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GOVERNANCE AND POVERTY: SOME SELECTED ISSUES

SUDIPTO MUNDLE

**Head, Operations and Policy Coordination
Programs Department (West)
Asian Development Bank
Phone: (632) 632-6244
Fax: (632) 636-2212/ 636-2226
Email: smundle@adb.org**

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I. Introduction

1. President MacKinnon, Mr. Chairman, distinguished delegates, ladies and gentlemen, the establishment of the International Centre for Governance and Development is an important milestone not only in the history of this distinguished university but also in the history of Canada's growing partnership with the developing world. It is indeed a great honor to be delivering a keynote address for this Inaugural Dialogue. I would like to thank the University on behalf of the Asian Development Bank, and on my own behalf, for having invited us to participate in this important event.

II. Governance, Poverty, and Freedom

2. Let me take this opportunity to share a few thoughts with you on some selected aspects of the nexus between governance and poverty. The phenomenon of poverty is not peculiar to the developing world. There are large segments of the population in many advanced countries who live in conditions no better than those of the poor in developing countries. Nevertheless, I shall confine my remarks today mainly to governance and poverty issues in the context of developing countries in Asia. This is partly because the vast majority of the world's poor are located in Asia, which is also ADB's region of operations. It is also because I am personally less familiar with ground realities of developing countries in Africa and Latin America.

¹ The views expressed in this paper are the personal views of the author. These are not necessarily shared by the Asian Development Bank.

3. Much of the economic policy making in developing country governments around the world address issues of development in the traditional sense, namely, development as measured by the growth of per capita income and industrialization. Operations of the ADB and other multilateral development banks have also focused in the past on this concept of development and so has my own past research. This view of development as growth of per capita income has served us quite well as a sharply defined goal and evaluative frame of reference. Nevertheless, as we increasingly broaden the development dialogue to address such quality of life concerns as longevity and morbidity; literacy and numeracy, gender disparity, protection of the environment, and so on the traditional concept of development appears to be too narrow as an evaluative framework.

4. The UNDP has been publishing for several years now its annual Human Development Report, incorporating a Human Development Index, a much more inclusive measure of development than per capita income. The various measurement problems notwithstanding, there is growing acceptance of this new concept of development. On the analytical plane, perhaps the most elegant formulation of this alternative concept of development is attributable to Amartya Sen, who was awarded the Nobel prize in 1998 for his work, among other things, on the new concept of 'development as freedom' in which the *process* of development consists of the removal of various unfreedoms (Sen 1999). This alternative concept of development is particularly appropriate for examining the nexus between governance and poverty. At the same time it is such a radically different way of viewing development, compared to the traditional concept, that it requires quite a restructuring of our conventional mind set about development. I shall therefore spend a little time to explain this

alternative perspective of development for those who are not familiar with Sen's work on the subject.

5. There is a vision of the development process as a forced march to reach an urgent destination, not unlike a military campaign. It is a vision we have inherited from the experience of forced industrialization in the Soviet Union under Stalin, a strategy which was subsequently emulated by many newly independent developing countries after the Second World War. However, there is also an alternative vision of development as a more friendly process where improvements in material life come along with political liberties, the spread of voluntary exchange in free markets, social development, the building of social safety nets, and so on. This is a vision going back to Adam Smith, and it is the vision which Sen adopts. Starting from this perspective, he defines development as a state of freedom for people to live their lives as they want. This generic concept is then fleshed out by examples, which include freedom from such deprivations as starvation, under nourishment, escapable morbidity or premature mortality. The examples also include literacy and numeracy, political freedom, and free speech among other things. The list is illustrative not exhaustive.

6. It is important to emphasize that in this view freedom is both *constitutive* and *instrumental* in development. That is to say, it is both the *end* as well as the *means* of development. To illustrate, freedom from illiteracy is an end in itself, a *constitutive component* of development, a goal of the development process. At the same time, literacy and numeracy add to the skills of workers, raise productively, raise income, and hence facilitate the freedom from hunger and want. Literacy also promotes the circulation of news, views, and ideas,

thereby facilitating political freedom. In these roles freedom from illiteracy is *instrumental* in facilitating development.

7. Sen (1999) defines a typology of five different types of *instrumental freedoms*:

- (i) **Political Freedom:** opportunities people have to determine who should govern, and on what principles; the right to scrutinize and criticize authority, free speech and an uncensored press.
- (ii) **Economic Facility:** opportunities individuals enjoy to use economic resources for consumption, production, or exchange. The economic entitlements of a person depend on the resources owned or available, the condition of the market, as well as the distribution of available resources.
- (iii) **Social Opportunities:** the available social arrangements for education, health care, etc. that enhance the freedom to live a better and healthier life.
- (iv) **Transparency Guarantees:** the freedom to deal with one another under guarantees of disclosure and lucidity. These guarantees have a clear instrumental role in preventing corruption and curbing financial irresponsibility.
- (v) **Protective Security:** the provision of a social safety net to protect the affected population from being reduced to abject misery in times of national disasters, economic downturns and increase in unemployment.

8. It should be evident by now that this alternative perspective of development as freedom is not altogether alien to economic growth, or the accumulation of physical and human capital. On the contrary these processes expand a range of *instrumental* freedoms, thereby contributing to development as freedom. However, the new concept goes much beyond the traditional development variables in its reach and coverage. It therefore demands a much broader evaluative framework of development than the traditional preoccupation with growth of per capita income alone.

9. Is this extension of the evaluative framework inessential, or of lower priority compared to per capita income growth? The question is not trivial. Based on an alleged conflict between the requirements of food and freedom; diverse societies in Asia and elsewhere have in different periods suppressed various freedoms, prioritizing bread first and freedom afterwards. After all you can't eat freedom. However, the choice is not obvious. Much depends on the nature and degree of unfreedom that is in question.

10. While researching a system of debt-bonded labor in a remote corner of Bihar state of India some twenty years ago, I stumbled on a surprising discovery. Because of the assured work that comes with their debt bonds, bonded laborers often earn more over the agricultural season than their counterparts among free laborers, who are more frequently unemployed (Mundle 1979). But this 'reward' comes with great loss of freedom, and condemns the poor worker to a life of semi-slavery. Such labor tying is often linked to small loans, real or fictitious, passed on for several generations of bonded laborers. However, the brute power of

the landlord employers and their capacity to wield terror in their localities prevents the bonded laborers from breaking away. They are beyond the reach of the law, which had long declared such tying of labor to be illegal. In a well known study of the slave laborer system published in the United States around the same time, Fogel and Engerman (1974) arrived at a remarkably similar finding, namely, that the pecuniary income of the slaves compared quite favorably with the incomes of free agricultural laborers. Yet, once these slaves were freed, planters found it difficult to reconstitute work gangs of free laborers even at wages that were often double the imputed incomes of the slaves. Clearly, in both cases the lack of freedom was the dominant and most urgent existential reality of the workers. However, an assessment of development based on income alone would completely miss this dominant reality of unfreedom, which is fairly typical of precapitalist agriculture in developing countries.

11. Thus the perspective of development as freedom cannot be pushed aside as merely an esoteric academic perspective. This leads us directly to a reconsideration of the concept of poverty. Conventionally, measures of the incidence, depth and intensity of poverty are based on some minimum income or expenditure norm, usually linked to a calorie intake requirement, called the poverty line. However, this income-based measure of poverty may fail to capture other dimensions of poverty, linked to varieties of unfreedom, which I have mentioned earlier. In line with the extension of the traditional per capita income concept of development to an alternative concept of development as expanding freedoms, the traditional concept of income poverty also needs to be supplemented by a concept of human poverty which is sensitive to such unfreedoms as undernourishment, morbidity and premature mortality, illiteracy, and the lack of political freedom and freedom of expression. In addition

to the Human Development Index, the UNDP has also developed a human poverty index which is sensitive to variables like undernourishment, morbidity, premature mortality and illiteracy but not political freedom or freedom of expression. The latter are added here deliberately to capture the notion that human poverty should be a flexible concept, not rigid, and amenable to reflecting the lack of such freedom as may be relevant in a particular context.

12. In November 1999 the ADB adopted a Poverty Reduction Strategy as its dominant operational principle. This strategy addresses the challenges of both income poverty reduction as well as human poverty reduction. Accordingly the strategy defines, as its main pillars, growth, social development and governance. The three pillars are not independent, they mutually reinforce one another. Governance, in particular, has both a direct impact on poverty reduction and effects which are indirectly mediated through growth and social development. In the rest of this presentation I would like to quickly walk you through what I consider to be the key linkages of this complex nexus between governance and poverty.

III. Macroeconomic Management and Growth Mediated Poverty Reduction

13. There is a great deal of evidence across the world which demonstrates that growth is the most powerful determinant of poverty reduction (Mundle 1994, Dollar and Kraay 2000). The inverse growth-poverty relationship has been particularly strong in East Asia, where most countries managed to reduce the level of poverty incidence by half or more in just two decades of high growth (ADB 1999). This was prior to the financial crisis of 1997 which

ended the long run of high growth. The high growth has been attributed, *inter alia*, to sound macroeconomic management; thereby establishing a nexus between this aspect of good governance and poverty reduction, mediated via growth. There is an interesting contrast here between the high growth economies of East and South East Asia and slower growing economies of South Asia. The fast growing economies of East and South East Asia all followed macroeconomic policies which were designed to promote export-led growth. Generally conservative monetary policies were combined with fiscal prudence. Public expenditure was typically low relative to GDP, about 20-30 percent compared to an OECD average of 50 percent. This was combined with surplus or low deficit budgets, and quick fiscal correction to keep inflation in control. Expansionary fiscal policies were adopted from time to time, but the fiscal breaks were quickly applied to contain domestic absorption at the slightest hint of inflationary pressures (Mundle 1999).

14. Cost competitiveness based on low and stable prices were a key component of the success of export led strategies in East Asia. The linkage of many of their currencies to the dollar also served them well till the dollar began strengthening since the mid 1990s, eroding their export competitiveness. This, combined with poorly regulated domestic capital markets and premature liberalization of their capital accounts led to a speculative bubble, and a frantic flight of short term capital which triggered the financial crisis. However, none of this should blind us to the importance of sound macroeconomic management in maintaining high growth and sharply reducing poverty in this region during the preceding two decades.

15. The South Asian countries, by contrast, have been much less prudent in their macroeconomic policies, particularly their fiscal policies. Even after several years of attempts at fiscal reform, the South Asian economies continue to run large deficits in the range of 6-10 percent of GDP. Some of them have also been routinely borrowing money or printing money even to finance their current expenditure. Lower rates of growth, higher inflation, and a much slower pace of poverty reduction are the predictable consequences of such weak macro-economic discipline. The situation has been reversed since the financial crisis. While some of the South Asian economies continue to grow at around 5-6 percent, several of the East Asian economies are still struggling to recover, and poverty incidence has again increased in these countries. This too is a manifestation of prudent macropolicy. While the South Asian economies were fiscally profligate, they were careful not to prematurely liberalize their capital accounts. They have this in common with China, and like China they have continued to grow through the period of crisis. The lesson, in other words, is that it is necessary to pursue sound macropolicies not only on the domestic front but also on the external account for sustained poverty reduction through high growth.

IV. Market Failure and Dirigism

16. Let me turn now to a different aspect of the governance-growth-poverty linkage which has been a field of lively debate for many years, namely, the role of markets and the state. I have referred earlier to the widespread adoption of strategies of forced industrialization in the post Second World War period. I should have said **state-led** forced industrialization. This was the conventional wisdom of the day as much in the centrally planned economies and Japan, as in

a buoyant US economy which had enjoyed the fruits of the New Deal, and in a Europe resurrected from the ashes of war by state led initiatives under the Marshall Plan. Many newly independent economies around the world adopted this strategy, in which the state was supposed to compensate for various forms of market failure in leading a process of forced industrialization, high growth and rapid poverty reduction. In reality the markets were often suppressed or supplanted, even where they may have performed reasonably well, to serve one or another special interest.

17. In some East Asian countries the policy makers were more nimble footed and soon switched tracks to market oriented export led growth. In other countries Kafkaesque control regimes were established to restrict business and competition, both domestically and from abroad. Inefficient production flourished behind the protective barriers. Rent seeking soared, along with high levels of corruption among bureaucratic gatekeepers. High transaction costs were mounted on top of high production costs and economies were repressed and distorted by the burden of controls.
18. By the seventies it had become clear that the *dirigiste* approach wasn't working. There were huge costs in lost efficiency without much gain in terms of equity. Statism had neither yielded high growth nor rapid poverty reduction. With spreading disillusionment, the *dirigiste* regimes began to be dismantled in one developing country after another in an international wave of market oriented reforms, often triggered by external aid conditions attached to rescue packages for economies in trouble. However, the old lessons of market failures were not altogether forgotten. The East Asian economies in particular had

demonstrated what could be achieved through pro-market interventions by the state. Though dogmatic ideologues of both statism and free market extremism are still encountered from time to time, there is a fairly wide consensus now around a pragmatic middle path which recognizes the risks of both market failure as well as government failure, and seeks to minimize both.

V. Public Provision of Social Services and Human Poverty Reduction

19. The governance-poverty linkages which have been explored so far are linkages to income poverty, mediated through growth. Let me now move beyond this traditional conception of development to address governance-human poverty linkages in the wider context of development as freedom, starting with the freedom from illiteracy and the freedom to live normal healthy lives. Once again, there are important lessons to be learned here from the public policies pursued in the more advanced Asian economies (AAEs) in East Asia, as compared to the industrialized countries and countries in South Asia.
20. The first important lesson is the remarkably high level of public social expenditure in the AAEs, despite their generally conservative public spending policies which were discussed earlier. The industrialized countries as a group allocate about 60 percent of their public spending for social spending (Mundle 1998, Rao 1998). However, this includes a 40 percent spending share for expensive pay-as-you-go social security systems, leaving only 20 percent for the provision of social services like education and health. Out of this 11 percent is accounted for by pay-as-you-go health services, housing, and community services, leaving

only 8 percent for education. In contrast the governments in AAEs are not burdened by expensive social security systems and are able to allocate as much as 20 percent of public spending for education. The South Asian countries also do not have expensive social security systems. However, this is more than offset by a large share of expenditure on general administration, leaving only 9 percent for education. Thus the AAEs stand out for the high priority they have given to education in their allocation of public expenditures.

21. Apart from the high priority accorded to social sectors in general in the allocation of public expenditure, policies followed by the AAE governments within individual sectors also yield some important governance lessons for developing countries, and the development community at large. The most important of these in education is the high priority attached to primary education. The bulk of public funding for education is typically allocated for the provision of free primary education. On the other hand both the direct and indirect costs of education at higher levels are largely met from private resources, even more so than in the USA and other Western OECD countries. At the same time merit-cum-means scholarships have been introduced in large volumes to protect poorer students from being cut off from higher levels of education. These priorities are reflected in the exceptionally high enrollment rates in primary education, relative to other Asian countries, while enrollment at higher levels is not much different. In order to contain costs, the AAEs maintain high pupil:teacher ratios, but the best teachers are hired to ensure high student performance (Mingat 1998, Mundle 1998). These policies are fully consistent with the principles of rational resource use. Since the social returns to primary education are high, there is sound logic in financing this

publicly. Higher levels of education, where the benefits are mostly private, are best left to the private sector.

22. In the field of health care the AAE governments have introduced mandatory health insurance of one form or another, but usually at per capita income levels of around \$10,000. Korea introduced this prematurely, at per capita income level of only about \$5,000 to \$6,000, and the system has continued to encounter major problems in its implementation. For countries at lower levels of income, health insurance can be provided for high income groups in the organized sector and government, freeing public resources for basic preventive health care; where the externalities and social returns are large enough to justify public funding (Mundle 1998, Gertler 1998).

23. This approach of public provision of primary education and basic preventive health care, coupled with private funding of higher levels of education and expensive curative treatments, would maximize the freedom from illiteracy and ill health among the poor, while keeping the total burden of social services on the budget within manageable levels. It meets the requirements of both efficiency and equity. Unfortunately, the policies currently pursued in the South Asian countries are rather different, with a very large share of public resources being used to sustain higher levels of education and expensive curative care in hospitals. It is not surprising therefore that this is reflected in the low human development ranking of most South Asian economies except Sri Lanka.

VI. Disaster Management and Democracy

24. In the illustrations of poor and good governance in the fields of economic and social policy presented so far South Asia seems to compare unfavorably with East and South East Asia. Let me now redress the balance a bit with a positive example from India of the power of democracy to protect the poor in times of disaster. In the year 1987-88 there was a severe drought in India, in the states of Gujarat and Rajasthan. It has sometimes been described as the worst drought of the century. Typically there is a steep increase in poverty in such a drought year. However, in 1987-88 the incidence of poverty actually declined. How did this happen? The answer lies in a carefully orchestrated implementation of macroeconomic and sectoral policies, combined with relief measures. Predictably, there was a steep decline in agricultural employment, but rural off from employment increased by 170 percent in Gujarat and by 220 percent in Rajasthan. This is mainly accounted for by 1.5 billion person days of extra employment in special employment schemes and relief schemes in the two states, which prevented the collapse of rural incomes.
25. Simultaneously the Government intervened in the foodgrain market, releasing stocks of about 20 million tons which offset the shortfall in supplies and contained the rise in food prices. The release of huge grain inventories also eased the demand for credit, thereby facilitating a contractionary monetary policy which contained a rise in the general level of prices.
26. Thus, through its prompt response and its well coordinated package of employment measures, food grain operations, and macroeconomic management the government was able to not only contain the expected rise in poverty but actually reverse the pattern. Yet this was one of the same governments of South Asia which have been cited earlier for poor fiscal

management, weak reforms and faulty social policies. What accounts for this? The good performance of the government in the 1987-88 drought episode is not altogether unexpected. Based on his extensive and authoritative study of poverty and famines Sen (1981, 1999) has pointed out that famines do not occur in democracies which have a relatively free press. Political leaders who are accountable to an electorate every few years are particularly sensitive to mismanagement of disasters. They like to ensure that there are no horror stories in the media which could jeopardize their political careers. In the event of a disaster they try to ensure, though not always successfully, that there is a prompt response from the government, and effective measures to prevent starvation deaths, epidemics and other consequences of a disaster. For this discipline to work a democracy combined with a free and lively press is a necessary precondition.

VII. Some Special Issues: Targeting and Decentralization

27. Let me turn now to some specific administrative aspects of governance which are particularly important for the governance-poverty nexus, namely, decentralization and targeting. In the relief employment programs of the 1987-88 drought in India administrators effectively employed a self-targeting device inherited from the Famine Code which the British colonial administration in India had devised in the late 19th century, i.e., physical labor in relief employment. Linking the offer of famine relief to the performance of physical labor ensures that only those who genuinely need the support will actually ask for it in return for hard physical work. This is not to say that leakages do not occur, but at least they are minimized.

28. Such targeting is obviously useful to ensure that limited resources are directed where they are most urgently required for containing or reducing poverty. However, it is not always easy to target effectively through self selecting mechanisms like relief employment. The most favored form of targeting is means tested assistance, as in the case of education scholarships or health care subsidies. However, means testing requires careful scrutiny of means testing information which is not always easy to verify. Means testing can also distort incentives, and induce potential beneficiaries to adjust their profile in ways which enable them to qualify. Clearly targeting cannot be avoided where the scarcity of resources relative to needs necessitates some kind of rationing of resources. However, targeting schemes need to be carefully designed to minimize distortions, using self selection filters whenever these are feasible.
29. A similar dilemma needs to be addressed in the context of decentralization. There is a well known decentralization theorem due to Oates (1972) which states that, except where there are significant economies of scale, sub-central governments have a comparative advantage in providing services because of the heterogeneity of preferences of people residing in different jurisdictions, and the information costs associated with the revelation of their preferences. In other words, the closer the point of decision making to the ultimate beneficiary, the more efficient the decision making process. There is also the question of accountability to constituencies. A political decision maker accountable to her constituency for her re-election is likely to serve her clients better than a decision maker at a higher level of government who is not dependent on the beneficiaries for re-election. Hence, it is

generally proposed in 'how to' manuals on governance that responsibility for provision of public services should be devolved to the lowest appropriate level of governance.

30. At the same time, the lower the level of decision making, the greater the risk of 'regulatory capture' by local power brokers. This is a particularly serious challenge in developing countries where the rule of law is weak, and local warlords and slum kings call the shots in poor communities in the villages and in the towns.
31. A third dimension of the decentralization question is the use of inter-governmental transfers as an equalizing device across unequal subregions of a particular jurisdiction. If rich and poor subregions are left to their own devices, inter-regional disparity between rich and poor areas will increase. This can be offset through equalizing resource transfer from a higher level of government. On the other hand equalizing transfers can encourage 'free rider' behavior in benefiting subregions, which may pay less attention to resources mobilization if they know that equalizing transfers will be forthcoming.
32. Clearly decentralization decisions cannot be based on any simple rules of thumb, or even complex theories. A variety of competing considerations need to be weighed in each specific administrative and political context. Decentralization decisions must ultimately select structures which appropriately balance these competing considerations.

VIII. The Law as Guardian of the Weak

33. I turn now to an aspect of governance which is of enormous importance for development viewed from the perspective of expanding freedoms, namely, development of the legal framework and enforcement of the rule of law. The specific manner in which development and enforcement of legal systems effects the expansion of freedom will vary a great deal from one developing country to another, depending on the current state of development in each case.
34. In countries where the market system is well established, backed by a functioning legal system, the legal framework can be further developed and better enforced to protect the rights of the poor. A good example of this is asset securitization, which is accorded a high priority by the ADB in many countries where it operates. One of the most severe constraints faced by the poor in developing countries is their lack of access to credit. Small farmers operating family farms, small traders, artisans and craft folk, are severely hampered in their operations by the lack of access to credit in the organized credit market, since lending in the organized sector requires collateral.
35. The poor are therefore forced to turn to informal channels, moneylenders, and the like to borrow their working capital often at usurious rates of interest. The poor are also forced to borrow from these sources for their consumption loans in difficult times. Often the recourse to such high cost credit is the beginning of a path to destitution. Asset securitization for the poor is an extremely useful legal intervention for enabling the poor to access alternative sources of credit on less onerous terms. Other examples of such pro-poor legal reforms in developing countries include legislation to improve security of land tenure, transparent and

up-to-date land records, protective legislation for labor, accelerated clearance of large backlogs of cases in court, and so on.

36. Such legal reforms to improve the operations of a functioning legal system are important for expanding freedoms. However, the significance of **introducing** the rule of law is of an altogether different scale in countries where the poor survive in environments which are currently beyond the reach of the law. Earlier I had referred to a remote district in India where bonded laborers are so terrorized by the local landlords that they are afraid even to try and escape. Such conditions are by no means exceptional. In many parts of Asia, as also Africa and Latin America, the poor live in constant fear of the local power elite. Modern day warlords, with their private armies, and their gang-land counterparts who run urban protection rackets thrive by terrorizing and exploiting the poor. Typically they are a law unto themselves, and well beyond the reach of the law of the land. Even if laws exist, these are of no avail if there is no effective police force and justice system with the will and capacity to enforce them.

37. In such environments actions to enforce law and order in the land is fundamental to all other aspects of development. The freedom to live a normal life, without the fear of torture, incarceration, and death is of course the most basic freedom of all, and the most important constituent element of development defined as freedom. It is quite remarkable that this elementary reality, which confronts us all the time in developing countries, has been missed in the standard literature of development. However, in our alternative concept of

development as freedom preservation of the rule of law is at the center stage of development.

IX. Participatory Governance and the Accumulation of Social Capital

38. Participation is identified as one of the four pillars of good governance, along with accountability, predictability, and transparency (Asian Development Bank 1995). Typically, a participatory democracy is viewed as a political system where an electorate elects its rulers every few years. The right to choose one's rulers is no doubt an extremely valuable freedom, often taken for granted except by those who do not have it. Nevertheless, this is a minimalist view of participatory systems of governance. The latter involves a great deal of community and group action on various issues that effect the lives of the community or group, and community intervention at many levels: national, regional, and local. It also entails a great deal of public discussion on important issues that effect the community, conducted through newspapers and television features, community hall debates, political campaigns.
39. It will be obvious that a government cannot ensure such participatory governance on its own. Participatory governance is the intersection of state and civil society. The richness and size of this space is the constitutive substance of participatory governance. However, the profile of this space is as much a function of the openness of government as of social cohesion and activism in civil society, in other words the accumulation of social capital (Fukuyama 1999). Thus, to achieve a strong positive nexus between governance and poverty reduction, it is not enough to focus on the government alone. The poverty

orientation of a government merely reflects the poverty orientation of the society in which it is embedded, especially in democratic societies. Hence, the pace of poverty reduction in any society ultimately depends on the society itself, the extent of its social capital, and mobilization of that capital for the elimination of poverty.

X. A Concluding Remark

40. I have walked you through a short tour of what I think are the critical dimensions of the governance-poverty relationship. Let me finally close with remark on the role of external agencies in shaping the nexus between governance and poverty in developing countries.

41. I referred at the outset to a vision of development as a hard process, something like a military campaign. A great deal of the literature on governance is unfortunately of this variety. Good governance is viewed as a target, and strategies and tactics are then defined for getting there in the shortest possible time. In a different and softer vision of development as expanding freedoms, good governance is seen not so much as a strategic outcome but a reflection of the society in which it is embedded. On this view good governance or a strong positive nexus between governance and poverty reduction cannot be autonomously 'produced' by external intervention, however strategic, independent of the state of civil society. The dynamics of one must be consistent with the dynamics of the other. Thus an agenda and timetable of governance reforms cannot be effectively introduced from outside if it is not in harmony with the state of civil society in a country. It is also useful to remember that sometimes what the external development partners expect a

developing country to achieve in one or two years took decades if not centuries to mature in the developed industrial countries.

42. This is not to suggest that there is no role for external assistance in the nexus between governance and poverty reduction. In fact there is a great deal that can be accomplished through external assistance for introducing best practices in good governance for poverty reduction. However, to be effective such assistance must be tempered by patience, an empathy for national concerns, and sound judgment of what is possible and what is not in a given social context.

43. Thank you all for having given me a patient hearing.

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