved in strengthening the components of democracy is fostering civil society. States should not only create the regulatory framework that allows civil society to exist. They should also make certain that civil society can flourish and become ever more capable. A few weeks ago Civicus, an international NGO dedicated to promoting civil society convened in Budapest an important meeting of business, government and NGO leaders. At the meeting, three important reports were released based upon the work of international task forces. I commend the reports to your attention. They discuss ways to make a case for civil society, the legislative and regulatory environments necessary for a vibrant civil society, and how civil societies can mobilize resources for their work.

I should mention here that, with the welcome assistance of Germany, the Economic Commission for Africa is working to strengthen civil society on our continent. On 24 October, ECA will establish, in cooperation with leading African civil society organizations, the African Civil Society Resource Centre. The centre will strengthen the capacities of African civil society organizations, promote dialogue between them and governments, and facilitate the involvement of civil society organizations in conflict resolution, peacebuilding, and democratization.

As I see it, then, the basic challenges to strengthening democracy as a basis for governance range from establishing peaceful states (including the promotion of peace, conflict resolution, and demilitarization) to the incorporation, on a working basis, of both individuals and civil society and inviting them to share the responsibilities, duties, and benefits of good governance. Furthermore, I see meeting these challenges not only as primary and preliminary to handling other governance issues, but also as cutting across other challenges to good governance. Indeed, to say that we have underinvested in giving policy and academic attention to fostering integrated societies and promoting the peace processes leading to functioning, constitutional states, would certainly be an understatement.

The second major challenge to establishing the capable state is that of establishing systems of sound economic management. Namely, this means

developing financial markets, which I will discuss in connection with the need to foster socially beneficial programmes for privatization and commercialization; formulating policies that address poverty; and successfully convincing the political level of the urgency to act on key policy matters affecting the economy.

The experience of economic liberalization in Eastern Europe has had a profound effect on Africa and other areas of the world. With postwar independence came extensive economic nationalization. Now, in line with the declaration at the Aga Khan Foundation's historic meeting in Nairobi a decade ago, we must create enabling environments that foster civil society and the productive economy. Indeed, the recent announcements of liberalization from Beijing may serve to remove from the world scene the last serious model of a state-run economy.

One of the ways in which we can foster an enabling environment is to ensure the proper development of financial markets. It is one of the most rapidly paced and exciting factors in economic growth today. But let us step back for a moment from the trading pits and flashing computers to ask ourselves what purposes we want the financial markets to serve and what the shape of those markets should be. To my way of thinking, locally based financial markets should serve a broad array of development purposes and be crafted to anticipate regional monetary and trade agreements.

Too often now, financial markets are being fostered only to raise capital for private industrial and service sectors to the neglect of opportunities to mobilize private sector participation in financing social development.

Real opportunities are available for tapping the growing pools of capital in Latin America, Asia, and the Middle East to finance social infrastructure and social operations. In this regard, the creative experience in OECD countries of using long-term bonds for social purposes should not be overlooked as capital markets are being fostered. The failure to develop broad markets to handle bonds, money market funds, and commodity trading in developing countries is resulting largely in a concentration of capital in equity markets. A lot of money pursuing a relatively few equities is leading to less-than-optimum utilization of local capital. I would like to see financial markets channelling significant resources into schools and hospitals as well as concentrating on bidding up stocks.

In addition, in some areas of the world, including Africa, those who foster capital markets are not giving them sufficient guidance towards regional integration. Entities such as the European Union who have laboured on the path towards regional integration, should serve as a fount of information on strategies for success and the pitfalls to avoid.

A corollary to fostering financial and other markets is making certain that these markets function optimally. It is an issue that typically arises when it comes to privatization and commercialization. There is no argument about the need to move the state out of production when the private sector is better able to produce. The problem is how to accomplish this transfer for maximum social and economic benefit.

In this regard, I am grateful for World Bank research on the privatization of utilities in Argentina. This research, recently discussed at the Inter-American Development Bank, found that privatization can go in one of two ways: it can predominantly benefit the people. Or it can predominantly benefit the purchasers. The difference depends on regulatory activities. In the case of the privatized utilities in Argentina, some portion of the \$1 billion benefits

could have gone to the customers and made a major difference in the lives of the poor. Instead, the benefits went wholly to the owners. The picture that emerges here is the need to balance privatization with corresponding regulatory and tax policies aiming at the widest societal benefit.

The third issue on economic management that I wish to discuss is that of creating and maintaining poverty-reduction policies. The only critical comment -- and it is a small criticism -- that I have on this year's excellent World Development Report is that it aims its poverty reduction advice mainly to Latin America. Certainly the Bank's work around the world with development in general is a testament to the need to also reduce poverty in South Asia, where the largest number of the world's poor live; in Africa with the largest proportion of poor people anywhere; and in Eastern Europe where the neglect of policies affecting the poor has been costly in terms of democracy and liberalization.

Perhaps poverty is such a basic concern that it is easy to miss opportunities to link poverty to all other aspects of our work in developing countries. But we would do well to make the concern for reducing poverty far more explicit in our work on governance. If we reduce poverty through the capable state, we prove that state's capability to its citizens in one of the most important ways.

The final issue concerning sound economic management that I will mention this evening relates to the need to assure that fundamental development insights thoroughly established at the technical level become persuasive at the political level. Again, let me use Africa as an example.

With strong help from the donor community, we have conducted in Africa technical studies of the utmost sophistication and produced national sectoral plans of true beauty that, in turn, are based on four fundamental premises, namely: that population growth must be reduced, that environments must be preserved, that food security must be enhanced, and that recognition of the way these three issues come into play and the way they interact -- at what we call "the nexus" -- is basic to sound public policy.

Yet currently at the political level, these issues are hardly political imperatives. Sector plans neglect nexus concerns in and of themselves, and nexus issues have not been integrated at the center of macro-policies. Far too many political leaders remain unconvinced that population trends are a problem, that environmental issues should be an immediate priority of this generation, and that high-sounding declarations on food security should actually be implemented. We, at the Economic Commission for Africa, are initiating our own approach to this situation -- which I mention here only as a way to invite discussion at this Round Table. Our approach at ECA will be to study the best public administration practices in Africa that can enable the inter-related issues of population, environment and food security to become a political priority. Our aim will be to help technical leaders become more skilled at making the case for these concerns at the political level. For example, I expect that we will identify a need to cast what are now largely technical discussions into arguments and language that policy leaders can better understand. It is one illustration of the great number of technical issues dealing with economic management that must be restated in language befitting a political imperative. If we frame these matters only in terms of their technical rationales, we will have gone only half the distance to persuade the need for action.

This Round Table will cover many issues of economic management that arise when it comes to fostering the capable state. We should all be eager for the results of the deliberations on the issues I have just raised: financing social

development, balancing privatization with the regulations necessary to assure that the fruits of privatization go to the public, linking governance reforms more closely with reduction of poverty, and making governance reforms far more persuasive and urgent at the political level.

Let me now turn to the third basic challenge I wish to discuss this evening, that of providing efficient public services.

I believe that to arrive at an efficient public service we must start with civil service reform. Donors have been active in addressing the core challenge: namely, increasing the capacities of both the institutions and the individuals serving the state. I trust you will hear from many true experts on capacity-building at this Round Table, so I will touch on only a few aspects of civil service reform, namely, dealing with corruption, a major purpose of civil service reform, and the need to foster the use of informatics in these reforms.

I start with corruption because it is a characteristic associated in the popular mind with a number of states, including many in Africa. No one is going to object to reforms that aim to improve productivity in government and raise the standards of accountability. The reduction or removal of corruption is practically a daily prayer for most Africans, and I am no exception. It is good to know that the battle against corruption is being fought with greater determination than ever all around the world. The German-based Transparency International is making major contributions to this effort, and I join all those wishing them Godspeed. But I do want to point out that the battle against corruption is most often fought in culture-specific settings; thus, the solutions to corruption in one place are not necessarily applicable to all places. We are now running the risk of becoming too sweeping and generalized in our approach. Instead, we must adapt our approaches to fighting corruption by taking into account the local societal forces, the local legal traditions, and the local political settings.

Similarly, I think we should be careful about establishing wholesale goals for civil service reform. Should the measure of success, explicitly or implicitly, always be a down-sized civil service? Or should we be more discriminating, aiming to downsize in many cases, but in selective circumstances, also prepare to increasing parts of the civil service. I can think of at least one good reason to do so. In some emerging states, the situation demands that some successes in providing public services be achieved as soon as possible; by doing so, the stage can be set for the emergence of consensus and political will galvanized to move on to other reforms. In most states, and most certainly in Africa and South Asia, the major public service arena desperately needing attention is that of education, closely followed by health services. Professor Stiglitz is utterly persuasive on this point when he cites the history of East Asia's growth.

Indeed, because improving education and health services are keys to growth and constitute the government services most fervently desired by citizens in every country, these sectors are at the core of the UN System-wide Special Initiative for Africa, a historic action that calls on the entire UN system to participate in Africa's development over the next ten years.

The last factor I want to discuss tonight about bringing more efficient public service to the cause of the capable state is that of developing informatics for use in governance. Surprisingly, the concept of informatics is fast gaining a foothold in some of the poorest countries in the world. For example, African leaders have tasked the ECA to promote an information society in Africa. One critical aspect of this work is establishing Internet connectivity in all

African states. It is a task that only a year ago we thought would take many years to achieve. In fact, however, given the work of many largely indigenous private firms and public institutions, almost every one of Africa's countries will be connected to the Internet by the end of 1997. ECA's own Web site is receiving some 100,000 hits a month.

The demand for computer and telecommunications services is growing at an amazing pace, with meetings like the World Bank's excellent conference in Toronto a few months ago on knowledge-based societies only strengthening the demand. Even in those countries where there was initially a fear or skepticism about informatics, I see resistance fading and accommodations being made. We are truly witnessing the start of an Informatics Revolution in the developing world. Nevertheless, in Africa, only a few countries (Egypt comes immediately to mind) have made the kind of institutional investments needed to promote informatics in logical and interrelated ways throughout institutions of governance. Without more thoughtful and more careful investment, we risk losing many opportunities and making many mis-steps, particularly if informatics investments are poorly coordinated. The challenge in most developing countries now is to craft the best investment and regulatory policies for informatics in support of governance, particularly in sectors where informatics can quickly enhance public services.

Thus, to summarize the challenges that public service holds for governance: I see a need for nations to focus now on the battle against corruption; selectively increasing part of the civil service while generally down-sizing; and creating more integrated, and more synergistic informatics systems for use by governments.

In closing, I want to bring home the major implications to this audience the three basic challenges to good governance I have just discussed: strengthening the components of democracy, fostering good economic management, and providing efficient public service. Together, they pose the fourth challenge to those external groups attempting to foster good governance.

Because I have served in the donor community for twenty years and for the past few years have been running an institution that includes technical assistance among its services, I know that donors frequently pick up on fads -- maybe not like the Ku'damm, Berlin's showcase of fashion boutiques and art galleries, but fads, nonetheless. Although I am not pointing a finger at anyone, I must say that, right now, the concept of governance is threatening to emerge as yet another fad.

Up until now at least, donors have most often sought to help countries improve governance by providing technical assistance. It is a situation that gives cause for reflection ; after all, the record of the effectiveness of technical assistance, particularly in Africa, is not particularly strong. In many cases, the frequency and -- if you will -- the velocity of recommended institutional and policy changes is more than the developing countries can absorb. At the annual Tidewater meeting, an informal gathering of development agency heads a few weeks ago, the chairman of OECD's Development Assistance Committee summarized the discussions with the recommendation that the agency heads design a common framework "to support local capacity and local ownership of the development process. Efforts need to be harmonized," he said, "and not all donors should necessarily do the same things. While pooling of resources may be difficult for some, pooling and coordination of efforts seems essential."

In that discussion, in which I was privileged to participate, many heads of

donor agencies called for more explicit country-owned strategies and greater use of sectoral coordination among donors to chart action according to agreed-on strategies. One implication of such discussions for governance may well be to see whether donors can begin, at the very least, to arrive at some basic agreements on sectoral practices and strategies for improving governance. Governance is a complex arena for donor action. Although donor coordination has not yet been achieved, even in sectors like water supplies, it does not mean we should abandon all thoughts about harmonizing approaches to governance. The answer to how far we will be able to go lies within the donor community. I believe that it would be worthwhile to discuss basic strategic approaches at the country-level in donor groupings while promoting local ownership. We also should agree, at least in principle, that it would be good to establish a division of labor that makes it possible to match the best-qualified resources to the various needs. Too much is at stake not to try.

It is with such considerations in mind, that I close my speech. As you prepare for discussions over the next few days, you could do worse than to do a bit of tossing and turning over some of the issues I have raised. Essentially, we have discussed two overriding concerns:

How can we embrace and benefit all the elements of society as we improve governance? And

How can we improve the quality of what we, as development agencies, do in fostering governance?

Thank you, my hosts, for this opportunity to present my case to such a prestigious audience of thinkers and doers. And for hearing me out.

I thank all of you.

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