



IFAD
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GOOD GOVERNANCE: AN OVERVIEW

1. The purpose of this document is twofold. Firstly, it proposes to review the definitions and elements of the good-governance policies so far developed by a number of multilateral development institutions and, secondly, it proposes to examine IFAD's perspective thereon.

**I. DEFINITIONS AND ELEMENTS OF GOOD-GOVERNANCE POLICIES
DEVELOPED BY MULTILATERAL INSTITUTIONS**

A. The World Bank Group

2. In recent years the World Bank has been a prolific producer of documentation discussing governance as a general tool in the international development process. However, during the course of the Twelfth Replenishment discussions for the International Development Association (IDA12), the concept of good governance was specifically mentioned in the context of institutional assessment criteria. The World Bank's perspective of good governance is set out below in general terms and then the view of the same concept as expressed in the IDA12 discussions is mentioned specifically.

General

3. **Definition.** In the 1992 report entitled "Governance and Development", the World Bank set out its definition of good governance. This term is defined as "the manner in which power is exercised in the management of a country's economic and social resources for development".

4. The report stated that the World Bank's interest in governance derives from its concern for the sustainability of the projects it helps finance. It concluded that sustainable development can only take place if a predictable and transparent framework of rules and institutions exists for the conduct of private and public business. The essence of good governance was described as predictable, open and enlightened policy, together with a bureaucracy imbued with a professional ethos and an executive arm of government accountable for its actions. All these elements are present in a strong civil society participating in public affairs, where all members of the society act under the rule of law. In analysing governance, the World Bank drew a clear distinction between the concept's political and economic dimensions. As the World Bank's mandate is the promotion of sustainable development, its call for



good governance exclusively concerns the contribution the concept makes generally to social and economic development and specifically to the World Bank's fundamental objective of sustainable poverty reduction in the developing world.

5. The World Bank identified three distinct aspects of governance:
 - (a) the form of the political regime;
 - (b) the process by which authority is exercised in the management of a country's economic and social resources for development; and
 - (c) the capacity of governments to design, formulate and implement policies and discharge functions.

The first aspect is deemed to be outside the World Bank's mandate, thus its focus has been on the second and third aspects.

6. **Elements.** In the 1994 report entitled "Governance: The World Bank's Experience", the recent progress made by the Bank in this area is set out under four different aspects, which provide a template against which its governance work can be assessed:

- (a) *Public-sector management.* This is the most readily identified dimension of the World Bank's governance work. The language of public-sector management is predominantly technical, changing the organizational structure of a sector agency to reflect new objectives, making budgets work better, sharpening civil-service objectives and placing public-enterprise managers under performance contracts.
- (b) *Accountability.* Governments and their employees should be held responsible for their actions.
- (c) *Legal framework for development.* Appropriate legal systems should be created that provide stability and predictability, which are the essential elements in creating an economic environment in which business risks may be rationally assessed.
- (d) *Transparency and information.* The themes of transparency and information pervade good governance and reinforce accountability. Access to information for the various players in the market is essential to a competitive market economy.

International Development Association (IDA)

7. IDA's governance discussion has centred mainly on governance as an element to be taken into account in determining the size of the resource allocations to be allotted to any given country. This discussion arose in the context of the Additions to IDA Resources: Twelfth Replenishment (IDA12), dated 23 December 1998. On this occasion the delegates agreed on a series of specific operational and policy recommendations that would in the future determine the size of the particular programmes sponsored and also influence their design.

8. They emphasized that sustainable poverty reduction depends on sound policies, effective partnerships and systematic inclusion of the poor, affected groups and women in the development process. Good governance was seen as being critical to the development process and to the effectiveness of development assistance, and thus merited a specific inclusion in the institutions performance assessment methodology. This assessment process has been officially renamed the Country Policy and Institutional Assessment and sets out the key factors affecting effective resource



use in the pursuit of the ultimate goal of poverty reduction. There are four key factors within a beneficiary state: (a) macroeconomic policies; (b) structural policies; (c) policies for reducing inequalities; and (d) governance and public-sector performance.

9. The inclusion of good governance in these criteria reflects the consensus that good governance affects the growth and poverty-reduction prospects of a country and is thus central to IDA's objectives. It was clearly stated that lending to countries with weak governance should be scaled back or stopped entirely if necessary. IDA focuses on governance dimensions that it can evaluate systematically. The specific governance criteria employed are designed to ensure that the definitions of governance implicit in the assessment criteria are broad enough to capture significant factors relevant to economic growth and poverty reduction. These criteria contain six elements, and it is hoped that they will provide a reasonable basis for introducing a more explicit governance focus in the performance ratings and for highlighting governance problems:

- (a) sustainability of structural reforms;
- (b) property rights and rule-based governance;
- (c) quality of budget and public investment process;
- (d) efficiency and equity of revenue mobilization;
- (e) efficiency and equity of public expenditures; and
- (f) accountability and transparency of the public service.

10. The four major pillars against which governance can be judged are stated to be:

- (a) *Accountability*. At the macro level this includes financial accountability, in terms of an effective, transparent and publicly accountable system for expenditure control and cash management, and an external audit system. It encompasses sound fiscal choices, made in a transparent manner, that give priority to productive social programmes – such as basic health services and primary education vital to improving the living standards of the poor and promoting economic development – over non-productive expenditures, such as military spending. At the micro level it requires that managers of implementing and parastatal agencies be accountable for operational efficiency. Auditing systems should meet international standards and be open to public scrutiny.
- (b) *Transparency*. Private-sector investment decisions depend on public knowledge of the government's policies and confidence in its intentions, as well as in the information provided by the government on economic and market conditions. Transparency of decision-making, particularly in budget, regulatory and procurement processes, is also critical to the effectiveness of resource use and the reduction of corruption and waste.
- (c) *The rule of law*. A fair, predictable and stable legal framework is essential so that businesses and individuals may assess economic opportunities and act on them without fear of arbitrary interference or expropriation. This requires that the rules be known in advance, that they be actually in force and applied consistently and fairly, that conflicts be resolvable by an independent judicial system, and that procedures for amending and repealing the rules exist and are publicly known.
- (d) *Participation*. Good governance requires that civil society has the opportunity to participate during the formulation of development strategies and that directly affected communities and groups should be able to participate in the design and implementation of programmes and projects. Even where projects have a secondary impact on particular localities or population groups, there should be a consultation process that takes their views into account. This aspect of governance is an essential element in securing commitment and support for projects and enhancing the quality of their implementation.



B. The Asian Development Bank (AsDB)

11. **Definition.** In an October 1995 policy paper called “Governance: Sound Development Management”, the AsDB outlined its policy on this topic. Good governance is defined as “the manner in which power is exercised in the management of a country’s economic and social resources for development”. Further, in a separate opinion issued by the AsDB General Counsel, it was explained that governance has at least two dimensions:

- (a) political (e.g., democracy, human rights); and
- (b) economic (e.g., efficient management of public resources).

12. Given that the AsDB’s concept of good governance focuses essentially on the ingredients for effective management, the institution is concerned only with these aspects of governance.

13. **Elements.** The AsDB has identified four basic elements of good governance:

- (a) *Accountability.* Public officials should be answerable for government behaviour and responsive to the entity from which they derive authority. The accountability of public-sector institutions is facilitated by evaluation of their economic performance. The suggested specific areas of action would be in the building of government capacity through, for example, public-sector management, public-enterprise management and reform, public financial management and civil-service reform.
- (b) *Participation.* Government structures should be flexible enough to offer beneficiaries and others affected the opportunity to improve the design and implementation of public programmes and projects. The specific areas of action would be in the development of participatory development processes through, for example, participation of beneficiaries, a public/private-sector interface, decentralization/empowerment of local government and cooperation with non-governmental organizations (NGOs).
- (c) *Predictability.* Laws and policies should exist that regulate society and that are applied fairly and consistently. Predictability requires the state and its subsidiary agencies to be bound by and answerable to the legal system in the same way as private enterprises and individuals. The specific area of action could be the development of predictable legal frameworks for private-sector development.
- (d) *Transparency.* Information should be made available to the general public and there should be clarity as to rules and regulations. Access to timely information on the economy can be vital to economic decision-making by the private sector and can also serve to inhibit corruption.

14. All the above elements are interlinked, and mutually supportive and reinforcing. Accountability is often related to participation and is also the ultimate safeguard of predictability. Transparency and predictability in the functioning of a legal framework would serve to ensure the accountability of public institutions.



C. The African Development Bank (AfDB)

15. **Definition.** Currently, the AfDB is in the process of preparing an institutional policy on good governance. The draft policy paper, dated April 1999, defines governance as a process referring to the way in which power is exercised in the management affairs of a nation.

16. It is stated that the AfDB has decided to give due recognition to good governance because, in its opinion, governance is central to creating and sustaining an enabling environment for development, and sound development (including good governance) is inextricably linked to the efficacy of the investment it helps finance. The AfDB's development policy on good governance is in line with its vision for sustained African development into the 21st century. The main objective of the policy is to mainstream governance into the AfDB's operations.

17. **Elements.** The AfDB's interventions in support of good governance will focus on the following elements, which will be translated into specific activities.

- (a) *Accountability.* Elected individuals and organizations charged with a public mandate should be held accountable for specific actions to the public from which they derive their authority. In a narrow sense, accountability focuses on the ability to account for the allocation, use and control of public assets in accordance with legally accepted standards. In a broader sense, it is also concerned with the establishment and enforcement of rules of corporate governance.
- (b) *Transparency.* The policies of the government should be publicly available and confidence developed in its intentions.
- (c) *Combating corruption.* Assistance should be provided to fight the abuse of public office for private gain.
- (d) *Participation.* Stakeholders should exercise influence over public policy decisions and share control of resources and institutions that affect their lives, thereby providing a check on the power of government. This process occurs at various levels: at the grass roots, local government and regional and national levels through flexible and decentralized forms of government.
- (e) *Legal and judicial reforms.* A pro-governance and pro-development legal and judicial system should be created in which the laws are clear and are uniformly applied through an objective and independent judiciary.

D. The United Nations Development Programme (UNDP)

18. **Definition.** The United Nations Development Programme's (UNDP) definition of good governance is set out in a 1997 UNDP policy document entitled "Governance for Sustainable Human Development". The document states that governance can be seen as the exercise of economic, political and administrative authority to manage a country's affairs at all levels.

19. It is explained that governance has three dimensions: economic, political and administrative. Economic governance includes the decision-making processes that affect a country's economic activities and its relationships with other economies. Political governance is the process of decision-making to formulate policy. Administrative governance is the system of policy implementation. Encompassing all three, good governance defines the processes and structures that guide political and socio-economic relationships.



20. Governance includes the state but transcends it by taking in the private sector and civil society, all of which are critical in sustaining human development. The institutions of governance in the state, civil society and the private sector must be designed to contribute to this sustainable human development by establishing the political, legal, economic and social circumstances for poverty reduction, job creation, environmental protection and the advancement of women.

21. **Elements.** Good governance comprises the existence of effective mechanisms, processes and institutions through which citizens and groups articulate their interests, exercise their legal rights, meet their obligations and mediate their differences. Its essential characteristics are:

- (a) *Participation.* All men and women should have a voice in decision-making, either directly or through legitimate intermediate institutions that represent their interests. Such broad participation is built on freedom of association and speech, as well as on the capacity to participate constructively.
- (b) *Rule of law.* Legal frameworks should be fair and enforced impartially, particularly the laws on human rights.
- (c) *Transparency.* This concept is built on the free flow of information. Processes, institutions and information should be directly accessible to those concerned, and enough information should be provided to render them understandable and monitorable.
- (d) *Responsiveness.* Institutions and processes should serve all stakeholders.
- (e) *Consensus orientation.* Good governance should mediate differing interests in order to reach broad consensus on the best interests of the group and, where possible, on policies and procedures.
- (f) *Equity.* All men and women should have equal opportunity to maintain or improve their well-being.
- (g) *Effectiveness and efficiency.* Processes and institutions should produce results that meet needs while making the best use of resources.
- (h) *Accountability.* Decision-makers in government, the private sector and civil-society organizations should be accountable to the public as well as to institutional stakeholders. This accountability differs depending on the organization and whether the decision is internal or external to an organization.
- (i) *Strategic vision.* Leaders and the public should have a broad and long-term perspective on good governance and human development, together with a sense of what is needed for such development. There should also be an understanding of the historical, cultural and social complexities in which that perspective is grounded.

E. General Comment

22. From the preceding paragraphs, it is clear that the concept of good governance can play a role at two different levels of the international development process. On the one hand, it can be considered a potential area of cooperation between the relevant international development institutions and beneficiary states through good-governance-linked project activities. On the other hand, good governance can be invoked in the pre-investment assessment process as part of the criteria to be taken into account prior to allocating resources to a particular member state. International development institutions have broad, multisectoral mandates and are often key players in the overall economic



development of beneficiary countries. Consequently, through continuous dialogue, they can cooperate with a government towards the internal adoption of good-governance principles.

II. THE IFAD PERSPECTIVE

23. IFAD, unlike other multilateral development institutions, has a highly focused mandate, which is to mobilize funds for agricultural development in its developing Member States and, in particular, for projects designed to increase food production, reduce rural poverty and improve nutritional levels. By virtue of its mandate, therefore, IFAD deals with its recipient Member States not at the macroeconomic level, as is the case with the other institutions, but at the microeconomic level. Thus this institution is clearly not in a position to influence the debate on good governance at the macro level; instead, it can complement the work being carried out by other institutions through its own sector-specific approach.

24. In this light, the present document shall examine the provisions of IFAD's basic legal documents, i.e., the Agreement Establishing the International Fund for Agricultural Development (the Agreement) and the Lending Policies and Criteria (the LPC). Neither of these documents contains an explicit mention of the concept of good governance, but they give IFAD sufficient leverage to ensure that the benefits of its projects reach the intended target group: the rural poor.

A. The Agreement Establishing IFAD

25. The preamble of the Agreement sets out the background against which the rules that follow in the articles should be interpreted. The first clause of the preamble recognizes the continuing food problem in the world and that it was with this in mind that the original contracting parties agreed to establish IFAD. The second clause continues:

“Considering the need to improve the conditions of life in the developing countries and to promote socio-economic development within the context of the priorities and objectives of the developing countries, giving due regard to both economic and social benefits;” (emphasis added).

26. It would appear that IFAD's founders provided a wide mandate for future operations insofar as all activities are potentially permissible provided that they consider the need to improve conditions of life in developing countries.

27. Article 2 of the Agreement, which sets out IFAD's objectives and functions, states that:

“The objective of the Fund shall be to mobilize additional resources to be made available on concessional terms for agricultural development in developing Member States. In fulfilling this objective the Fund shall provide financing primarily for projects and programmes specifically designed to introduce, expand or improve food production systems and to strengthen related policies and institutions within the framework of national priorities and strategies, taking into consideration: the need to increase food production in the poorest food deficit countries; the potential for increasing food production in other developing countries; and the importance of improving the nutritional level of the poorest populations in developing countries and the conditions of their lives” (emphasis added).

28. Herein, it is clearly stated that in order to fulfil its mandate IFAD shall finance projects designed to improve food production and also *“strengthen related policies... within the framework of national priorities and strategies”*. The fact that IFAD is specifically mandated to strengthen national policies relevant to increased food production would seem to permit IFAD's involvement in



governance-related activities that, *inter alia*, could be geared towards the creation of an enabling environment for economic and social development. Weak policies and poor governance impede the effectiveness of development projects and programmes.

29. However, it is to be noted that article 6, section 8 of the Agreement, which sets out the rules governing IFAD's President and staff, states in paragraph (g) that:

“The President and the staff shall not interfere in the political affairs of any Member. Only development policy considerations shall be relevant to their decisions and these considerations shall be weighed impartially in order to achieve the objective for which the Fund was established”.

30. It is clear from this article that the political dimension of the good-governance concept is prohibited and thus outside IFAD's mandate. Therefore governance activities, if any, would have to be undertaken from the economic or development policy perspective. Further, it is stipulated that “*only development policy considerations shall be relevant*” to decision-making in IFAD and that such considerations should be “*weighed impartially...to achieve the objective for which the Fund was established*”. The objective is set out in article 2: to make funds available for agricultural development in developing Member States. The focus of IFAD's purpose, therefore, is development in the agricultural sphere, and the Agreement clearly seeks to establish a technical and functional financial institution that is free, as far as possible, from ideological and partisan political considerations and influences in its decision-making process.

B. Lending Policies and Criteria

31. Everything set out in the LPC has to be considered against the provisions of paragraph 4 of the same document, where it is stated that:

“In formulating its lending policies and practices, the Fund must be guided by the objectives contained in the above articles. There is need to call attention to four such provisions:

First, financing of projects and programmes specifically designed to introduce, expand or improve food production systems, including marketing, storage and distribution aspects, in developing countries with special emphasis on increasing the output of food in the poorest food-deficit countries;

Second, increasing the levels of nutrition among the poorest segments of the population in all developing countries by supporting projects and encouraging appropriate institutional and policy reforms;

Third, mobilizing additional resources to be made available for agricultural development in developing Member States; and

Fourth, adoption of a generally flexible approach to the question of lending priorities and appraisal techniques.”

32. As in the Agreement, the LPC contains no explicit references to governance criteria, but several paragraphs refer to country-related performance criteria with respect to agricultural development. Those criteria are effectively preconditions to the providing of loans to a Member State. In this regard, there are two specific paragraphs that should be considered. The first is in the introduction, which in paragraph 2 states that “*Within the framework of the...priorities, eligibility for assistance shall be on the basis of objective economic and social criteria...*”. The second paragraph to be considered in this respect is paragraph 24, which is much more specific and can be divided as follows:



- (a) The general principle is set out in the first sentence: “Within the countries considered eligible for financing, *the Fund will pay attention to general economic, agricultural and administrative policies and practices*”.
- (b) The qualifications to this general statement are set out in the second and following sentences:
 - (i) “The lending operations of IFAD can be successful only if the recipient country has a strong commitment to a development strategy which is directed towards the rural poor. This commitment should be reflected in appropriate price and fiscal policies, land reforms, credit policies and budgetary allocations to agriculture and rural development .”
 - (ii) “Of equal importance are actions in the institutional area which enable the government to reach the rural poor effectively through coordinated action of its own agencies.”
 - (iii) “Performance criteria will also entail an assessment of the efficiency of utilizing past and present resource flows to agriculture, to identify serious constraints to agricultural progress.”

C. General Comment

33. In IFAD’s operations, most of the above criteria are taken into account at a resource-allocation assessment stage. Recognizing the importance of the policy and institutional framework for effective rural poverty alleviation and in particular for the implementation of our projects, IFAD has always paid close attention to these aspects. In developing its strategy framework for the borrowing country – in recent years through the Country Strategic Opportunities Paper (COSOP) – IFAD works with the government, civil-society institutions and other development agencies to identify priorities for poverty eradication and rural development. Through the COSOP process, IFAD carefully analyses country performance, the macro and micro policy framework, and assesses the capacity and effectiveness of the potential institutions for poverty alleviation. Here the emphasis is on the equitable access of poor groups to productive resources and services through creating an enabling policy framework.

34. On this basis, the COSOP identifies the options that would best contribute to enhancing the policy and institutional framework to make it more supportive of poverty eradication. It is equally important to create conditions in which rural poor groups can organize themselves, gain a stronger voice in local decision-making and participate in market processes on fairer terms. This helps make the institutions they deal with more accountable and transparent.

35. For example, IFAD projects have helped to strengthen the legal framework for viable rural finance institutions accessible to the poor, supported the institutional aspects of the protection of land and usufruct rights of poor farmers, herders and forest dwellers, and promoted participatory, demand-driven extension services. In a number of instances IFAD is promoting the legal and practical aspects of agrarian reform programmes based on market and other non-coercive mechanisms that would give poor farmers access to land.

36. IFAD-supported projects have occasionally contributed to the formulation of national policies and legislation that allow greater scope for farmers organizations and other grass-roots associations of rural producers. These activities derive from the identified needs and priorities of IFAD’S target group, the rural poor, from the grass roots up.



37. In these ways IFAD operations help build participatory, accountable local institutions that can empower the poor and provide building blocks at the base, which complements the efforts of others to strengthen governance at the macro level. IFAD sees a supportive policy framework and strong institutions in the public and private sectors as part of the outcome it seeks to promote, rather than as a precondition to operating in the very poor rural areas where IFAD activities are focused.

III. CONCLUSION

38. There would appear to be consensus in the international donor community that the existence of enabling policies and effective institutions goes to the heart of the development process and thus to the effectiveness of development assistance. As a result, the different institutions involved in international development have created good-governance practices that have been incorporated into their operations. IFAD's basic legal documentation contains language that includes many of the essential elements of these good-governance practices at the country-policy-framework level for rural poverty alleviation and effective project implementation. Currently, IFAD projects contribute to enhancing the policy framework at the grassroots level and, in turn, at a higher level in order to promote effective poverty alleviation.