Feb 10th, 12:00 AM - 12:00 AM

Good Governance: The Path to Development

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ABSTRACT

This paper aims to understand to what extent good governance and effective public policies are aligned in the economic growth of a country. International assistance relies on political-economic analysis to evaluate the donations they can provide to a country. In this regard, good governance of domestic institutions is essential for the efficiency of a country, especially in affiliation with foreign aid. Therefore, a relationship avoiding dependency should be the focus in the short or medium-term.

KEYWORDS

Governance, dependency, institutions, donors

INTRODUCTION

The world population has been increasing tremendously. The rise of the population has been occurring mainly in the cities beating the record to overpopulate most major ones. According to the UN-Habitat (2003), by 2025, the world's population will be duplicated, reaching the number of more than five million habitants, especially in developing countries (UN-HABITAT 2003). Today, not all cities can manage that rapid population growth; those who are able also to face disparities among the population, such as unemployment, poverty, and vulnerability to natural disasters caused by humans (Lewis & Mioch 2005). In that regard is the importance of good governance of institutions that can manage this level of growth, especially if they are coming from countries with needs for economic assistance. Unfortunately, though, it took decades to get the attention of donors to advocate for budget funding to promote recipient country ownership (Armon, 2007). Foreign aid is and always should be a type of medium-term program funding that is delivered directly to the budget of a recipient country, allowing beneficiaries to use their financial control systems and policy procedures (Koeberle et al. 2006). Once distributed, foreign aid is indistinguishable from all other sources of government revenue.

The part of foreign aid in the development cycle of developed countries has been a hot topic. Because of the implications for poverty reduction in developed countries, it is a critical issue. However, previous research on foreign aid and economic development has yielded conflicting results. For example, there is evidence that foreign aid has a positive impact on growth; on the other hand, there is evidence that foreign aid has a negative effect on development; and finally, there is evidence that foreign aid has no impact on growth (Ekanayake & Chatrna 2007). Nonetheless, we can be confident that foreign aid, when used wisely in economies with appropriate policies and governance institutions, positively impacts.

Political processes are important in determining how aid and governance interact in recipient countries and recognizing how assistance can aid economic growth. The significance of political processes shaping how aid and governance interact in recipient countries and understanding how assistance can help economic growth. Examine how international aid affects recipient countries' interests in enacting pro-growth policies and establishing pro-growth political institutions. Political leaders and non-governmental organizations that receive funds operate in various hierarchical environments, each with its own set of constraints (Wright and Winters 2010). On the other hand, the assistance may give recipient countries more flexibility in allocating aid (Swedlund & Lierl 2019). As a result, some countries thrive on aid, while others rely on it to spend, and still, others mismanage it. Nonetheless, nations that use assistance wisely will see their populations become more democratic (Knack 2004).

The method of distributing international assistance from multiple donors to recipient countries is an excellent example of approaching countries needing assistance. There is strong evidence that political and geopolitical interests influence international assistance as by the recipients' economic needs and policy success. Colonial history and political relationships have a significant impact on international assistance. On the other hand, democratizing countries provide more assistance on a per capita basis, all equal. Though political factors influence foreign aid flows, foreign direct investments are more susceptible to economic incentives, particularly successful policy, and property rights security in receiving countries (Alessina & Dollar 2000).

Although many factors play a part in the effectiveness of the use of foreign aid, such as dependency and donations, good governance has long been recognized as a critical instrument for fostering long-term development. It is frequently regarded as an important component that must be included in development plans. The governance of domestic institutions promotes transparency, productivity, and a legal framework, allowing for the effective use of human and financial capital for equitable and long-term development while ensuring civil society participation in decision-making processes (Kardos 2013). Scientists have concluded that political institutions are critical for economic growth in recent decades. In this sense, domestic institutions can be viewed as necessary conditions for limiting the influence of narrow interest groups and orienting lawmakers toward society's collective interests (Faust 2008). The concepts of strong government and long-term sustainability are inextricably linked. It does not guarantee long-term growth, but its absence severely restricts and obstructs it in the worst-case scenario (Kardos 2013).

This paper aims to understand if good governance and effective public policies can help get international assistance and have a better allocation of those resources to the economic growth of a country; furthermore, how their relationships with one another contribute to good domestic governance. It is critical to recognize that any country's development requires good governance. Understanding the country's trajectory involves an understanding of the governance and policies in place. Without domestic institutions, the government will be unable to build a strong foundation for growth. Donors will lose faith in the country, and the country will not break its dependence on international assistance and developed countries. This paper will show how the risk of dependency, the vulnerability of losing donor trust, and governance must align with a country's economic development. Therefore, good governance of domestic institutions serves as the cornerstone of the country's strategies.

METHODOLOGY

Our research approach is based on an organized literature review. We selected peer-review journals related to foreign aid, development, governance, institutions, and how countries' strategies were implemented to develop from the donor's and recipient's perspectives. According to what has been done by other authors, compiled articles were used mainly from journals such as the Journal of Democratization, Development Policy Review, International Studies, Journal of Human Development, Developmental Review, among others. Also, the articles were compiled for any sub-category, including journals helping us understand countries' strategies towards good governance.

DEPENDENCY

To begin with, Myrdal (1974) defines development as the upward progression of the whole system. Barder (2012) describes development as its effect on an individual's success and wealth changes. In their willingness to make good decisions and the correct delivery of these enhancements. According to Daley (2020), development brings social change that allows individuals to reach their maximum human potential. According to Barder (2012), development entails more than improvements in citizens' comfort; it also involves knowledge about political-economic and social institutions' capacity to produce certain conditions long-term. According to Levy and Fukuyama (2013), one of the latest missions for development policy is optimal economic policies rather than seeking entry points capable of breaking a low-growth standstill by taking a broad view of the relationships between economic, political, and social constraints (Myrdal 1974; Barder 2012; Daley 2020; Levy & Fukuyama 2013).

Developing countries have long relied on foreign trade and finance to help them grow, but many people worldwide remain impoverished. Economists and political scientists are baffled as to why this is the case because no explanation exists. In terms of growth, the dependency viewpoint has run into difficulties. According to Hammer and Gartrell (1986), significant penetration would result in impartiality, in the sense that the host economy's growth and expansion would be influenced by foreign direct investment interests (Tobin and Rudra 2017; Hammer and Gartrell 1986).

While historical and functional definitions of dependency differ in terms of the global system's evolving division of labor, dependency theory focuses on the effects of a specific regional division of labor that connects "periphery" and "center" countries (Hammer and Gartrell 1986).

Economic interdependence does not always imply that developed and developing countries are in a dependency relationship. The government had to do what the market could not, which is the increment of capital growth through taxation while also expanding the technical sector of the economy. In other words, industrialization is required to free countries from agricultural, manufacturing, and other constraints (Cardoso 2008). Nevertheless, globalization has made achieving true independence difficult for most emerging countries. Many experts blame underdeveloped countries' poor economic performance on globalization for their failure to grow. However, whether the outcome is positive or negative, the interconnection between the developing and developed worlds is unavoidable (Khan 2021). Globalization has not only increased poor developing countries' support for developed countries, but it has also severely limited the ability to develop country governments to protect low-income groups through internal redistribution. According to Hammer and Gartrell, globalization harms all economies, not just those on the periphery (Hammer and Gartrell 1986).

However, one of the advantages of short-term dependency is the ability to use assistance to increase productivity, which is an unavoidable part of the development process and challenging to achieve without scientific and technological advancement because it is also a matter of capital accumulation (Cardoso 2008)—for example, cultivating their economy by concentrating on local markets. Small and medium-sized businesses have long been regarded as resource-constrained, lacking the market power and resources necessary to compete effectively in international markets where domestic institutions are present (Hessel and Terjesen 2010). It is self-evident that dependence is an important driver of economic growth. Most developing countries rely on foreign aid to run their businesses, access essential services, and reduce their reliance on overtime. It is important to address that without the necessary institutions to ensure good governance; developing countries will continue to rely on developed countries to grow and create jobs. This will happen only with the good governance of solid institutions.

DONORS

Second, according to Agarwal (2019), financial aid is described as the voluntary transfer of funds from one country to another. This transition includes all capital transfers to developing countries. However, a developing country traditionally lacks a solid economic foundation and has an imperfect Human Development Index. Therefore, the assistance could come in the form of a loan or a grant. This distinction means that a dynamic loan exists where the strengthening of the assistance necessitates the use of foreign currencies. The World Bank, for instance, makes hard loans, while its affiliates make soft loans (Agarwal 2019).

According to Boone (1996), assistance does not boost expenditure or support the vulnerable as calculated by gains in human development metrics, but it does increase government scale. Moreover, help has the same effect whether the beneficiary country is social-democratic or intensely repressive. On the other hand, Bearce and Tirone (2010) argue that international assistance should stimulate sustainable development in recipient countries, primarily through economic restructuring. Donors must, however, ensure that beneficiaries are not incentivized to engage in abuse or waste. In addition, western policymakers must ensure that the economic changes that prompted the assistance in the first place can be implemented (Boone 1996; Bearce and Tirone 2010).

International donors have demonstrated that a developing country represents incompetence on the part of governance. As measured by gains in human development metrics, assistance does not increase expenditure or support the vulnerable, according to Boone (1996), but it does increase government scale. Furthermore, whether the recipient country is social-democratic or repressive, assistance has the same effect. On the other hand, Bearce and Tirone (2010) argue that international aid should promote long-term development in recipient countries, primarily through economic restructuring. Donors must ensure that beneficiaries are not enticed to engage in waste or abuse. Furthermore, policymakers must ensure that the assistance's economic changes can be implemented (Boone 1996; Bearce and Tirone 2010).

Foreign aid involves a chain of accountability that includes foreign donors, national governments, implementation organizations, and, of course, a recipient who can benefit from the donor's services. According to sufficient evidence, more government and enforcement department transparency improves international assistance effectiveness, both at the macro-level of aid transfers and the micro-level of individual aid programs, based on sufficient evidence (Winters 2010). It is critical to discuss how donors' analyses of potential aid recipients have changed dramatically because of the political economy analysis. It will have some tools for changing technical donor communities of thought and some political dynamics guidance if needed. Instead of concentrating on the countries' problems, they would focus on the solutions (Fisher and Marquette 2013).

A meaningful way to measure the level of a country's needs and how its governance is applied is through a political economy analysis. According to Mcloughlin (2014), the political economy analysis seeks to situate development initiatives to understand society's dominant political and economic mechanisms, primarily, the motivations, relationships, power-sharing, and contestation among various individuals. The Department of Foreign Aids and Trade of Australia (2016) emphasizes the importance of understanding the political aspects of every context, and consciously using this knowledge to guide strategy and programming is the aim of political economy research. Politics is the formal and informal means by which a group engages in contestation or collaboration. As a result, Fisher and Marquette (2013) describe political economy analysis as an outstanding resource for donors. It focuses on three areas of change: aim, subjects of study, and uptake methods, which will enable donors to gain a more comprehensive understanding of the aid recipient. Based on the World Bank (2009), it is also a valuable tool for bank employees because it aids in the creation of policy solutions at the planning and preparing stages (Mcloughlin 2014; Department of Foreign Affairs and Trade of Australia 2016; Fisher and Marquette 2013; World Bank 2009).

The importance of good governance not only offers trust to the donors but also helps the government wisely allocate donations where it is more needed. For instance, natural disasters are one of the most severe issues that humanity faces (Stromberg 2007) and have long been associated with human and economic disasters. The tsunami in the Indian Ocean in 2004 captured international attention and unprecedented levels of international aid pledges from private charities, non-governmental organizations (NGOs), governments, and multilateral organizations (Becerra et al. 2014). The financial cost of natural disasters is enormous and continues to rise; just between 1980 and 2004, they caused an estimated $1 trillion in direct economic damage (Stromberg 2007). Having an exemplary structure of spending could help countries to diminish the impact of natural disasters.

GOVERNANCE

Lastly, based on Kooiman's (2002) perspective, the concept of '*governance*' is used in many different sub-disciplines of the social sciences. Although there are many differences in how it is defined and applied, common elements emphasize rules and qualities of systems, enhance legitimacy and effectiveness, and keep an eye out for innovative processes and public-private partnerships. The concept's apparent popularity seems to be because it represents the social need for new initiatives focused on recognizing growing societal interdependence "good" governance, a mixture of liberal democratic economic values. According to Armon (2007), the state's effectiveness and political governance are on good terms regarding aid policies. However, being part of it could be challenging as the unfamiliar skills they are requesting (Kooiman 2002; Ayrmon 2017).

Domestic institutions have a significant impact on international trade. Institutions play an important role. There is a comprehensive agreement that protects property rights, the rule of law, and low levels of corruption, all of which are critical for a healthy market and economic growth (Maseland 2013). The importance of property rights and the rule of law in a society with game laws and their conduciveness to practical economic operation matters (Rodrik et al. 2004). To understand the institutional system's continuity, Acemoglu et al. (2001) emphasize the importance of measuring the mortality rates of colonial immigrants. It is argued that the mortality of immigrants had a significant effect on the types of institutions developed in lands colonized by the major European powers. There were few health risks to European settlement; colonizers established strong institutions that protected property rights and upheld the rule of law. Some are founded on their legal history, determined by whether the area was influenced by the Roman Empire or English standard law practices (Maseland 2013).

For a country's growth to be effective, it must have good governance. As various international institutions assist us in determining what donors will provide and assist us with. Understanding the country's trajectory requires understanding this governance, as well as the policies put in place. By establishing reasonable assumptions about what can be accomplished, when it can be achieved, and the risks involved, such analysis can help promote more strategically viable and, as a result, more successful planning plans (Mcloughlin 2014). New research or alternative conceptions of aid, policy, or growth, for example, could undermine the widely reported finding that "aid stimulates development in a successful policy setting." Aid will ensure the country's prosperity is a logical and analytically dubious proposition. The fact that aid organizations are underpaid and underinvest in implementing aid conditions and conducting research assessments does not help matters. Rather than attempting to be the catalyst for societal change, help should set more realistic goals, such as assisting specific individuals on a limited basis (Easterly 2003).

There are several property rights awareness indices. Institutional values can be determined using the rule of law. Other economies, as well as income levels, influence the degree to which an economy interacts with the rest of the world and the effectiveness of its institutions. Because of these factors, organizations can have a much more significant impact (Rodrik et al. 2004). Institutions in some countries are superior to those in others. Some are based on their legal histories, determined by whether the region was influenced by the Roman Empire or English common law (Maseland 2013).

Countries have no control over their origins, but they do have control over the policies they enact. Good policies, for example, respond to macroeconomic shockwaves like a drop in trade terms and are particularly important for small open economies (Henry and Miller 2009). On the other hand, tropical countries are thought to have weaker institutions. Europeans were hesitant to settle in tropical areas due to the climate and the prevalence of the disease. As a result, they did not bring any top-notch institutions with them (Maseland 2013). In this context, domestic institutions cannot play an excessive role in a country's growth. This is an important factor that affects the economic development of a nation. Institutions are a society's main pillars, values, and core; without them, no well-negotiated trade agreement, no ideal location for development and independence will suffice. It has been demonstrated that countries without adequate domestic institutions will always become reliant on developed countries.

For instance, it is the responsibility of the local government to protect the community from vulnerability and mitigate disaster impacts. Local government's errors in disaster prevention are often linked to rigid institutional values, ignoring outside concerns, challenges in dealing with various sources of information, and a propensity to mitigate risk (Kusumasari et al. 2010). When a local government has a consistent structure, function, duties, and partnership with all other levels of government, it is most capable in terms of institution-related capability. The strategic factors of human resource-related capabilities become evident when the local government has enough resources, adequate assignments, delegation, and division of labor within the agency to handle the disaster. Key success factors leading to policy for successful implementation-related capabilities include the availability of appropriate laws, guidelines, and regulations for making decisions, mobilizing resources, and involving relevant public or private entities. (Kusumasari et al. 2010). Whether they focus on risk reduction or vulnerability reduction, public policies to mitigate the effects of natural events such as hurricanes will differ (Sarewitz et al. 2003)

Changes in policy and practice should be based on a clear understanding of how different procurement processes and partnerships work in practice and how the changes affect current structures and the reconstruction process and outcomes (Chang-Richards & Wilkinson 2013). While disasters and their management are expected to impact how people view their government's performance because they hold incumbents accountable for their decisions, natural disasters rarely have this effect. Individual political attitudes have remained relatively unchanged, and disasters in which incumbents' profit from or are blamed for alleged disaster management appear to be uncommon (Kusumasari et al. 2010).

Local communities are frequently left alone for hours or days after significant events. Thus, local governments may have a critical role in leading the charge to protect their citizens (Col 2007). How programs can effectively provide immediate and effective relief to households impacted by the crisis while also leading to long-term poverty alleviation is a particular issue with the structure and design of government responses during times of crisis (Skoufias 2003).

CONCLUSION

The purpose of this paper was to gain a better understanding of the factors that influence a country's development by examining its strengths and weaknesses in terms of how their relationships with one another promote good governance of their domestic institutions and how it relates to economic growth. It is critical to understand that good governance is necessary for any country's development. The key to understanding the country's trajectory is to look at the governance and policies in place. It is demonstrated that dependency is one reason why developing countries do not grow as they should be.

Moreover, it is one of the causes institutions do not offer good governance as they prefer to depend on foreign assistance rather than work on their income. Furthermore, for a country's economic progress, dependency is essential. While developing economies have achieved remarkable progress toward global market integration, particularly in trade liberalization, they still have a long way to go to break free from dependence on rich countries. However, one of the benefits of short-term dependency is the capacity to use help to boost production, which is an unavoidable aspect of development and challenging to achieve without scientific and technological progress. It is a matter of capital accumulation, after all (Cardoso 2008).

The vital position of international assistance is recommended using political-economic analysis to understand the needs and government structures before providing the aid. The political economy aims to provide a framework to the donors to give them a more comprehensive understanding of the aid recipient (Fisher and Marquette 2013). Donors must guarantee that recipients are not lured into wasting or abusing their funds. Policymakers must also ensure that the economic improvements that caused the aid can be implemented (Bearce and Tirone 2010).

Finally, when we talk about governance, we should mention that institutions are the core of a government; without them, no well-negotiated trade agreement, no independence will suffice. It has been proven that countries with insufficient domestic institutions will always rely on developed countries. Among other things, good governance, as reflected by its institutions, reduces corruption. Good governance is important because it gives donors confidence and allows the government to deploy donations where they most need care. Domestic institutions cannot play too big a part in a country's development. This is a significant component that influences a country's economic growth. To conclude, further research is recommended to better understand the relationship of good governance with donors and the effect on the economic development of developing countries.

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