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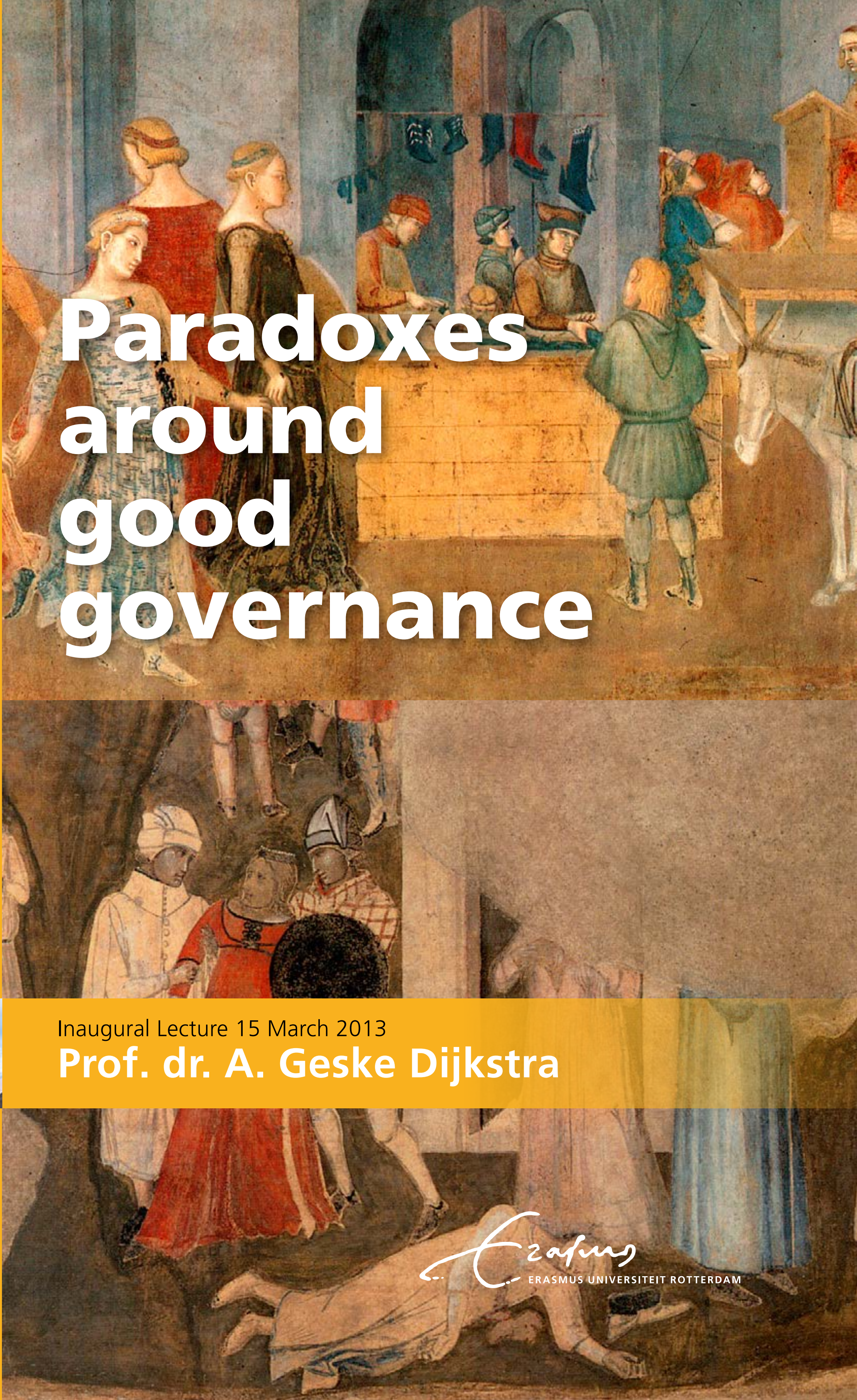

Paradoxes around good governance

Inaugural Lecture 15 March 2013

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Erasmus Universiteit Rotterdam

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Inaugural lecture, read in abbreviated form on 15 March 2013

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ERASMUS UNIVERSITEIT ROTTERDAM

COLOFON

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INTRODUCTION[1]

Good governance is not a new concept. Ambrogio Lorenzetti made his frescoes on good and bad governance already in the years 1338-1340. They can be viewed in the Palazzo Publicco on one of the most beautiful squares of the world, the Piazza del Campo in Siena, Italy. I assume many of you have been there. Good governance is represented by a king on his throne surrounded by many virtues. Bad governance is represented by the devil, and justice has been bound. The fresco depicting the consequences of good governance shows an orderly and happy life. People pay taxes, and many people are engaged in productive and cultural activities. The city state of Siena itself served as model for this condition of good governance, and Siena can be recognized on the fresco. The frescoes on the consequences of bad governance are less well remained. But the overwhelming image is one of death and destruction. Houses are burning, nobody is working on the land. Lorenzetti's frescoes were innovative in his time, especially for painting a humanistic and not religious topic (Korsten, 2010).

The attention for good governance in more recent times received a boost after the fall of the Berlin wall. The then ailing field of comparative economic systems suddenly became alive and kicking. This sub-discipline within economics had for a long time compared the economic systems and performance of what was then called Eastern Europe, with systems and performance of Western countries. More generally this field studied the impact of institutions on countries' economic performance and needless to say, it was my favourite sub-discipline. After 1990, many countries began a transition from centrally planned economies to market economies and this brought renewed interest in the role of institutions in economic performance (Eggertsson, 1990; North, 1990).

At the same time, the end of the Cold War implied that good governance also became more important in development cooperation policies. Until then, dictators like Mobutu in Zaire or Marcos in The Philippines had been supported with Western aid in order to keep them outside of the communist sphere of interest. This is reflected in a statement reportedly ascribed to President Roosevelt on Anastasio Somoza, who governed Nicaragua as a ruthless dictator: "he may be a son of a bitch, but he is *our* son of a bitch".[2] From the 1990s onward, aid receiving developing countries were now also expected to respect human rights, to organize elections and to create transparent and effective government bureaucracies. Donors increasingly began to view promoting democracies, human rights including gender rights, and effective states as important objectives of foreign aid.

This interest in good governance in both research and policy circles has led to the development of indicators to measure good governance. There are commercially developed assessments such as the International Country Risk Guide scores on economic, political and financial risks, and the Freedom House scales for political and civil

1 The author thanks Tom Groot for helpful comments to an earlier version of this text, and Janneke 't Hart for editorial assistance with the text of the acknowledgements.

2 This Somoza ruled from 1936 intil his death in 1956, and was then succeeded by his two sons. The family reigned until 1979.

rights. Next to this there are indicators developed by international agencies such as UNDP and the World Bank, and those developed by independent institutions or research agencies, including Polity IV, Transparency International Corruption Perception Index and the Bertelsmann's Transformation Index (BTI). The Bertelsmann's foundation also developed sustainable governance indicators for the 31 OECD countries. Our department of Public Administration and this Bertelsmann Foundation have taken first steps in cooperation. The Worldwide Governance Indicators (WGI) developed by Kaufmann, Kraay and Zoboi-Lobaton of the World Bank Institute are special in that they use and combine 30 different sources[3] including most of the earlier mentioned sources but also population surveys such as Latinobarometer or Afrobarometer. The availability of these good governance indicators helps researchers to examine the relationship between good governance and development and helps donors to define their aid policies.

So far I haven't defined good governance explicitly yet. Usually two dimensions of good governance are distinguished, namely elements that concern the *access* to authority, and elements that concern the *exercise* of authority (Rothstein and Teorell, 2008). The WGI distinguishes three dimensions. The first is about the process whereby governments are selected, monitored and replaced, represented by 'voice and accountability', and 'political stability'. These indicators can be said to cover the access to authority. Then there are two dimensions covering the earlier mentioned exercise of authority: the capacity of the government to effectively formulate and implement *sound policies* (with indicators 'government effectiveness' and 'regulatory quality') and the respect of citizens and the state for the institutions that govern economic and social interactions (with indicators 'rule of law' and 'control of corruption') (Kaufmann, Kraay, and Mastruzzi, 2010).

Now, after this introduction, which also served for providing you with a bird's eye view of my chaotic academic interests over time, let me take you to the main topic of this lecture. The accepted donor wisdom is that aid promotes good governance, and that good governance fosters development (Figure 1). In the following, I will question this accepted wisdom. I will show that there are some paradoxes in both relationships, beginning with the one between good governance and development. For each of the two paradoxes, I will also offer some explanations and solutions, part of which consist of further research. In the conclusion, I summarize the argument and sketch my research agenda.

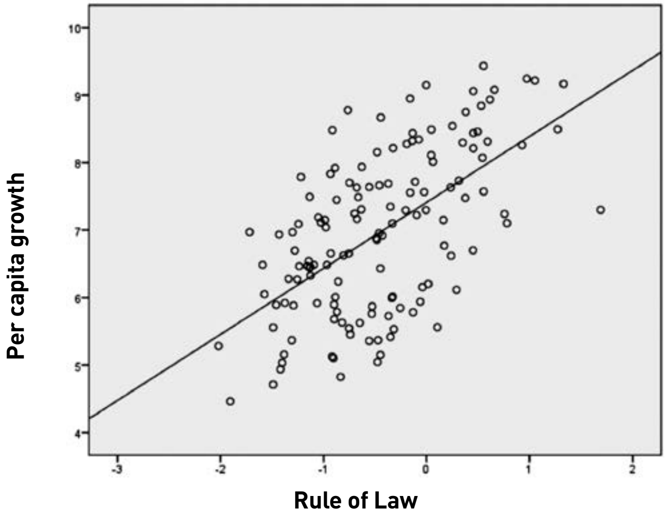
Figure 1.

[3] See www.govindicators.org. The number of sources has varied over time and wag higher in earlier years.

GOOD GOVERNANCE AND DEVELOPMENT

When we look at Lorenzetti's frescos it is immediately clear that good governance is important for development. It is also in line with economic and political theories. If private property is not protected and if citizens cannot go to independent courts when their rights are affected, economic transactions will not take place easily and there are no incentives for investment. At the same time, governments will become more effective in providing social and economic infrastructure when they can be held to account by citizens who can freely express their opinions. In order to test these relationships I use data on the WGI indicators and compare them with data from the World Bank's World Development Indicators database, for non OECD countries.

Figure 2. Correlation between rule of law and logarithm of GDP per capita in 2000



***Source**: Own elaboration of data from www.govindicators.org and from World Bank, World Development Indicators online.*

In line with theory and with intuition, there appears to be a close relationship between one of the good governance indicators, rule of law,[4] and average income per capita in the same year (Figure 2). However, this is an association and we cannot conclude yet on the direction of causality. Does improvement in the rule of law lead to higher levels of development, or does economic development enhance the rule of law?

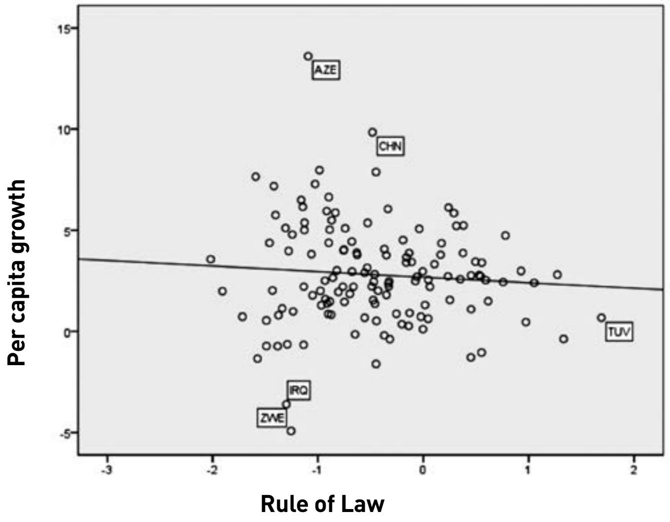
If good governance is important for development, we should be able to establish a relationship between the quality of governance in a particular year, and economic

[4] Rule of law is about "extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence" (Kaufmann et al., 2010: 4).

growth in subsequent years. Figure 3 shows the relationship between rule of law in 2000, and average annual growth rates per capita in the years 2001-2010 for 120 countries. We must conclude that there is no relationship between these two. 'Rule of law' has been most often used in the literature to examine the relationship between good governance and development. But when we take 'voice and accountability' (an indicator of democracy) or 'government effectiveness', we get similar results: there is no significant relationship.

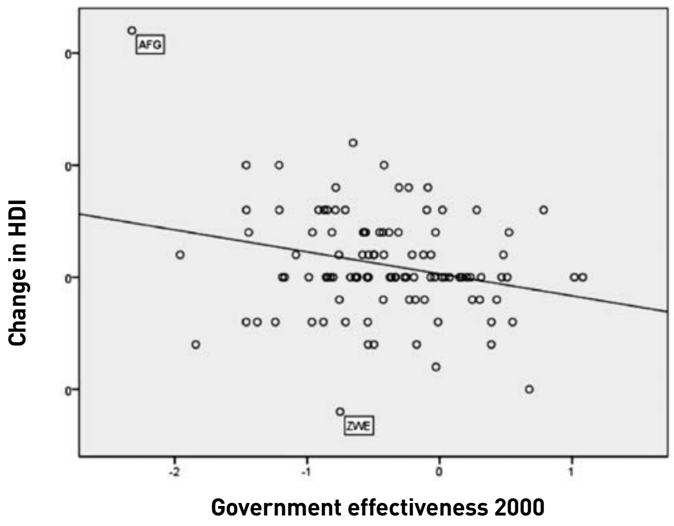
Perhaps good governance, and in particular 'government effectiveness' and 'voice and accountability', are more important for a broader development concept, also including access to education and health care? For this reason we also plot the change in UNDP's Human Development Index between 2000 and 2010 against some of the good governance indicators. The HDI is an unweighted average of three variables: income per capita, an education variable consisting of combined enrolment rates and literacy rates, and a health variable measured as life expectancy at birth. Again, if anything, there proves to be a negative relationship (Figure 4), and the same holds for voice and accountability (not shown).

Figure 3. **Rule of Law in 2000, and annual average growth rates per capita, 2001-2010, in %**



***Source**: Own elaboration of data from www.govindicators.org and from World Bank, World Development Indicators online.* ***Notes**: AZE: Azerbaijan, CHN: China, IRQ: Iraq, TUV: Tuvalu and ZWE: Zimbabwe.*

Figure 4. Government effectiveness in 2000, and change in HDI score between 2000 and 2010



***Source**: Own elaboration of data from www.govindicators.org and from http://hdr.undp.org/en/statistics/* ***Notes**: AFG: Afghanistan, ZWE: Zimbabwe.*

These are all correlations. But if we assume that growth is influenced by good governance, we must also control for other variables that may influence growth. In order to control for these other variables, I also conducted multivariate regression analysis. As also done by other authors (Arndt and Oman, 2006; Kaufmann and Kraay, 2002), I included the investment rate (investment/GDP in percent, average over 2001-2010), average population growth 2001-2010, and the level of GDP per capita in 2000 (measured as logarithm of GDP per capita). The investment rate is expected to have a positive effect on growth per capita, and population growth is expected to have a negative influence. The level of income in 2000 is included to account for the convergence effect: countries with lower initial income per capita usually have higher growth rates. Given that the good governance indicators are highly correlated among each other, they are included one by one in the regression.

The results largely confirm the bivariate conclusion: while all three control variables have the expected sign and are significant, the good governance indicator 'government effectiveness' is not significant, and 'voice and accountability' and 'rule of law' even have a negative and significant (5 per cent level) effect on growth per capita. When regressing the change in the HDI on several good governance indicators and controlling for other variables, the only variable with a significant (and positive) influence on the change in HDI proved to be average growth rate per capita. Good governance indicators did not have a significant influence, with the exception of voice and accountability, which had a significant but negative influence on this change. Appendix tables 1 and 2 show the results of these regressions. Apparently, there is no relationship between good governance and development: the first paradox.

Explanations

Of course, I am not the first to study this relationship. There is a huge amount of theoretical and empirical literature. North, Wallis and Weingast (2009) argue that political stability is important for development, and that this can be achieved in either closed or open societies. In closed societies, a small elite controls all political and economic power, whereas in open societies essentially anyone can contribute to and benefit from development, based on capacities. These authors suggest that open societies, where governments operate in an impartial way and where the power of governments is checked by other powers, enjoy more economic growth than other countries. If true, governance indicators like rule of law and also democracy (voice and accountability) should be good predictors of long-run economic growth. In the same line, Acemoglu and Robinson argue in their recent book "Why nations fail" that inclusive institutions are necessary for long-run growth. In countries with inclusive institutions political rights are broadly distributed, governments are responsive to citizens, and most people can take advantage of economic opportunities. The opposite is extractive institutions. Countries with extractive institutions, such as China today, may only experience growth temporarily and this growth will not be sustainable (Acemoglu and Robinson, 2012).

While the arguments developed in these books may be strong and they are underpinned by numerous historical descriptions, it is difficult to prove these arguments on long-run growth empirically. The problem is that indicators for these governance concepts are only available for the last couple of decades. Acemoglu, Johnson and Robinson (2001) have tried to deal with this by instrumenting the rule of law. This means they first use a proxy variable to estimate the extent of rule of law, and then use the results of this regression in a second regression to estimate the effect of rule of law on growth. Many current developing countries and emerging markets have been colonies in the past. The authors hypothesise that countries where colonisers have settled, have better rule of law than countries where the colonisers were only interested in removing valuable raw materials. Based on this, they use historical settler mortality rates to estimate where the colonisers have settled. The lower these rates, the more likely it is that colonisers have settled. With this instrument, they find that better rule of law leads to higher growth rates.

However, the use of settler mortality rates as proof is highly questionable (Khan, 2012). Their method appears sophisticated but ultimately rests on the assumption that colonies where Europeans settled had better rule of law than other colonies. However, the fact that settler colonies such as US, Canada, Australia)did better may have been due as well to the human capital that settlers brought with them (Glaeser, La Porta, Lopez-de-Silanes, and Shleifer, 2004). In addition, Khan shows that Acemoglu et al. (2001) turn colonial history on its head: when settlers came property rights of indigenous peoples have first been destroyed, and settlers have often used extensive violence in order to do so (Khan, 2012).

The ideas of open access societies (North et al., 2009) and of inclusive institutions (Acemoglu and Robinson, 2012) are related to 'rule of law' but also to 'voice and accountability' (democracy). The relation between democracy and economic growth has often been investigated empirically, but no robust relationship has been found.[5] Rodrik (2007) believes that democracy is a meta institution that helps foster many other institutions that are important for growth, such as control of corruption and effective governments. However, also in this area the empirical evidence is weak. The establishment of representative elections does not guarantee that corruption is reduced or that patronage relations and clientelism are weakened. On the other hand, effective institutions have come about in authoritarian countries, like Hong Kong and Singapore (Holmberg, Rothstein, and Nasaritousi, 2009). Chang shows, in a historical study, that today's developed countries had a more authoritarian system in their early stages of development than low-income countries have now (Chang, 2002). China is of course a good example today.

There is also other evidence. Kaufmann and Kraay (2002) argue that institutions do not change very quickly. For this reason, they examine the effect of their 1996 measure of rule of law (the first year available) on average growth per capita during the years 1970 and 2000. They find a positive effect. The effect becomes stronger when rule of law is instrumented with settler mortality rates, just like Acemoglu et al. (2001) did before. From this, and eliminating other explanations for the stronger relationship in the instrumental variable regression, they conclude that the effect of growth on the rule of law, so the reverse relationship, must be negative. Arndt and Oman (2006) have questioned this last conclusion. They use the same 1996 data for rule of law, the same period for the growth rates and the same instrumental variables as Kaufmann and Kraay (2002), but they added more variables that may influence growth. They also more explicitly estimate the reverse effect, namely the effect of economic development on rule of law, by using infant mortality rates in 1970 as an instrumental variable for GDP levels in 1970. They find significant relationships for both relationships: rule of law positively influences growth, and level of development positively influences rule of law.

However, as argued above, the validity of settler mortality rates as instrument for rule of law is highly questionable. Excluding the instrumental variable regression, the proof of a positive effect of governance on growth relies on the assumption that good governance indicators have not changed between 1970 and 1996. This is very unlikely. If there is any truth in the argument that inadequate institutions are hampering growth in current developing countries, there should be a positive relationship between institutional quality and economic growth in subsequent years. When this is done, a more consistent picture emerges from the literature, showing that there is no causal effect of WGI indicators and economic growth.

Kurtz and Schrank (2007), for example, show that the WGI indicator government effectiveness does not have a significant effect on economic growth per capita in a subsequent period of two years. They examined the effect of government effectiveness scores in 1996, 1998 and 2000, and controlled for initial GDP per capita, lagged growth rates, investment rates and education. Khan (2012) shows that developing countries and emerging market economies with high growth between 1990 and 2003

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5 Review studies include (De Haan & Siermann, 1995; Doucouliagos & Ulubasoglu, 2006).

did not have better governance indicators in 1996 than countries with low growth in these years. He shows this for the WGI indicators 'voice and accountability', 'control of corruption' and 'rule of law'. Our results shown above use the same control variables as Arndt and Oman (2006), but compare WGI indicators 2000 with average per capita growth rates in the ten years after that. All in all, there is convincing evidence that institutional quality, at least, as measured by WGI indicators, is not having an effect on economic growth.

Indeed, several authors claim that the reverse relationship is more likely: economic development fosters the development of good institutions. Today's developed countries had a much lower level of institutional development (in terms of property rights, rule of law and control of corruption) than do today's developing countries. Yet, this lower institutional development did not prevent them from experiencing growth, and they developed better institutions along the way (Chang, 2002; Chang, 2011; Goldsmith, 2007). Yet, the counterintuitive results on the effect of institutions on growth may also be caused by the way 'good governance' or 'institutional quality' is measured.

The indicators

Several authors have pointed to weaknesses in the measurement of these indicators. Virtually all sources used in the WGI indicators are based on perceptions.[6] Most are based on expert perceptions, relying on just one or a handful, while a minority reflects opinions expressed in somewhat broader population surveys. In some areas, indicators are fact based, such as the time it takes to register a business. For many elements of good governance, however, facts based indicators such as the existence of laws, do not say much, because practice may be very different from what is stipulated in laws (Arndt and Oman, 2006). To some extent, reliance on perceptions is inevitable. But perceptions are of course subjective and may suffer from respondent biases, such as herd behaviour. Is the Corruption Perception Index, for example, a good reflection of the *actual* existence of corruption in a country?

Furthermore, when looking at the detailed questions behind the indicators, many of them reflect a western or market oriented ideology. Many sources used in the WGI indicators have been developed for the private sector and reflect primarily the interests of the (large) private sector - not those of workers or the informal sector (Arndt and Oman, 2006). Under 'regulatory quality', for example, it is better if workers can be fired easily. Government effectiveness is considered higher if there is less "red tape", and if there are fewer regulations for foreign investors. For this reason, government effectiveness in countries such as South Korea and Taiwan is not rated very highly (Kurtz and Schrank, 2007). On the other hand, the measure for voice and accountability does not take into account the extent of transparency of election campaign financing, the extent of media domination by private conglomerates or the influence of the corporate sector on trade policies.[7]

[6] For each of the six indicators within the WGI, voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, and control of corruption, a variety of sources is used.

[7] Based on a citation of Norman Girvan in Arndt and Oman, 2006: 71; unfortunately, the original source is no longer available on the web.

Many indicators not only reflect institutions or processes but also policies, and these policies also have a pro-market bias. This is already clear from the formulation of the governance dimension captured by government effectiveness and quality of regulation: "the capacity of the government to effectively formulate and implement *sound policies*". Arguably, sound policies should *not* influence a measure of institutional quality. Furthermore, what is considered 'sound' is again defined as in keeping with a free market ideology: trade liberalization, the absence of state-directed credits, free access for foreign investors and open public sector procurement. This precludes strategic interventions of governments, which have proven to be so important in the now developed countries (Amsden, 2007; Chang, 2002; Chang, 2009).

The World Bank Country Policy and Institutional Assessment (CPIA), one of the underlying sources for the WGI indicators, is also still heavily influenced by the ideas behind the structural adjustment policies of the 1980s and 1990s. Eliza van Waeyenberghe (2009) has shown that the experts who have to make the scores are referred to diagnostic reports such as the World Bank's (IFC) Doing business, Diagnostic Trade Integration Studies, Investment Climate Assessments, Administrative Barriers Reports, and Financial Sector assessments. All of these fully reflect the idea that less government intervention is always better.

Even if policies are not directly assessed, it is likely that expert judgments on institutions will be influenced by policies or even outcomes. Experts will tend to score countries with high growth better on their institutional quality than countries with lower growth (Grindle, 2004; Rothstein and Teorell, 2008). Experts can be expected to use other well-known sources in making their own judgements, and often they are explicitly asked to do so (Arndt and Oman, 2006).

These problems of subjectivity, private sector bias, and herd behaviour are exacerbated by the way in which the various sources for the WGI are aggregated. The scores from the different sources for one of the WGI indicators are first standardized, and then weighted by the extent to which they correlate with each other.[8] Since most sources are expert surveys developed for the private sector, and as these experts are also likely to be influenced by each other, this means that the private sector bias is dominant in the overall result (Arndt and Oman, 2006).

Given this private sector bias in the WGI scores, we may perhaps expect a positive relationship between indicators such as rule of law, government effectiveness and regulatory quality on the investment rate. This is indeed partly confirmed. The bivariate (Pearson) correlations of investment (gross capital formation in per cent of GDP, average over 2001-2010) with government effectiveness and rule of law in 2000 are 0.25 and 0.32, respectively, and are significant at 5 per cent level. When regressing average investment rates on initial rule of law and the control variable logarithm of GDP per capita in 2000, the coefficient is even higher and significant at 1 per cent

[8] Technically, they use the unobserved components model (UCM). The idea is that the scores of each of the different sources all reflect the same underlying unobservable dimension of governance. Those that are most close to this unobserved factor, get the highest weight in the aggregate score (Kaufmann et al., 2010: 9).

level. The same holds for government effectiveness, political stability and, to a lesser extent, control of corruption (Appendix Table 3).[9]

This may imply that rule of law and other good governance indicators indirectly influence economic growth, namely via the investment rate. Given the negative and significant coefficient for 'rule of law' in a model explaining growth that includes the investment rate, we must then conclude that there may be a positive effect of rule of law on the volume of investment, but a negative one on the efficiency of investment. However, it is also possible that the positive effect of rule of law on the investment volume just reflects the private sector bias and the strong relationship between judgments on institutions, and outcomes.

Khan argues that the high growth rates in authoritarian regimes such as China and, earlier, many other East Asian countries, show that the *kind of governance* embedded in the WGI indicators may not be so essential as is often thought (Khan, 2007). He makes a distinction between 'market enhancing governance' and 'growth enhancing governance'. Historically, growth enhancing governance may have been more important than market enhancing governance. A study in which historical trajectories of four African and four South-east Asian countries are compared shows that the higher growth in South-east Asia is primarily due to different *policies*, and not to governance as usually defined by donors. There was just as much corruption in Asia as in Africa, and there was little difference in terms of democratic accountability (Van Donge, Henley, and Lewis, 2012).

Other recent studies conclude that institutions are important part for development, but that there is not one preferred path (Levy and Fukuyama, 2010; Levy, 2010). Countries in East Asia owe their high economic growth to a strong state (developmental state) and to centralised power, while that power was aimed at the growth of the nation as a whole. Only much later did they begin to develop political (democratic) and market-oriented institutions to protect property rights and the rule of law. Other countries, such as Bangladesh, did not have such a strong state but apparently had 'good enough governance' and could achieve strong growth by changing crucial aspects of policy and sometimes of governance as well. Kelsall (2011) observes that some African countries also enjoyed periods of high economic growth despite neo-patrimonial governance with corruption and clientelism. He argues that these experiences show that two conditions are necessary: a strong central authority that is focused on the long term, and a market-driven policy that benefits rural areas. This is clearly an area that warrants further research: research on what kind of institutions can foster growth and what indicators can be developed for measuring them. But it is clear that the so often held view that institutions must change before development can take place, is not tenable.

[9] But not for voice and accountability, and regulatory quality.

AID AND GOOD GOVERNANCE

Foreign aid, and this lecture is on official aid, so aid from countries or from multilateral organizations, can be expected to improve governance of recipient countries. In fact, all four aid modalities may improve governance. First, aid *projects* may be aimed at improving certain aspects of governance. Examples include financial support to government financial management information systems, to local governments, to anti-corruption committees, to procurement agencies or to civil society and media. Strengthening civil society and media is considered helpful for improving the democratic debate, but also for increasing the quality of government through strengthening the watch dogs. Second, technical assistance, on its own or in combination with projects, may also lead to higher quality governance. This means, for example, training of judges, of public financial managers or of the police as is currently done by the Netherlands in Kunduz, Afghanistan. Third, when aid is provided in the form of direct budget support or sector budget support, aid is accompanied by a policy dialogue in which donors try to influence policies and governance of the recipient government. Fourth, donors may also have an influence on governance via the selection criteria for the aid allocation. For most bilateral donors, good governance is one of these criteria, and this also holds for the World Bank - in particular its soft loans and grants to low income countries. When the Bush Presidency doubled US aid flows in the middle of the 1990s, it did so by establishing the Millennium Challenge Account (MCA). Countries could only qualify for this aid if they had good policies and if they met strict good governance criteria.

So, what is the evidence? At macro level, the evidence is not very positive for the effects of aid on governance. Several authors have examined the effect of aid on the quality of governance. Knack (2001) and Brautigam and Knack (2004) find that aid had a negative effect on 'bureaucratic quality', one of the indicators forming part of the International Country Risk Guide of the Political Risk Services (PRS) Group. They looked at 32 African countries. Rajan and Subramanian (2007) conclude that aid has a negative effect on governance in an indirect way. They show that aid has a negative effect on growth in those industrial sectors that depend on the quality of governance (Rajan and Subramanian, 2007). Busse and Gröning (2009) also find a small but statistically significant negative effect of aid on the change in 'bureaucratic quality' between 1984 and 2004, examining 106 countries.[10] Several studies find that the dispersion of aid over many donors and many projects increases the negative effect on the institutional quality of recipient countries (Acharya, Lima, and Moore, 2006; Knack and Rahman, 2004).

For the relationship between aid and corruption, no consistent outcomes emerge. Some conclude that aid increases corruption (Alesina and Weder, 1999; Knack, 2001), while others argued that corruption decreases thanks to aid (Tavares, 2003). With respect to the effect of aid on democracy, the results are not univocally positive either. Goldsmith (2001) examined the impact of aid on democracy in Africa over the years

[10] All four studies instrument for aid in order to control for possible endogeneity: aid may be induced by low bureaucratic quality, or there may be another factor that causes both aid and low bureaucratic quality.

1975-1997, using the Freedom House's 'freedom index'. He concludes that aid had a positive impact on democracy. Djankov, Montalvo and Reynal-Querol (2005) used the Polity IV index for 108 countries and found that aid had a negative effect on democracy during the period 1960-1999. More recently, Kalyvitis and Vlachaki also concluded that aid has a negative impact on democracy. They studied the period 1967-2002 and found that the effect was greater in countries with a low democratic status to begin with.

However, these studies cover a rather long period and the negative findings can perhaps be explained by the Cold War. Until the end of the 1980s, many countries received aid for strategic reasons, and these countries were often ruled by dictators. Dunning (2004) examined the impact of the Cold War by reusing Goldsmith's (2001) data but now comparing two periods: 1975-1987 and 1988-1997. He argues that the Soviet Union's influence in Africa was already waning around 1987, and this also influenced western donors' attitudes from that year onward. The aid providing countries began to emphasize political conditionality and did so in a more credible way. The author finds that there was no significant effect of aid on democratic development before 1987, but that this relation became positive and significant in the second period. Ear (2007) examined the effect of aid on the different WGI indicators for the period 1996-2004, so after the Cold War. She does not find any significant effect, but the coefficient on 'voice and accountability' is most positive.

Dutta, Leeson and Williamson (2011) observe that there is no consensus on the effect of aid on democracy. They suggest a different hypothesis: aid promotes democratic development in countries that are already democratic, while the opposite is true in countries with dictatorial traits. They analyse 124 countries for the period 1960-2009 using the Polity IV index, and the results confirm their hypothesis. The authors conclude that aid has an "amplification effect": it can reinforce certain paths, but cannot put the country on another path.

Explanation

In sum, the effect of aid on bureaucratic quality in recipient countries appears to be negative, while the evidence of the effect of aid on democracy or control of corruption is not conclusive. Again, this is counterintuitive. How can these findings be explained? Basically, there are three types of explanations. The first has to do with the unintended negative impact of aid on the administrative capacity of recipient countries. A second explanation is that a high aid dependence may negatively affect democratic development by reducing domestic accountability. Thirdly, the above mentioned four possible channels for aid positively influencing governance only hold in so far as donors foster the right types of governance with their projects, technical assistance, conditions and selection criteria. As will be shown below, this is not always the case.

Aid may reduce the administrative capacity in recipient countries, especially if provided in high volumes and by many different donors (Brautigam and Knack, 2004; Knack, 2001; Knack and Rahman, 2004). Recipient country governments spend a lot of time

in negotiating with donors on projects. A typical sub Saharan African country receives some 400 missions per year and all donors wish to speak with government officers at the highest possible level. This not only means high transaction costs but also leads to a fragmented development policy. Donors are often only interested in the success of their own projects, and not in the quality of governance in general or the success of other donors' projects (Acharya et al., 2006). They provide technical assistance in the form of training and seminars for relevant government staff, within the country or abroad, leading to high absenteeism among government officers. Or donors set up separate implementation units for the execution of their projects, hiring the best government staff available and bypassing government systems. The creation of separate implementation units for flagship projects or programs leads to "institutional confusion" (Dijkstra, 2004). As O'Connor and Soludo wrote "The aid relationship can get stuck in a high aid- weak institutions equilibrium in which institutions remain weak and graduation [i.e. from aid dependence - gd] never occurs." (O'Connell and Soludo, 2001:1548).

Aid dependence implies that governments are more accountable outward, i.e. to donors, than inward, i.e. to parliaments or domestic constituencies in general (Boekestijn, 2009; Moss, Petterson, and Van de Walle, 2006; Sogge, 2002). Around 2000, aid flows constituted up to 50 per cent of government expenditure in many Sub Saharan African countries. It can be expected that governments then tend to listen more to donors than to their own populations. Furthermore, large aid flows may have the perverse effect of reducing tax efforts, which may further undermine state building. Historically, taxation has been important in increasing the accountability and legitimacy of executive powers. Increases in government revenues were usually needed in times of war, inducing Charles Tilly to his famous expression "the state made war, and war made the state".[11] In a way, foreign aid plays the same negative role as the availability of highly valued resources such as oil. Countries with a resource curse, be it due to oil or aid abundance, tend to have lower levels of democratic accountability.

Some argue that aid is better than oil, because it comes with conditions and projects that attempt to improve government behaviour (Moss et al. 2006).[12] However, it can also be argued that aid is worse than oil. Aid does not only imply money, but has other influences as well. It has been shown that donors have an interest in the continuation of an incumbent government in order to be able to continue with the implementation of agreed policy conditions or national development plans. As a result, they do not speak openly about corruption cases, they provide the executive with extra resources just before elections, or approve an IMF program.[13] Or, if elections do lead to a change in government, the newly elected government finds itself completely bound to earlier agreed policies and is not able to implement the promised policy change. Furthermore, donors tend to define poverty reduction as a non-political, technical issue, and in so doing they often focus on the executive power and

11 Cited in Moss et al. (2006), p. 17.
12 With the exception of more technical issues such as public finance management, in which elite interests are not immediately affected.
13 This has been documented, for example, for Mozambique (Hanlon, 2004), for Mali (Van de Walle, 2012) and for Nicaragua (Dijkstra, 2005).

ignore political processes in which also the less powerful can make themselves heard. In Lesotho, aid proved to strengthen bureaucratic state power at the cost of the poor peasants for which it originally was intended (Ferguson, 1990). In Rwanda, aid in the early 1990s proved to reinforce existing socioeconomic and ethnic inequalities. This contributed to the "structural violence" that later erupted as real racial violence, leading to one of the most brutal explosions of violence in history in 1994 (Uvin, 1998). Van de Walle (2012) shows that donors in the Mali of the years before the coup focused too much on the executive branch of government, gave too little attention to mechanisms of horizontal accountability, and turned a blind eye to already existing threats to democracy.[14]

This links to the third type of explanation, and that is that donors may not always be promoting the most adequate types of governance. A World Bank evaluation of public sector reform concludes that the lack of success of civil service and administrative reforms can be attributed to a "lack of diagnostic work" in this area, thereby implicitly acknowledging that proposed reforms were not always adequate for the local situation (IEG, 2008). Dorotinsky and Floyd (2004) find in a study of 20 countries that the public financial management reforms introduced by donors were often too complicated. Countries had to introduce medium term expenditure frameworks, activity based budgeting, performance management and integrated financial information systems all at once. In practice, this reduced the chances of success.[15] More in general, donors usually believe that countries should implement the entire list of conditions for good governance, while good results could probably be achieved with 'good enough governance' (Grindle, 2004). However, this does not exclude that donor efforts have beneficial effects on governance. Indeed, there is evidence of micro interventions having positive effects on the reduction of corruption, on democratic accountability or on the functioning of the police.[16]

A third paradox

Apart from attempting to influence governance, donors also have a long record of trying to influence policies. This reveals a third paradox. While donors say they promote democracy, they often try to impose policies on unwilling parliaments and unwilling populations. Furthermore, the policy conditions have not always been beneficial for the recipient's economy. Who is going to be accountable for these policies?

During the 1980s, 1990s and early 2000s, many developing countries have adopted the policies required by World Bank and IMF adjustment programs. This often occurred with long delays and sometimes policies were only implemented partially or cosmetically. But after two decades of these structural
adjustment programs, government expenditure has been cut, foreign exchange markets have been liberalized, state industries have been privatized, tariffs on foreign trade have been lowered, banks have been privatized and the financial sector liberalized. Although some of these measures, and in particular the efforts for macroeconomic stabilization and foreign exchange liberalization were positive, many of the other policies had negative effects on growth and development. Some conditions were simply wrong and others were badly timed. Donors sometimes admitted this in retrospect, but they have never compensated the aid recipient country for the damage done. What's more, when African countries could not repay the earlier structural adjustment loans, (partly) due to the wrong policy conditions attached to them that had put their economies further behind, the donors/creditors were only willing to grant debt relief if the same countries would again carry out market oriented policies. Instead of taking their losses and recognizing that earlier policy conditionality had turned out to be a failure, the donors/creditors imposed more policy conditions.

While Asian countries experienced high growth rates during the 1980s and 1990s with extensive state controls over foreign trade, foreign investment, and domestic credit and labour markets, the countries that followed structural adjustment policies in Africa and Latin America displayed much lower growth rates. Examples abound of specific policies that turned out to have a negative impact on long-term development. One of these policies was the introduction of user fees for basic education, which led to a precipitous fall in primary enrolments rates across Africa, and which in most countries has now been abolished (Glennie, 2008). Another example is trade liberalization, for which IMF and World Bank conditionality has proven to be important (Jones, Morrissey, and Nelson, 2011). It is by no means clear, however, that trade liberalization always fosters development. To the contrary, most currently rich countries have used protection in order to develop their industries (Amsden, 2007; Chang, 2002).

In Ghana, the Parliament had just approved a new budget law for 2003, which included higher tariffs for rice and poultry in order to protect domestic producers against cheap imports. These tariffs were still within the range allowed by World Trade Organization (WTO) rules. However, when the government negotiated with the IMF on a new programme, the IMF forced the government to abolish the tariff increases. Subsequently, cheap European imports of chicken flooded the market and destroyed local production. By 2007, 97 per cent of domestically consumed chicken and 70 per cent of rice is imported, while this was only 10 per cent twenty years before (Glennie, 2008: 54).

In Mozambique, the cashew nut processing industries first had to be privatized and then the World Bank required the export tax on raw nuts to be reduced. The idea was that the producers of raw nuts would get a higher price, but the effect was that all cashew nuts were exported to India to be processed there. It meant the end of the just privatized cashew nut processing industry. Later, the World Bank came to the conclusion that some protection of processing firms was justified, given that all countries with processing industries, most notably India, also applied protection. The World Bank then approved an increase in the export tax. However, the damage had been done. The new owners of the processing companies have not been compensated for the losses suffered, and no money has as yet become available for restructuring and rebuilding the companies (McMillan, Rodrik, and Welch, 2004; White and Dijkstra, 2003).

14 In this country, aid to increase the demand for and the support of democratic institutions proved to constitute only 1per cent of total aid during the years 2000-2010.
15 Cited in De Renzio (2006)
16 See Banerjee and Duflo (2011) and Hanna, Bishop, Nadel, Scheffler, and Durlacher (2011) for these, and much more, examples.

During the 1980s, Zambia often reversed on agreed structural adjustment policies, but this changed in 1991. The country then agreed on a new IMF programme and implemented a full package of liberalization measures, including financial liberalization. This was an example of bad sequencing. The financial sector was liberalized before the government budget had been straightened out and before inflation had fallen. This led to huge capital flight, accompanied by low growth and by an increase in inflation (White and Dijkstra, 2003). But this was not all. Zambia also liberalized the maize market on the assumption that this would lead to more efficiency. However, given fluctuations in production due to unpredictable rains, the absence of a market clearing institution that could stabilize prices led to a decline in maize production (Van Donge, 2007). Zambian growth was negative during the full decade of the 1990s, while foreign debt continued to increase. All the time, the response of IMF and World Bank was that further reforms were necessary. By the end of the 1990s, and in order to access the debt relief initiative for heavily indebted poor countries (HIPC), the country finally conceded to privatize the copper mines. This proved to be particularly harmful, especially in combination with very low taxes - due to the concessions the government had to make in order to attract buyers. The new owners severely underinvested for several years (Van Donge, 2007). Now that the copper price is high again, the Zambian government does not have any benefit of it (Glennie, 2008: 41). Zambia, and also Malawi, have later reintroduced government intervention in their agricultural sectors, with high agricultural growth as result.

Yet another example refers to the banking sector. Many developing countries were forced to privatize their banks before adequate regulation and supervision of these banks was in place. The new owners, often related to government officers, began to take excessive risks in lending, often to their own companies. It did not take long before these banks were in big trouble. Government then had to rescue these banks and this led to rapid increases in the governments' domestic debts (Dijkstra, 2008).

Glennie (2008) argues that the aid conditions have been more detrimental for Africa's development than the aid resources may have been beneficial. This may or may not be true. But in any case, donors have been quite contradictory in dealing with African countries. Donors tell governments to be democratic, but at the same time they force these countries to implement certain policies, often implying that parliaments approve certain laws. Furthermore, while trade liberalization has been enforced on poor countries against unwilling parliaments, clearly favouring rich countries' companies, rich countries hide behind arguments of "democracy" or "sovereignty" when their companies can invest in poor countries without abiding by environmental or labour standards. This begs the question of the interests behind the donors' good governance paradigm.

Still imposing policies?

Now, it could be argued that these attempts to influence policies are something of the past. Most donors officially say that they do not practice conditionality anymore. According to the new aid rhetoric of the 2000s, donors would respect recipient country ownership, would harmonize their aid procedures and would align their aid with national systems and priorities.[17] In practice, however, progress toward these objectives has been slow, especially on the donor side (Wood et al., 2011). Donors often have difficulties in harmonizing procedures, and they focused more on harmonizing their agendas. As a result, the new aid approach has led to more, not less, donor interference in recipient countries' policies (Dijkstra and Komives, 2011; Whitfield, 2009; Woll, 2008).[18]

Another way in which the policy agendas of donors still influence recipient countries is through selectivity. The World Bank allocates its soft loans to low income countries on the basis of the CPIA, and the score on 'governance' has the highest weight in the overall score. As reported above, the benchmarks used for these scores are heavily influenced by pro-market ideas (Van Waeyenberghe, 2009). An evaluation of the World Bank itself concludes that while there is an association between CPIA scores and loan performance (measured as the percentage of problem loans registered by IEG), there is no empirical justification for giving a higher weight to the governance cluster (IEG, 2009).

Looking beyond aid allocation or aid practices, it is clear that donors use various other channels for influencing policies in low income countries. Although the WTO officially decides on the basis of consensus, in practice rich countries have a lot more influence than poor countries. And rich countries' interventions in the WTO are dominated by corporate interests (Peet, 2009).[19] Many of the WTO rules favour the rich countries because they do not allow the current developing countries to raise trade barriers or access new technologies cheaply – as was standard practice in the early years of the now developed countries (Chang, 2002). For example, the patent rules agreed in the WTO protect vested corporate interests in the rich countries, at the cost of other countries' rights to set up their own industries. Some protection of intellectual property rights is of course beneficial for stimulating innovation, but 20 years is generally considered too much (Bhagwati, 2004). Now that multilateral trade talks in the Doha round are stalled, rich countries attempt to further their interests by establishing bilateral agreements with groups of low income countries. In these negotiations the position of the low income countries is weaker than in multilateral talks, because these interests are not defended by countries like China and India. As a result, the rich countries attempt to impose open government procurement and further trade and investment liberalization in poor countries. The EU does so in the context of the Economic Partnership Agreements with groups of poor countries. This further reduces the policy space.

17 During various high level meetings (Rome 2003, Paris 2005, Accra 2008 and Busan 2011) donors and recipients pledged to strive for more donor harmonization, for more alignment to recipient countries' systems and policies, and for more ownership (OECD, 2005).

18 That the contents of conditions has not changed much is clear from the conditions imposed on Greece. They go far beyond what is necessary for macro-economic stabilization and include privatizations and liberalizations of the economy (Volkskrant 25 October 2012).

19 I was able to see this in practice during a visit to the Permanent Representation of the Netherlands in Geneva. When the Dutch officer prepared a WTO meeting on a Trade Policy Report about an African country, he asked for the opinion of a major Dutch investor in that country. As a result, the Dutch criticized the local content rules for foreign investors that this country had introduced – and so did other EU countries in the same meeting, as they had also been informed by "their" companies.

Of course, trade is important for development. But "trade" is a very ambiguous term, as it refers to both exports and imports. While developing countries should be allowed to export more to our markets, the current emphasis is on *our* exports to *their* markets. This is much less in the interest of poor countries. In the early stages of development of European (but also the US, and East Asian) countries, they were allowed to use import tariffs, investment regulation and other government intervention. This policy space has been taken by larger countries such as China, India, and Brazil, but the aid system has not allowed the same space for African countries. This is bad global governance.

CONCLUSION

At the macro level, I showed that there is no evidence of a positive effect of the usually employed good governance indicators on economic development. This was a first paradox, because it is counterintuitive and contradicts some earlier research. But I also showed that the contents of these good governance indicators may be somewhat biased towards values that tend to favour the free market. More research is necessary in this area. Defining good governance always implies value judgments, but research should help to further unravel the judgments behind the current indicators. In addition, research could help improving the validity of the indicators for those concepts and dimensions that are considered important. We must also get more insight into which elements of the donors' good governance agenda are really essential for economic development. In my current and future research, I intend to contribute to both of these research lines. With my colleagues in the department of Public Administration, I hope to contribute to an exploration of the validity and usefulness of the Sustainable Governance Indicators (ranking 31 OECD countries) and the Bertelsmann Transformation Index (ranking 128 non-OECD countries) of the Bertelsmann Foundation in Gütersloh, Germany. Moreover, PhD student André Loozekoot has scrutinized a widely used assessment framework for public financial management and accountability, and he will shortly start field work in Zambia and Uganda on the factors influencing improvements in public accountability mechanisms.

My second paradox was about the effect of aid on good governance. There is limited evidence at the macro level of aid having played a positive role for good governance: the effect of aid on bureaucratic quality is outright negative and for the effect of aid on democratization the evidence is inconclusive. However, this does not exclude that individual projects or technical assistance do have a positive effect on governance. My current secondment with IOB gives me an opportunity to explore whether this is the case. Denise Bergkamp and I intend to investigate the effectiveness of direct donor efforts to promote democracy, the justice system, good local governance and public finance management and transparency.

I also showed that aid comes with strings and that the policy conditions and selection criteria that come with aid have often focused, at least partly, on the wrong policies and institutions. While donor rhetoric emphasizes the need for countries to have democratically elected and accountable governments, the practice of attaching specific policy conditions to the aid resources undermines these objectives. Furthermore, it reduces the policy space that countries need in order to map out their own growth path. The debates on the relation between aid and governance, and indeed the debate on aid effectiveness in general often overlooks these negative consequences of aid, that also go beyond the aid system itself.

Of course, aid is not always bad. There is plenty of evidence that aid flows in the past five decades have contributed to reduced mortality rates and better schooling, among other achievements. A recently completed policy review of general budget support has shown that budget support has helped governments to spend more on health and education (Dijkstra, de Kemp, and Bergkamp, 2012). In addition, the coordinated approach among donors reduced transaction costs and helped strengthening local institutions, in particular in public finance management. Despite this evidence that budget support is a more effective instrument, the Dutch government does not provide budget support anymore. In general, current Dutch development policies often seem to ignore evidence about what works in aid. Studying and explaining aid practices and motivations will therefore continue to have my interest. PhD student Anna Jüngen is examining the factors influencing the aid allocation. Among other things, she attempts to disentangle ideas and interests in allocation decisions.

The questionable effects of aid on governance at the macro level also imply that research on aid effectiveness should not be limited to measuring the effectiveness of aid *interventions* - as recently seems to have become the holy grail in aid evaluation. Just like in medical science, development effectiveness research now preferably uses randomized control trials. It assesses the effects of a particular intervention on a particular target group, controlling for other factors by comparing with a control group and using difference-in-difference methods. In this way, studies have been able to conclude, for example, that providing school meals in pre-schools in Kenya raised attendance rates from 21 to 29 per cent, or that poor families receiving cash transfers in Malawi are eating better than families not included in the programme, or that providing anti-malaria bed nets for free does not reduce their usage.[20] This is very useful. However, this type of studies can only be part of the research agenda on aid effectiveness. Aid interventions are no medicines, and randomized control trials do not take the wider social, political and institutional effects of aid into account that have proven to be so important. In my research program, I intend to continue investigating the institutional and political effects of aid and of the global governance institutions of which the aid system is a part.

20 Much more examples can be found in Banerjee and Duflo (2011); Hanlon, Barrientos, and Hulme (2010) and IEG (2009).

ACKNOWLEDGMENTS

Ladies and gentlemen. My career did not start in Rotterdam. I received my education in Groningen, and after being affiliated with the University of El Salvador, the Open University, the University of Maastricht and the Institute of Social Studies (ISS), my coming to Erasmus University happened more or less by accident. Nevertheless the department of Public Administration has always tolerated my rather exotic research interests very pleasantly. And more than that: interesting cross-fertilization soon came about, and there is growing mutual learning and acknowledging of each others' strengths. I have come to consider Public Administration, in all its diversity, an interesting perspective on reality. This growing mutual recognition is also reflected in my appointment, with not only 'governance', but also 'global development' in the title.

Firstly, I would like to thank all those who have contributed to my appointment. These include the rector and board of this university, the board of the Trust Fund Erasmus University Rotterdam, the dean of the Faculty of Social Sciences, the chair of the Department of Public Administration and the Standing Committee on Career policy for scientific staff (Dutch acronym VCL) of the Faculty of Social Sciences. I thank them all for the trust they have placed in me.

I am also grateful to have been able to participate in the first Master class for female Associate Professors at campus Woudestein of this University. The contacts with my fellow participants were very stimulating. Five out of eight of us have now been appointed professor - albeit two of them in other universities. I thank Ton Dietz for some stimulating conversations on my career in the years after the Master class, and in particular for his advice on the title of this chair.

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The students, and in particular those of the Master in International Public Management and Policy, are a great source of inspiration. I look forward to new discussions in class, in thesis groups and also in Geneva during the annual study trip to international organizations.

For over twenty years now, I have been able to conduct many interesting studies for organisations active in development cooperation. I am grateful to these organizations

for their confidence in me, and I thank many colleagues in the Netherlands and abroad for the inspiring cooperation on these projects. I would like to mention in particular Howard White, my colleague at ISS at the time. I do not know anyone who is as productive as academic and such a generous colleague at the same time. He invited me to participate in a study of the effectiveness of programme aid in eight countries, for the Swedish International Development Agency (SIDA). This great experience opened my eyes: from then on, I knew what I wanted to do. More or less as a consequence of this, Dick van der Hoek, then with the Policy and Operations Evaluation Department of the Dutch Ministry of Foreign Affairs (IOB), asked me to become the lead investigator for an evaluation of debt relief. I am grateful to him for his confidence, patience and for the stimulating cooperation on this project. Through these evaluations of the effectiveness of debt relief, programme aid, and budget support, I have been able to study the big macro-economic and political issues in developing countries, and I hope to be able to continue doing this in the years to come.

From 2011 onward, I conduct these studies from a position on secondment within IOB. As an academic, I experienced a bit of a culture shock by the move to government bureaucracy with its accompanying rules, admission passes and hierarchy. Fortunately, the evaluation department is not that bad in this respect. The combination of experienced evaluators and smart young graduates makes for a stimulating working environment. I thank Ruerd Ruben for his idea to ask me to join IOB, and for his flexibility to allow me to do this on a part-time basis.

Dear mum, I am incredibly happy that you are able to join me on this experience. You gave up your own career in order to take care of husband and children. That was common at that time, and you did so with the greatest pleasure. But you were an excellent researcher, and if you had continued working you would most likely have become a professor of chemistry. Even when you had to take care of us on your own due to dad's untimely death, you have always given me confidence and stimulated me to pursue my ambitions. This has provided the basis for this appointment.

Dear Susanne and Wieteke, you are now experiencing such an inaugural address for the third time, but probably for the first time consciously. I feel very privileged to have been able to see you grow up, and also to still be able to play a role in your lives, now and then. Life is full of paradoxes, and I admire your strength and perseverance. I am very happy that you are here.

Dear Tom, our lives have been running parallel now for almost 34 years. We share a passion for each other, for our daughters, and also for this type of work: academic, but with some interface with practice. And although we have stopped reading all each other's writings, it is immensely valuable that you understand what I am doing and that I can ask your advice at crucial moments.

Dear colleagues, other family members, and friends, I thank you all for your presence and for your interest. We are nothing without each other and the networks connecting us, and even though most networks nowadays are of a digital nature, I recommend you to make good use of the reception later on as well.

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Appendix Table 1.
OLS regressions with dependent variable: Average growth per capita, 2001-2010

CONSTANT	3.204 (0.052)	2.428 (0.176)	3.708 (0.076)	3.500 (0.051)	2.087 (0.307)	2.757 (0.139)
INV/GDP (%)	0.154 (0.000)	0.170 (0.000)	0.158 (0.000)	0.155 (0.000)	0.174 (0.000)	0.160 (0.000)
POP GROWTH	-0.701 (0.000)	-0.658 (0.000)	-0.636 (0.001)	-0.626 (0.001)	-0.601 (0.001)	-0.622 (0.001)
LGDPPC2000	-0.422 (0.027)	-0.369 (0.062)	-0.502 (0.026)	-0.468 (0.022)	-0.360 (0.094)	-0.403 (0.051)
VOICE AND ACCOUNTABILITY	**-0.669 (0.022)**					
POLITICAL STABILITY		**-0.678 (0.017)**				
GOVERNMENT EFFECTIVENESS			-0.368 (0.407)			
REGULATORY QUALITY				-0.474 (0.155)		
RULE OF LAW					**-0.748 (0.048)**	
CONTROL OF CORRUPTION						-0.774 (0.058)
F	13.914 (0.000)	14.223	12.244 (0.000)	12.722 (0.000)	13.414 (0.000)	13.291 (0.000)
ADJ R2	0.301	0.308	0.273	0.281	0.293	0.291
N	120	119	120	120	120	120

Note: Coefficients are shown, with p values in parenthesis.

Appendix Table 2.
OLS regressions with dependent variable: Change in HDI 2010-2000

CONSTANT	0.037 (0.000)	0.038 (0.000)	0.036 (0.000)
AVG GROWTH PER CAPITA	0.005 (0.000)	0.005 (0.000)	0.006 (0.000)
VOICE AND ACCOUNTABILITY	-0.005 (0.023)		
POLITICAL STABILITY		-0.003 (0.111)	
GOVERNMENT EFFECTIVENESS			-0.005 (0.082)
F	29.945 (0.000)	24.867 (0.000)	29.169 (0.000)
ADJ R2	0.360	0.321	0.358
N	103	101	101

Note: coefficients are shown, with p values in parenthesis.

Appendix Table 3.

OLS regressions with dependent variable: Average Investment/GDP 2001-2010, in %

CONSTANT	27.557 (0.000)	32.307 (0.000)	32.185 (0.000)	25.522 (0.000)
LGDP PER CAPITA 2000	-0.493 (0.394)	-1.054 (0.094)	-1.014 (0.084)	-0.202 (0.739)
POLITICAL STABILITY	2.762 (0.001)			
GOVERNMENT EFFECTIVENESS		4.848 (0.000)		
RULE OF LAW			4.538 (0.000)	
CONTROL OF CORRUPTION				2.724 (0.029)
F	6.352 (0.002)	8.589 (0.000)	10.969 (0.000)	3.116 (0.048)
ADJ R2	0.082	0.111	0.141	0.034
N	120	121	121	121

Notes: coefficients are shown, with p values in parenthesis. When voice and accountability, and regulatory quality are included, the estimated model (the F) is not significant.

Geske Dijkstra is professor of Governance and Global Development in the Programme of Public Administration of Erasmus University Rotterdam. Since September 2011, she also works two days a week as evaluator with the Policy and Operations Evaluation Department (IOB) of the Dutch Ministry of Foreign Affairs. She studied Economics and Sociology at the University of Groningen and completed her PhD in Economics in 1988 in that same University. In the 1980s, she lived and worked several years in Central America. Between 1990 and 2000 she held positions with several Dutch academic institutions, including the University of Maastricht and the Institute of Social Studies (now, International Institute of Social Studies of Erasmus University) in The Hague. In 2000 she joined the programme of Public Administration of Erasmus University Rotterdam. In those years she has always combined research and teaching with conducting studies and consultancies for organizations involved in development cooperation, such as the World Bank, the Swedish International Development Agency (SIDA) and the Dutch Ministry of Foreign Affairs. Her research interests evolve around issues of economic development, focusing in particular on aid effectiveness, political economy of aid, debt issues, and gender equality.

While conventional wisdom holds that foreign aid promotes good governance and that good governance leads to development, a first paradox is that good governance does not prove to foster economic growth, and a second that at macro level, there is no causal relationship between aid and good governance either. This inaugural lecture then dwells on possible explanations. These include the limited validity of the conventionally used good governance indicators, and possible negative effects of aid on, in particular, governance capacities and domestic democratic accountability. This also reveals a third paradox: while the aid rhetoric promotes democracy in developing countries, the aid practice imposes policies.

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