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# Centre on Regulation and Competition

## WORKING PAPER SERIES

**Paper No. 118**

### **WHAT CONNECTS REGULATORY GOVERNANCE TO POVERTY?**

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**June 2005**

ISBN: 978-1-905381-17-4

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Published by: Centre on Regulation and Competition,  
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# WHAT CONNECTS REGULATORY GOVERNANCE TO POVERTY?

**Martin Minogue**

## INTRODUCTION

Niall Ferguson (2003: pp 374-77) points to an interesting paradox in global politics. He quotes a 2001 speech by British Prime Minister Tony Blair in announcing a new Partnership for Africa: 'On our side: provide more aid, untied to trade; write off debt; help with good governance and infrastructure... encouraging investment; and access to our markets...On the African side: true democracy, no more excuses for dictatorship, abuses of human rights; no tolerance of bad governance...[and] the endemic corruption of some states...Proper commercial, legal and financial systems.' Ferguson suggests that while this sounds like unexceptionable altruism, it can be made to seem altogether more menacing, with 'more than a passing resemblance to the Victorians' project to export "civilisation" to the world' (Ibid: p.375). This is a reminder of the enduring paradox of predominant contemporary solutions to underdevelopment and poverty, that they envisage a reduction of the direct role of the state in economic activity while insisting on strong interventionism through public policy processes in pursuit of primarily political objectives (the democratisation and good governance agenda) seen as a necessary prior condition for the embedding of capitalist-led growth. It is a reminder, too, of the enduring nature of debates on the role of the state in development: no less long-standing, we shall see later, are debates on the causes and effects of poverty, and the achievement of poverty alleviation and reduction.

For a major part of the twentieth century, the state was generally regarded as the primary institution to correct market failures and deliver public services, both in developed and developing economies (World Bank 1997). In the immediate postwar decolonisation period, there was a general presumption that the benefits of macro-economic growth would trickle down and reduce poverty. It took some time for the realisation to emerge that more explicit interventions would be required. Even then, adjustment to a 'basic needs' approach was essentially a safety net strategy which left trickle down theory undamaged. Only in the 1970s did 'growth with equity' at least pay lip-service to the crude nature of classic development theory, and point to the neglect of the damaging consequences of economic growth for millions of poor people, not least where such growth created inequalities, rather than reducing them. From this point, until the 1980s, the 'development state' was seen as

provider and protector for poor populations, in turn to come under attack for many failures of policy and practice, with the pendulum swinging again towards the assumption of the superiority of market-led, rather than state-led solutions, and of supply-side economic strategies rather than demand-led strategies. It is worthy of note that the preferred language referred to poverty *alleviation*, as if there was an underlying acceptance that poverty was an irreducible and unavoidable consequence of the market system. The use of the term poverty *reduction* appears to be associated with a shift in the late 1990s to a more targeted approach to those deemed to be 'poor', even towards the notion that there are 'different kinds of poverty' (Hulme and Cooke:2002). Before going on to address whether and how 'regulatory governance' can be connected to poverty reduction, we need to consider briefly issues that arise in the conceptualisation of poverty.

## **INTERPRETING POVERTY<sup>1</sup>**

Poverty has for some time been officially recognized as the core issue of international development; notably, 'halving absolute poverty by 2015' is at the top of the list of the Millennium Development Goals (MDGs) (UN 2000), and the MDGs are recognized by most aid agencies, as well as by many NGOs, as constituting their leading priority. The UK's Department of International Development (DFID), when creating the string of research centres which included Manchester's Centre on Regulation and Competition(CRC), made it clear that while a discrete set of policy areas would be addressed in the new research programmes, all would be expected ultimately to contribute to the achievement of DFID's overarching policy of poverty reduction. A conceptual overview that has emerged from the work of another such Manchester-based centre (Chronic Poverty Research Centre: CPRC) sees these official positions as constituting 'a particular problem of contemporary poverty analysis' which '...is to see "the poor" as those who are not effectively integrated into the market economy. This leads to a focus excessively on the role that market forces can play in poverty reduction'(Hulme and Shepherd:2003:404); and, they go on to argue, an excessive preoccupation with head count targets set around dubious poverty lines that leads to a fixation on the 'transient' poor, to the neglect of millions of the 'chronic' poor.

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<sup>1</sup> This section summarises and draws substantially on a literature review in Tanaka (2004).

If the targets are new, the objectives are not: poverty reduction has been a major policy focus in development aid institutions for at least two decades. Unsurprisingly, there is an immense literature on poverty going back to the 1960s, and the intention here is to draw out some of the main analytical perspectives as a framework for an understanding of the linkage to specific economic and institutional reforms held to have a pro-poor orientation. While this is a contested literature, there is general agreement that poverty in some way constitutes deprivation; that it has absolute and relative dimensions; and that it is complex and multifaceted, with no linear set of relations of cause and effect (Hulme and Shepherd, 2003; Grinspan, 2001; World Bank 2000, UNDP 1997). . From the overall literature, five perspectives are emphasised here.

## **1. Entitlements and capabilities**

Traditionally, poverty has been understood through its connection with inadequate levels of income and consumption, identified either in terms of inadequacy of food availability and consumption ( e.g. hunger, nutritional status), insufficient fulfilment of basic needs (e.g. shelter, safe drinking water.) or inadequate levels of income to meet basic needs. The minimum requirements, which were originally considered solely in terms of calorie-intake or food requirements, are now considered in terms of 'basic needs', which take into account both food and non-food requirements for the minimally acceptable fulfilment of human needs (UNDP 1997). Based on this concept of 'basic human needs', poverty is considered a deprivation of the minimum necessary level of material requirements including food, as well as basic health, education and essential services required in order to prevent people from falling into poverty.

The concept of 'entitlement' distinguishes between availability and accessibility, because the simple availability of goods and services in society at large does not necessarily ensure everyone's access to them. People need to have an established command over those goods and services in order to benefit from them; in other words, they must have 'entitlement' to the minimum necessary goods and services necessary to meet basic needs (Sen 1981). For example, entitlement to command food may be secured through ownership of land that produces food or by securing employment that generates income to purchase food: 'what we can eat depends on what food we are able to acquire' (Dreze and Sen 1989: 9). 'Entitlement failure', where a person's livelihood system fails to provide access to an adequate bundle of necessities, can arise when unemployment, production and price shocks and other problems increase the vulnerability of particular individuals (Grinspan: 2001).

Sen (1981) uses the case of famine to explain the concept of entitlements. Famine had traditionally been considered as being caused by a sudden drop in the availability of food, typically due to a dramatic reduction in food production because of droughts or other forms of natural disaster. However, Sen shows that in a number of cases, famines were caused by a failure of distribution, or denial of access to food to some section of the population , rather than a drop in food availability in general. In this approach, Sen argues that it is inadequate and misleading to regard 'the poor' as a homogeneous category: rather, this catch-all must be deconstructed into particular classes and occupational groups 'having different endowments, being governed by rather different entitlement relations' (Sen, 1981). Sen brings in the concept of 'capabilities' to explain why entitlement failures occur, ie a person may not have the bundle of capabilities to access notional entitlements: levels of health and education are good examples of such capabilities, which may produce , for example, inability to respond to employment and income opportunities.(Sen:1999). While individual capabilities are not necessarily sufficient to ensure entitlements (e.g. an educated person may not get a good job if the society as a whole is suffering from high levels of unemployment and/or discriminatory practices in the labour market), basic capabilities are necessary pre-requisites for entitlements.

Sen has also introduced the idea of freedom as a primary end of development as well as its principal means (Sen 1992, 1999). Understanding poverty as 'capability deprivation' creates a more nuanced and complex relationship to development, where capabilities such as good health and education are seen as desirable ends in themselves, not just as a means to increase income or secure basic needs .Similarly, freedom is an intrinsic value while at the same time it may be 'important in fostering the person's opportunity to have valuable outcomes' (Sen 1999: 18).

## **2 Relative poverty and inequality**

Since different societies have different standards of living, we have to distinguish between absolute and relative poverty. 'Absolute poverty refers to some absolute standard of minimum requirement, while relative poverty refers to falling behind most others in the community. With respect to income, a person is absolutely poor if her income is less than the defined income poverty line, while she is relatively poor if she belongs to a bottom income group (such as the poorest 10%)' (UNDP 1997:13). Subjective perceptions become significant: 'People's judgments concerning their present situation are formed by comparing themselves with those around them or with their own situation in the past' (Grinspun

2001:27). Again, therefore, the targeting of absolute poverty, as in the MDGs, while understandable, neglects significant issues of measurement and perception.

Even more neglected, particularly by official development policymakers, is the related issue of inequality (though the growing interest in this in academic circles is at least acknowledged eg, World Bank: 2000). Eastwood and Lipton (2001) suggest that growth does not systematically change the relative ratio of income between the poor and the rich and point to research showing that 'data from 143 growth episodes found that the income share of the poorest 20 percent fell in 69 cases' (Eastwood and Lipton 2001: 14). With inequality the main conceptual focus is on the distribution of income within a society, rather than the levels of deprivation experienced at the individual level. But poverty and inequality are obviously closely linked and poverty reduction has to take place within a broader context of distributional dynamics, so that poverty analysis often employs indicators of equity (World Bank 2000a).

Two major aspects of the relationship between inequality and growth are relevant for the discussion of poverty reduction. One is the impact of inequality on economic growth. Recent empirical work that re-examines the link between inequality and growth has shown that, in general, the more equal the distribution of productive assets (e.g. land) the higher the economic growth rates (World Bank 2000). The other aspect of linkage between inequality and growth is that while economic growth is generally associated with poverty reduction, there are considerable variations between countries and regions (World Bank 2001). Countries with severe inequalities in consumption and land ownership at the initial stages are less likely to experience lower economic growth, and a given economic growth rate is likely to be converted into poverty reduction at a slower pace in these countries (Eastwood and Lipton 2001). According to the World Bank 'other things being the same, growth leads to less poverty reduction in unequal societies than in egalitarian ones (World Bank 2001: 55).

### **3. Objective and Subjective perspectives**

A significant question is: who defines poverty, and what are the perceptions of the poor themselves? As Chambers (1997) puts it 'The objective perspective involves normative judgment as to what constitutes poverty and what is required to move people out of their impoverished state. The subjective approach places a premium on poor people's own understanding, perceptions and concepts'. Current literature emphasises the need to involve the poor in the identification of their issues, through participation processes and mechanisms, as well as in the consideration of what types of poverty reduction

interventions could be appropriate and effective(eg Chambers 1997, Schneider 1999 ). The World Bank has also underlined the importance of the subjective perspective on poverty and conducted research among a wide range of poor people in an effort to understand their own perceptions of poverty (World Bank 2000). This approach has captured dimensions of poverty such as vulnerability, powerlessness and social exclusion, producing the awareness that poverty is complex and multidimensional, and that these aspects are closely linked to deprivation. The Agenda for Action for Social Development, adopted at the World Summit for Social Development, 1995, identified social exclusion as one of the key challenges for social development and tackling poverty (UN 1995). Being excluded implies that someone's opportunities to earn income, participate in the labour market or have access to assets are substantially curtailed. People can also be excluded from public services, community and family support, and even participation in shaping the decisions that affect their own lives. Social exclusion denotes not only the weakening of social ties that bind individuals to their families and communities, but also exclusion from some of the most basic rights of citizenship.

Poverty in general is a strong determinant of other disadvantages and is linked with related deprivations, including vulnerability, physical weakness, powerlessness and isolation (lack of education, remoteness, being out of contact) (Chambers 1983). De Haan and Lipton (2000) call these 'log-jams' of disadvantage. Among the chronically poor, these 'log-jams' of disadvantage are likely to be more complex than for the transient poor, making it difficult for them to escape poverty.

#### **4. Measuring poverty**

Despite conceptual advances in understanding poverty, 'most past practice of poverty-reduction has been and much contemporary practice is based on the narrow materialist conceptualisation' (Matin and Hulme 2003: 648). In terms of poverty measurement tools, the income and "money metric" methods, based on the notion of 'income poverty', are by far the most widely used. Under the notion of 'income poverty', a person considered poor if his or her income level is below the defined poverty line (UNDP 1997). In other words, the poverty line is considered a proxy of a person's entitlements to basic necessities. Two types of poverty lines are used, the international poverty line, a global and absolute measure set at US\$1 a day in 1993 PPP (purchasing power parity) terms; and the national poverty line which varies from country to country and is determined by local economic and social characteristics (World Bank 2000a).

The simplest yet most widely used 'money metric' based poverty measure is the 'head count ratio', derived from counting the number of people whose income falls below the poverty line and expressing it as a ratio of the total population. This is regarded as a crude and misleading measure that fails to capture the complexities and relativities of poverty (Lipton:1997). More effective is the measurement of the 'poverty gap', which shows the depth of poverty by calculating the gap between each poor person's income and the poverty line, and determining the average. The 'poverty gap' shows how much additional income is required for the poor to cross the poverty line (World Bank 2000, Grinspan 2001).

Apart from the 'money-metric' tools, another approach used to measure poverty based on the concept of 'entitlement' is the basic needs approach. The basic needs approach goes one step further than the 'money-metric' tools in that it distinguishes categories of 'basic necessities' among private income, publicly provided services, and non-monetary income. It includes a measurement of access to such necessities as food, shelter, education, health services, clean water, sanitation facilities, employment opportunities and opportunities for community participation. These goods and services measured under the basic needs approach, are more directly related to the specific well-being of a person, as compared with the 'money-metric' tools. The main advantage of using capability indicators is that they measure well being in terms of final outcomes or ends, as opposed to the proxies for them. While some measures of basic capabilities such as literacy, primary or secondary school enrolment, and life expectancy are readily available for a large number of countries, others are more difficult to construct

The Human Poverty Index (HPI) is an example of a poverty measurement tool, a composite index developed by UNDP and introduced for the first time in the Human Development Report 1997. It is 'an attempt to bring together different features of deprivation in the quality of life to arrive at an aggregate judgement on the extent of poverty in a community' (UNDP 2001). The HPI uses indicators of the most basic dimensions of deprivation, and constitutes a composite index in three areas: survival (vulnerability to death at a relatively early age, as represented by the percentage of people expected to die before age 40); knowledge (being excluded from the world of reading and communication, measured by the percentage of adults who are illiterate); and standard of living (overall economic provisioning, represented by a composite of three variables: the percentage of people with access to health services and to safe water, and the percentage of malnourished children under five) (UNDP 2001: 30).

The concept of relative poverty makes indicators of inequality highly relevant. The most common numerical measure of inequality is the Gini coefficient, which is the summary index of income distribution. Also, many countries have established an upper and a lower poverty line to distinguish between categories of the poor in order to assess the extent of extreme poverty and the status of inequality among the poor (Grinspan 2001). Another important source of information on the status of inequality is determined through disaggregating data by subgroups e.g. on a gender basis.

Participatory poverty assessment places an emphasis on the subjective perspectives of the poor themselves, in order to address the shortcomings of “objective” measurement approaches in capturing the many dimensions of poverty (Chambers 1983) .Subjective perspectives of poverty, and the participatory approaches for its assessment, are being widely used not only in poverty assessment, but also in programme design, monitoring and evaluation, which are intended to help poor people. Subjective perspectives are also valued in the impact and the effectiveness of programmes: e.g. whether poor people themselves feel that they are being helped.

## **5. Policy interventions**

Two main strategies emerge from the literature. Depending on the different causes of poverty, different interventions are deemed to be necessary. For poverty caused by low productivity, productivity enhancing policies, aimed at lifting poor people out of poverty, are favoured. This is livelihood promotion. But if the goal of policy is to prevent a decline in living standards by minimizing the impact of external shocks and/or to ensure certain living standards for the non-productive poor, direct transfers and other means of protective measures need to be applied. This is livelihood protection (Devereux 2002, Matin and Hulme 2003). Although these two concepts are useful to distinguish the goals and means of differing poverty reduction policies, it is important to note that they are closely related. ‘Effective livelihood protection makes livelihood promotion more likely, since a household will have the confidence to take on more risky, higher-return economic activities so that income can be raised’ (Matin and Hulme 2003: 650). Both strategies are germane to the overall theme of this paper because they broadly represent the ‘market’ and ‘statist’ perspectives so often in conflict in debates about neoliberal economic reforms in developing economies.

The primary concern of livelihood promotion is to address low productivity and it focuses typically on raising income levels. Macroeconomic policies to promote ‘pro-poor’ economic growth have this objective. While economic growth in general contributes to some extent to

poverty reduction (Eastwood and Lipton 2001), for growth to lead most effectively to poverty reduction, promotion of 'pro-poor growth' through macroeconomic policies that stimulate overall economic growth and expand economic opportunities for poor people must be emphasized (UNDP 2000, World Bank 2000). 'Pro-poor growth' should be characterized by labour-intensive and employment generating economic activities, and be accompanied by growth in food staple production and appropriate technical progress in the agricultural sector (World Bank 2000, Eastwood and Lipton 2001). A more targeted approach focuses on a variety of income generation and skills development programmes, including micro-credit and micro-enterprise development programmes.

By contrast, livelihood protection focuses on ensuring the minimum level of entitlements and aims at reducing vulnerability against shocks and risks faced by poor people. This includes ensuring poor people's access to basic human needs, in terms of resources and services including food, water, housing, income and basic social services. These may be provided through safety nets of various kinds, or targeted subsidies, or social assistance programmes. In addition to the provision of safety nets through formal programmes, many NGOs and Community-based Organizations (CBOs) work to develop social capital at the community level, in an effort to strengthen or revive informal community social support mechanisms where a 'safety net vacuum' can be identified.

The emphasis over the past decade or so on downsizing the state also led to further impacts on poverty reduction policies and programmes. First, many of the 'universal' transfer programmes were replaced by more 'targeted' ones, because 'untargeted transfers were seen as squandering scarce resources on the non-poor' (Devereux 2002: 2). Second, based on the broad intention to reduce burdens on the state, and a related shift towards 'targeted' approaches in terms of programme design, the roles of decentralized actors were increasingly strengthened. In particular, the usefulness of NGOs in implementing targeted approaches for poverty reduction was recognised, and international donors have increasingly channelled funds through them (Edwards and Hulme 1996, UNDP 2000).

Targeting focuses the benefits of a given action on specific groups of people. This means that while some are included, others are excluded, with the distinction based on specific selection criteria, held to be representative of their poverty status (e.g. income threshold, gender, geographical definitions). There are many advantages in using a targeted approach to poverty reduction. First, by targeting a specific population, and particularly through employing participatory methodologies, a project may be designed and implemented to suit

specific needs and preferences. Well-targeted, participatory approaches also help the sustainability of projects through enhancing 'ownership' in the target population (Chambers 1983.) Second, successful targeting is considered more cost-effective than universal approaches, since the 'leakage' of the programmes resulting from subsidizing the non-poor may be avoided. Also, while governments may not be able to afford the establishment of a comprehensive social security system on a universal basis, they may be at least able to provide necessary social safety nets for those in the most need.

However, targeted approaches have also been criticised. First, there are some controversies over the methods of targeting (Devereux 2002). The most conventional method is means-testing, i.e. by setting an income threshold to determine whether a particular household is eligible to participate in the programme. Depending on the nature of the interventions, the success rates of such targeting methods vary. For example, if the products provided through the intervention are 'divisible' in nature, such as micro-credit, it is known that the 'leakage' rates to non-poor are likely to be greater than for 'indivisible' products, such as vaccination of animals. In order to avoid capture of the programmes by the non-poor, targeting has to be carefully designed, and based on evidence about the specific characteristics and needs of poor groups.

## **INTERPRETING REGULATORY GOVERNANCE<sup>2</sup>**

This brief survey of conceptualisations of poverty and policy prescriptions for its reduction provides the framework within which to locate the place and relevance of regulatory governance. First, we need to recall what regulatory governance is, how it has emerged as a significant element in the literature and practice of regulation in developed countries, and what purchase it has in the rather different economic and political conditions of developing countries. CRC's Research Programme in Regulatory Governance has, over the Centre's life, produced a number of conceptual and analytical studies, as well as empirically based research projects, together with CRC partners and research fellows. From these wide-ranging studies it is possible to suggest at least tentative answers to these questions (tentative because many of the conceptual issues are 'contested' and because for developing country systems empirical research in this area remains sparse and patchy).

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<sup>2</sup> For more detailed analyses see Minogue 2001a, 2002, 2005

A starting point is to acknowledge that regulatory governance is now fully accepted as a significant part of the literature on regulation in general and on privatisation and post-privatisation regulatory reforms in particular. The traditional literature always had a strong institutional component focussing on the role of legal institutions and practices, in an approach which saw regulation as primarily rule-based and principally involving issues of compliance and accountability (Ogus 2002). But the most recent literature on developed, and particularly European countries has been dominated by analysts such as Majone, concerned to expand the range of analysis to include the interactions of legal and administrative systems with political institutions and processes (Majone 1997,1996); by political scientists such as Moran ( 2002,2001) concerned to establish broader concepts of 'the regulatory state' , 'regulatory capture' and 'regulatory space' as a way of bringing together the political and economic issues inherent in contemporary state-market debates; and Wilks(1996), who demonstrates the diversity of regulatory ideas and practice even within an ostensibly uniform European system. An important dimension emerged in formulations of self-regulation, resting ion relations of trust, as a means of escaping form more formalistic regulatory overload and inadequate forms of political accountability (Ayres and Braithwaite 1992). In the first place , then, the analysis of regulation must go beyond examination of the formal rules which govern relationships between the public and private sectors, to the broader framework of state-market relations, and drawing on disciplinary contributions that range across economics, law, politics and public policy and management specialisms.

Correspondingly, since regulation can be categorised as a distinctive mode of policymaking, or of governance (Majone 1999) it must be examined in relation to the general public policy process. Majone's focus is on the extensive delegation of policy making powers to what he describes as non-majoritarian institutions, by which he means the various new regulatory bodies but also judiciaries, tribunals and other regulatory and adjudicative agencies intrinsic to the public sector. His concern is that these institutions may become dangerously independent of the political process and so lack accountability. On the other hand Majone locates this development in a political logic which demands of politicians that they 'achieve credible policy commitments' (Majone 1999: 4). An important issue raised here is that 'democratically accountable principals can transfer policy making powers to non-majoritarian institutions, but they cannot transfer their own legitimacy', which may be a significant agency cost where in theory 'delegation is justified only if its benefits exceed agency costs' (ibid:7). Perhaps therefore a key insight is that 'independence from political control does

not mean independence from public accountability' (ibid: 11). Majone concludes that in designing an effective regulatory state the key variables are

- i) the extent to which decisions are delegated to an independent agent rather than taken by the political principal
- ii) the nature of the structure of governance itself particular in determining the agent's degree of independence from the political process
- iii) the rules that specify the procedural framework e.g. reason giving requirements, consultative processes
- iv) the scope for political principals to overrule agency decisions
- v) the relative autonomy of financial resources
- vi) the extent of ex post monitoring, e.g. legislative oversight, judicial review, citizen's complaints procedure

What is striking here is the way Majone moves between the narrower conception of regulatory instruments and procedures, and the broader conception of politics in ways which underwrite the usefulness of the label 'regulatory governance'. This means looking behind the institutional façade to grasp the 'real world' of public action. The orthodox model, with its emphasis on legal rules, formal structures of organisation, rational policy choice, and the assumed implementation of formal policies, has serious limitations, for it oversimplifies the complex processes from which policy debates and decisions emerge; and neglects the political discourse of rule-making and rule-application, notably the interplay of ideas, interests, and resources, and the ways in which these interactions determine outcomes. It therefore fails to explain either policy and organisational failures, or policy innovations and successes, and obscures both the significance of relations of power and influence, and the extent to which public policies and their results are determined by conflicts and bargains between conflicting stakeholders, whether internal or external to public bureaucracies.

Analysis based on process may be conducted in ways which focus on real decision scenarios; the factors which determine choice between policy options; the actions which define implementation outcomes, and deficits; and the relations between key actors. Such analysis helps to identify stakeholder interests and networks, and to explain both failed and effective policy changes, in particular by identifying winners and losers; and assists more realistic and feasible policy design, which in turn should produce more predictable and effective policy outcomes .This analytical model can be applied to any field of policy, and therefore has obvious value as a tool for improving and evaluating regulatory policies, and asking the

significant questions about the effectiveness of regulatory policies in achieving broader systemic objectives such as poverty reduction.

Thirdly, regulation is to be seen as part of the whole range of neo-liberal market reforms, which include privatisation and reshaped state-market mechanisms. This can be located in an increasingly extensive literature of 'new public management' which 'presupposes massive deregulation, opening up both the public sector and the regulated sector of the private economy to competition' (Lane 2001:43); at the same time, in an apparent paradox, this extensive reduction of state interventions, termed the 'hollowing out' of the state, creates a new requirement for regulatory mechanisms to protect public interest concerns, to make good the loss or weakening of traditional forms of public accountability.

Thirdly, once we are in this very broad territory (and we cannot hope to avoid this location) we need to expand in more flexible ways our view of what constitutes the *scope* of regulation, the problem being to distinguish it sufficiently clearly from the rest of what government does. We are greatly assisted here by Hood and Scott (2000) who coin the term 'the regulation of government' as one that links the regulatory state to the new public management state. They define the characteristics of regulation inside government, and identify seven types of oversight organisation inside government, and maintain that regulatory problems inside government are much the same as for 'independent' regulation i.e. information asymmetries, relational distance, and compliance costs. This analysis is supported elsewhere by a case study of the UK which shows that UK government invests more resources in regulating itself than it does in regulating the privatised utilities.

This summary indicates how far the debate on regulation has moved on from the rather straightforward post- privatisation debate to a more complex discussion of what has come to be labelled 'the regulatory state' but this too readily implies a replacement of other types of state, such as the 'traditional' state, or the 'welfare state', or the 'enabling state'. These are all crude labels, and in reality we are likely to find elements of each, and of the regulatory state, present in any particular national state we choose to examine. Perhaps this is why the notion of 'regulatory space' has been deployed. Drawn from the prior notion of 'policy space' in public policy studies, 'regulatory space' offers a canvas onto which we can paint a variety of occupants and their relational configuration; their provenance as state, non-state or hybrid actors matters less than their activities, transactions, motivations, and power or influence.

In sum, analysis of regulation involves analysis of ideas, institutions, processes, activities, and actors, in all their myriad interrelationships in economic, social and political spheres. The conceptions of the regulatory state and regulatory space offer us the broadest possible analytical framework, in direct contradiction to the narrow formulations favoured in the standard literature on regulation, and so capably criticised by Black (2002) for its preoccupation with the correction of market failure, when wider issues of the management of a risk society, and the achievement of social justice, should be equally insistent concerns.

## **INTERPRETING POLICY TRANSFER**

When we turn to the application of this analysis to regulatory reforms in developing countries, CRC studies have demonstrated that problems can be identified associated with the strong tendency to transfer to developing countries 'best practice' models of regulation rooted in the different economic, social and political conditions of developed countries. These may be summarised as follows:

- Even in analytical terms, there is a contested literature in which there is no clear agreement on the definition, scope, and measurement of regulation, except where the narrowest (and therefore inadequate) definition is deployed.
- 'best practice' models rarely incorporate a critical evaluation of the weaknesses in, and costs of these reforms even where these are well documented.
- The favoured NPM based model entails a transformative conception of the state, but most developing country political leaderships either reject the 'privatising', anti-statist version of this model, or do not command the institutional and political resources needed to implement such an approach.
- Proponents of 'independent' regulatory agencies do not seem to understand that this type of reform will not reduce regulatory and political capture as long as constitutional, legal and public interest mechanisms of accountability are flawed or absent.
- The 'development state' remains important and will retain greater regulatory responsibilities than is now customary in developed economies.
- Above all, cultural contexts remain a primary determinant of the reception of reforms; it simply is not possible to create a regulatory blueprint that will be socially and politically acceptable (and therefore economically achievable) in all situations.

## WHAT CONNECTS REGULATORY GOVERNANCE TO POVERTY?

'National economic development policies frequently undermine anti-poverty efforts. A policy of economic deregulation and liberalisation can threaten the immediate security of life and livelihood of many poor households...There is wide acceptance today that economic growth alone cannot be a sufficient response to poverty' ( UNDP 2002:23)

The summaries in the earlier parts of this paper of literatures on poverty reduction, regulatory governance, and policy transfer indicate clearly that each of these areas is characterised by a complex set of relations of cause and effect, and correspondingly an absence of agreement on appropriate conceptualisation. These complexities and disagreements do not necessarily discomfort policymakers, particularly in governments or aid donor organisations who are committed to economic liberalisation both as word and deed. Even here, now, the patent failure of market-based economic reform strategies to solve the long run economic and social development problems of the poorest developing countries has forced acknowledgement that some rethinking of economic and social development strategies is overdue. Ironically the strongest calls for such a rethink have come from those such as Stiglitz (2002) and Sachs ( 2005) who formerly were closely associated with the formulation and implementation of the Washington consensus. If indeed such a rethink is taking place( and this does seem to be coincidental with an unprecedented attention from major political players on the global stage), what help can the foregoing analysis give to policymakers and policyshapers , at least in this field which constitutes only a part of a larger whole?

- it is possible to treat regulatory governance in a narrow and largely technical sense. In this formulation, regulation is defined principally in terms of its contribution to an efficient market, which on the basis also of effective rules to ensure competition, will lead on seamlessly to productive economic growth. This growth will in the long run at least reduce poverty as the benefits of growth trickle down to through the social system and raise the general standards of life. In this model, regulatory governance is significant in establishing an appropriate set of legal and administrative institutions that underwrite the efficiency of the market-based system; there is a related assumption that this all takes place within a democratic political framework that ensures accountability within the rule of law. But as we have seen, there are serious problems with this traditional model, problems of definition (Black 2000) of scope( Hood and Scott

2000); and of legitimacy (Majone 1999). Moreover serious questions have been asked about the assumptions of the wider growth-poverty relationship of which the regulatory governance model is an institutional part

- Generally this traditional model of regulation is the one which has informed the economic reform agendas of development policymakers. But there are two variant approaches here. Neoliberal versions incorporate the view that regulation is itself a dangerously restrictive practice which impedes the inherently efficient free market. Policymakers therefore simultaneously pursue *deregulation* to remove bureaucratic obstacles to market activity; *privatisation* to move into the market sector activities and services hitherto the direct responsibility of the state; and promote the idea and practice of *independent* regulation(i.e. independent of control by governments and politicians) where market activities need some minimum of regulation. These variations may be combined and monitored within one policy system through the creation of institutions of *regulatory impact assessment* (Jacobs 2005; Jacobs, Kirkpatrick and Parker 2005).
- Even within the developed country literature on regulation, critiques of this model have come from analysts working from a regulatory governance perspective, and focussing on weaknesses of process and institutional performance (notably Moran 2002,2001; McGregor et al 2000) as well as pointing to variations of context (Wilks 1996). Since contemporary regulatory reforms fall within the 'new public management paradigm of generic state management reform, notice should be taken of the substantial critical literature even on developed country applications (summarised in Minogue(2001b). This transformative concept of the state has met with resistance and incomprehension in many developing countries subjected to it through aid donor conditionalities.
- Overall, then, attempts at 'policy transfer' of the privatisation and regulation model of economic reform have run into serious problems of cultural reception. Many of the countries concerned acknowledge the necessity for less wasteful government bureaucracy and less stifling forms of traditional government regulation, but feel compelled to retain other developmental agendas, including response to the basic social needs of most of their citizens (an excellent example

is South Africa). Some countries are characterised by political systems that give priority to political agendas and tend only to pay lip service to aid donor preferences (Malaysia may be a good example). Others have neither the financial resources nor political will (or stability) to undertake reforms effectively (Philippines is an exemplar here despite its excellent levels of human and social capital). Perhaps the simplest point to make here is that where the neoliberal reform model has the characteristics of a uniform prescription and blueprint, local cultural variations mean that each transfer will be made into unique social, political and legal and administrative contexts, and will end either in being rejected, or converted into some kind of hybrid, with the consequences generally unpredictable in advance.

- It is this scenario that has, in the poverty literature summarised earlier, itself produced a concern with issues of governance, particularly with the need to create institutions of participation and empowerment; and a recognition of complexity and local variation, not just between regions and countries, but within regions and countries, so that issues of relativity and inequality become as significant as absolute poverty. A recent response to this complexity has been, both in relation to poverty reduction strategies, but also across policy sectors, growing support for what is termed 'evidence-based' policy, where policy is not so much dictated from above in the form of idealised objectives or generalised blueprints, but is based on specific knowledge and understanding, and local or 'stakeholder' inputs and choices (Crewe and Young (2002). This sounds like progress, but Brock, McGee and Gaventa (2004) sound valuable warnings here. First, they question the accuracy of donor assumptions that states will make policy rationally, and that non-state actors will cooperate with the state in formulating and delivering such policy, or that political leaders want democratic and pluralist participation; 'at the most obvious level, to assume that evidence-based policy will be more effective at reducing poverty is also to assume that basing policy on "evidence" is within the realms of possibility', also highly questionable in the real political and administrative conditions of most developing countries( *ibid*:5).Second, they quote anthropological studies to remind us that knowledge is constructed by specific actors with specific agendas, the whole mix constituting alternative discourses that in effect compete for priority in the public policy arena: 'the terrain of knowledge... must be seen as a

battlefield, and knowledge in the policy process as an instrument of power, a political tool'(ibid:14). Given a large number of actors at different points in the policy system, including actors external even to a national system, all too often 'poverty discourse appears fragmented, because it is situated outside the realm of experiential knowledge, disconnected from the real experience of poverty'(ibid:15). In short, evidence based policy may be no more than a colourful and appealing new cloak that does no more than cover up the old body politic.

- Perhaps the most obvious point at which to connect the poverty approaches to the regulatory governance approaches is through the twin lenses of accessibility and inequality. Part of CRC's approach over the past four years has been to examine the effects of regulatory and competition reforms on the extent to which they improve or worsen the access of poor people and communities to publicly provided goods and services. Many of the liberalising market reforms propose to privatise or marketise basic services such as water, energy, health and education. An emerging literature is beginning to show that these reforms can have damaging effects for poor people, especially where new pricing mechanisms come into play, or where aid donors press governments to reduce or eliminate service-based subsidies ( Mitlin 2004; Cuaresma 2004; Brown and Woodhouse 2004; Bayliss 2002). Much more research into these specific reforms is needed if there is to be any hope of a future policy responsive to evidence; such research is also likely to throw more light on specific types of inequality, as a product of diverse entitlements and capabilities, along the lines set down by Sen. In the field of regulatory and competition reforms, as in the field of poverty reduction, there is likely to be a fragmented and complex discourse conducted in relatively opaque or rarified policy environments, the end result being policies that respond to donor and elite group preferences rather than to the needs and preferences of poor people. The use of Regulatory Impact Assessment offers here a possibility of a useful tool to clarify and improve both the regulatory policy environment (Jacobs, Kirkpatrick and Parker 2005) and the policy process (Jacobs 2005); but the preferred approach which deals only with *ex ante* analysis and avoids *ex post* analysis gives us only half a loaf, and is guilty of either ignoring or misunderstanding the need to integrate formulation and

implementation processes and institutions in an effective public policy cycle, however much more difficult it is to get the recipe right

- A final point is that there are striking similarities between poverty reduction studies and regulatory governance studies. This is in part because the poor are affected for good or ill by both policy fields and the activities promoted in them. They share also the characteristic of conceptual contestedness and functional complexity, and both are characterised by long chains of cause and effect, and differences in long run and short run scenarios. Above all, in relation to development arenas both face the same structures of economic, social and political underdevelopment, while both fields are shaped considerably by efforts to transfer ideas largely developed from and promoted by external agencies. Since the same cultures are involved it is not surprising that the same difficulties are experienced. We should not be surprised, either, if the gifts we bear from developed societies are often received with suspicion ; as an Arab commentator recently said' Democracy is a wolf and three sheep discussing what to have for dinner' (Bayoumi 2005).

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