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ASEAN's Role in Preventing Conflict in the East Sea

Tran Khanh

Abstract ASEAN's main ambition and goal since its establishment has been to create a environment of peace and stability in Southeast Asia to help its member countries maintain independence, sovereignty and develop in a sustainable manner. This has been manifested in most of ASEAN's documents, especially the ASEAN Charter that has been brought to life since December 2008. Moreover, the prevention, mediation and management of conflict is one of the main components of the ASEAN Political-Security Community (APSC), one of the 3 main pillars that the grouping is determined to realize by the end of 2015. Thus, participating in resolving disputes and conflicts in the East Sea is part of ASEAN's agenda and is a responsibility and in the interest of the Association. Moreover, the disputes in interests in the East Sea in the recent years have been pushed to a relatively serious level, increasing the intervention of the countries outside of ASEAN and of its members. This trend is deeply affecting the regional environment of peace and cooperation in the region, changing the perception and strategic actions of many countries, including arms races and rallying of forces to adapt to the volatility in the region.

This paper focuses on 3 main points: 1) Why should ASEAN participate in resolving disputes in the East Sea; 2) ASEAN's participation - successes and drawbacks; 3) What should ASEAN continue to do to exert itself as the center and catalyst for the mediation escalating disputes in the maritime region.

Keywords East Sea (Bien Dong) Dispute, ASEAN Solution

JEL Classification N4 - N45

1. ASEAN's interests in helping to resolve disputes in the East Sea

Among the 6 parties with claims to sovereignty, sovereign rights and jurisdiction in the East Sea, Vietnam, the Philippines, Malaysia and Brunei are over direct disputes in the maritime region. Other countries such as Singapore, Thailand and Cambodia are also countries in the East Sea, sharing great interest both economically and strategically, especially in the freedom of commerce and security and defense. Myanmar is not an East Sea nation but the East Sea is the most advantageous sea line for commerce and bettering relations with countries in the Asia Pacific rim¹. When the Greater Mekong Sub-region-based East West Economic Corridor

¹ Since the beginning of 2014, many high-level officials, especially in Indonesia's military have

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becomes more convenient, Myanmar's interests will be multiplied many times. Even countries without a coastline like Laos will benefit in using the East Sea's strategic advantage.² Therefore, escalating disputes in the East Sea not only threaten the national interests of ASEAN countries exercising sovereignty in the region but also worsen the Association's environment of peace and cooperation, especially ASEAN and its member countries' relations with external partners, first with China. The Southeastern Asian nations, especially those with sovereignty claims must spend more for defense. This is not only detrimental to investments for economic development but also increases mistrust and security concerns due to the accelerating arms race.

Equally important is the fact that ASEAN is making efforts to realize the Community, including the APSC by the end of 2015. APSC's components such as "building and sharing norms for conducts" and cooperating, finding and establishing institutions to "prevent conflict" in ASEAN and between ASEAN and external partners, are clearly outlined in the Action Plan for the ASEAN Security Community in 2004 and in the Comprehensive Plan for the APSC in 2009. Therefore, taking part in mediating disagreements, creating mechanisms to strengthen confidence and prevent conflict in the East Sea is both a responsibility and the interests of ASEAN. The lack of unity and consensus on a common position and indecisiveness of ASEAN and some member countries in implementing the signed agreements at the regional and global levels regarding the East Sea (DOC, UNCLOS) as well as the delay of negotiations and signing of the the COC has been impeding the realization of the APSC. Moreover, taking part in preventing conflict in the East Sea also helps ASEAN maintain and reinforce its central role, the driving force for the promotion, connection and creation of its multilateral cooperation mechanisms in the Asia Pacific, especially ASEAN's role in ARF, EAS and ADMM+. This will increase ASEAN and member countries' ability to resist the pressures of increased geo-political competition among major countries, first and foremost between China and the US. At the same time, this will increase ASEAN and member countries' attractiveness and effectiveness in expanding cooperation with external partners, elevating ASEAN's stature to new heights, an indispensable factor in creating an environment of peace and multilateral cooperation mechanisms in the Asia Pacific.

Therefore, ASEAN's participation in mediating disagreements and preventing conflict in the East Sea simultaneously achieves two goals: First, helping to realize the APSC; Second, prevent ASEAN and member countries from falling into the vortex or center of geo-political competition between major powers, maintain its central role in the regional architecture now taking shape. Moreover, ASEAN's participation helps making major countries, first and foremost China and the US, decrease their strategic rivalry in the region, thereby raising cooperation for shared interests.³ This would help reinforce the regional environment of cooperation and security, whereby the national sovereignty of ASEAN member countries will be respected and not drawn into the vortex of power competition. It can be argued that, ASEAN's aforementioned participation is both a responsibility and strategic interest for the Association. It is also a test for the realization of the APSC as well as the major countries' competition for geo-political control, first and foremost China and the US.

publicly declared that there country has territorial disputes with China in the East Sea. In March 12, 2014, Indonesia's Chief of Staff declared that China's "cow's tongue" and "nine-dashed line" claim has violated Indonesia's overlapping sovereignty in Riau, including the Natuna island chains. However, Indonesia's Foreign Minister later stated that the country does not have maritime sovereignty disputes in the East Sea. In early 2015, President Joko Widodo on many occasions said that China's "nine-dashed line" claim has no legal basis.

2 Laos is only 70km from the East Sea across Vietnam's territory

3 See: Trần Khánh. "Tranh chấp Biển Đông nhìn từ góc độ địa chính trị/Nghiên cứu Đông Nam Á, Số 2, 2012.

2. ASEAN's participation in preventing conflict in the East Sea

Territorial disputes in the East Sea took place before the Second World War and escalated during the Cold War.⁴ However, ASEAN's participation in this period was modest since East Sea disputes at the time was not the primary concern or direct threat to ASEAN and its members. The US's naval presence in the region then was very strong, serving as the security umbrella for the Association. All of the US and ASEAN's priorities were directed towards stopping communist influence. This explains why ASEAN and 5 founding members - the Philippines, Malaysia, Indonesia, Singapore and Thailand, did not react to China's use of force to take the Paracels in 1974 and parts of the Spratlys in 1988.

However, the above actions alerted ASEAN, firstly the Philippines as it is close to the Spratlys. Since 1971, the Philippines has sent its armed forces to take a number of islets in the archipelago. Along with the Chinese navy's first-time presence in the Spratly Archipelagoes in the late 1980's, the US navy's retreat from its naval bases in Subic and Clark airfield in the early 1990's worried ASEAN and especially the Philippines. This prompted ASEAN to pass the "ASEAN Declaration on the South China Sea" in 1992 (Manila Declaration 1992). This was the first time ASEAN produced an official document regarding the East Sea, which states: "any adverse developments in the South China Sea directly affect peace and stability in the region." and emphasized "the necessity to resolve all sovereignty and jurisdictional issues pertaining to the South China Sea by peaceful means, without resort to force."⁵

In 1995, after China took a number of shoals in the Mischief Reef, ASEAN repeatedly issued Joint Declarations or Statements on the issue. The ASEAN Foreign Ministers' declaration on March 1995 stressed that "We call on all parties to refrain from taking actions that de-stabilize the situation," and that ASEAN "specifically call for an early solution to issues stemming from developments in the Mischief Reef."⁶ The above points were reiterated in the 28th ASEAN Foreign Ministers' Meeting's Joint Declaration on July 1995 in Brunei and the 5th ASEAN Summit's Joint Declaration on December 1995 in Bangkok.⁷ With the US's unambiguous attitude relating to the Mischief Reef incident,⁸ ASEAN's unity and joint efforts in 1995 recorded encouraging results. The 19th ASEAN Foreign Ministers Meeting on July 1996 in Jakarta agreed to the drafting and passing a Code of Conduct (COC). This idea was reaffirmed in the Hanoi Plan of Action in 1998.⁹ However, the drafting of that document only began in 1999 when China agreed to join the process with their own draft. After 4 years of negotiations between ASEAN and China, ASEAN failed to achieve its prior objective of a COC but instead got a Declaration of Conduct (DOC) passed in November 2002 in Phnom Penh with the 7-point political commitments devoid of a guideline for implementation. Nevertheless, with the DOC, the commitment of the relevant parties to resolve disputes through peaceful means and outlined the measures to build confidence and cooperation has been reaffirmed.¹⁰

4 See: Nguyen Thi Hanh. Vietnam's Actions to Assert and Enforce Its Sovereignty over the East Sea during the Period 1884-1954: AN Approach from France's Archives/Southeast Asian Studies. 2013. pp.15-24.

5 1992 ASEAN Declaration on the South China Sea

6 1995 Joint Communique of ASEAN Foreign ministers Meeting.

7 The Declaration stressed that "ASEAN shall seek an early, peaceful resolution of the South China Sea dispute and shall continue to explore ways and means to prevent conflict and enhance cooperation in the South China Sea." (See the 1995 Bangkok Summit Declaration).

8 US Congress in March 1995 stressed that freedom of navigation in the South China Sea is a national interest.

9 Article 30 in the Hanoi Declaration states that ASEAN will enhance efforts to help resolve conflicts in the East Sea through peaceful means in accordance with international law.

10 DOC has 7 points, including commitments to the implementation of the 1982 UNCLOS, resolve all disputes through peaceful means and refrain from actions that may complicate the situation.

In reality, political commitments that are not legally-binding in the DOC have failed to effectively prevent the escalation of conflict in the East Sea. Faced with the worsening situation,¹¹ the ASEAN's Foreign Ministers' Meeting in Singapore in 2008 passed a Joint Statement "stressing the need to step up efforts to promote the implementation of the DOC, including early conclusion of a Guideline to Implementing the DOC."¹² This was reaffirmed in the AMM in Hanoi in 2010¹³. In 2011, when tensions in the East Sea worsened, the ASEAN countries worked with China to pass the "Guidelines for the Implementation of the DOC." Although the 8-point document is very general, not much different from the 2002 DOC, but it has contributed to the "de-escalation" of tensions in the East Sea, maintain ASEAN's internal unity facing challenges¹⁴. To promote the COC, in June 2012, ASEAN completed the "ASEAN Position Paper on essential components of the COC"¹⁵ and afterwards was presented to the AMM-45 in Phnom Penh. On July 9, ASEAN Foreign Ministers agreed to the main components of the COC. However, ASEAN later failed to issue a Joint Statement related to the East Sea. A week after the 45th ASEAN Foreign Ministers Meeting, with Indonesia's shuttle diplomacy, ASEAN issued a "6-point principle on the East Sea", in which the Third Point mentioned the "early conclusion"

11 Since 204, China has unilaterally imposed fishing bans within the territorial waters of many Southeast Asian nations and carried out many military drills in the East Sea. Particularly in July, 2007, Chinese State Councilor established the Sansha administrative division which includes the Paracels and Spratlys.

12 41st Joint Declaration of the ASEAN Ministers Meeting

13 43rd Joint Declaration of the ASEAN Ministers Meeting

14 DOC Guidelines has 8 points: 1) The implementation of the DOC should be carried out in a step-by-step approach in line with the provisions of the DOC; 2_ The Parties to the DOC will continue to promote dialogue and consultations in accordance with the spirit of the DOC; 3) The implementation of activities or projects as provided for in the DOC should be clearly identified; 4) The participation in the activities or projects should be carried out on a voluntary basis; 5) Initial activities to be undertaken under the ambit of the DOC should be confidence-building measures; 6) The decision to implement concrete measures or activities of the DOC should be based on consensus among parties concerned, and lead to the eventual realization of a Code of Conduct; 7) In the implementation of the agreed projects under the DOC, the services of the Experts and Eminent Persons, if deemed necessary, will be sought to provide specific inputs on the projects concerned; 8) Progress of the implementation of the agreed activities and projects under the DOC shall be reported annually to the ASEAN-China Ministerial Meeting (PMC)/.

15 Since November 2011, ASEAN has begun discussions on the COC components without China, even though China wants to take part from the start. Although there are a few disagreements but ASEAN leaders at the 20th ASEAN Summit at Cambodia in April 2012 agreed to finish COC draft before discussions and negotiations with China. After 7 consultative sessions, especially after the ASEAN SOM meeting in Hanoi in June 24-26, 2012, ASEAN has finished the "ASEAN Position Paper on Essential components of the COC" with the following key contents:

- Affirm the principle of respect for international law, the UN Charter, the 1982 UNCLOS, the Treaty of Amity and Cooperation (TAC) and DOC;
- Reiterate the COC's objective of creating a framework based on international law to shape the activities of parties on the according to the above principles.
- Outline the responsibilities and conduct of parties in the East Sea. First, it must follow the objective of peace, stability, security, freedom and security of navigation, promote confidence-building,, prevent the escalation of conflict, and peacefully resolve disputes in accordance with international law and UNCLOS. At the same time, stress the respect for exclusive economic zones and continental shelf of maritime countries in accordance with 1982 UNCLOS;
- Chart out the mechanisms to ensure the implementation of COC, including establishing monitoring and penalize mechanisms, ensuring peaceful resolution of disputes in accordance with international law, UNCLOS, TAC (see interview with Deputy Foreign Minister Pham Quang Vinh on the SOM meeting in Hanoi (June 24-25, 2012) to form the COC on Vietnamnet June 30/2012.

of a COC.¹⁶ In terms of content, the 6-point declaration was similar to a stand-still, if not a regression, compared to previous ASEAN documents on the East Sea.

Confronted with the lack of progress on the diplomatic front in the resolution of the Scarborough shoal dispute,¹⁷ the Philippines chose the legal path by officially suing China before the United Nation's Arbitral Tribunal.¹⁸ China not only rejected the Philippines' request and declined to participate but also pressured ASEAN countries to persuade the Philippines to cease their actions in exchange for a restart of the COC process. China's lobbying of ASEAN and economic and diplomatic pressure on the Philippines yielded little results. However, the Philippines' legal actions forced China to adjust its strategy and restarted COC talks. Nevertheless, China only agreed to consultations (as opposed to negotiations) on promoting the COC.¹⁹ The first official negotiation on the COC between ASEAN and China took place in September 2013 in Suzhou, China. The meeting concurred to a working plan on the DOC (not the COC) for 2013-2014 and formed the Experts Group²⁰ to support the COC process that would meet in Thailand in 2014. However, official COC negotiations between ASEAN and China has yet to take place as of 2015.

Thus, the exact time for official COC negotiations between ASEAN and China has not been determined and is still faced with many challenges. It seems that China does not want official negotiations for the COC. This may be the main reason why realizing the COC may be difficult in the near future. This is not conducive to maintaining peace and stability in the East Sea.

It should be emphasized that, Indonesia has taken the lead as an independent mediator in promoting COC negotiations.²¹ However, the country's rejection of the "nine-dashed line" in early 2014 which includes a large maritime area around the Natuna island and Indonesia's declaration that it has territorial disputes with China can potentially complicate the situation in the East Sea in general and COC negotiations in particular. Indonesia's new actions on the one hand can create new pressure on China to make new commitments and return to the negotiating table but on the other hand can increase China's hard-handedness in territorial claims in the East Sea, including placing an ADIZ in the East Sea as it did in the East China Sea. Apart from establishing the DOC and working towards the COC, ASEAN and member countries have used

16 After 36 hours of shuttle diplomacy from Indonesian Foreign Minister Marty Natalegawa, ASEAN reached a 6-point principle on the South China Sea. Cambodia Foreign minister Hor Namhong on behalf of ASEAN declared those 6 points in Phnom Penh on July 20, 2012 (1 week after AMM-45). The 6 points are: 1) the full implementation of the Declaration on the Conduct of Parties in the South China Sea (2002); 2) the Guidelines for the Implementation of the Declaration on the Conduct of Parties in the South China Sea (2011); 3) the early conclusion of a Regional Code of Conduct in the South China Sea; 4) the full respect of the universally recognized principles of International Law, including the 1982 United Nations Convention on the Law of the Sea (UNCLOS); 5) the continued exercise of self-restraint and non-use of force by all parties; 6) the peaceful resolution of disputes, in accordance with universally recognized principles of International Law, including the 1982 United Nations Convention on the Law of the Sea (UNCLOS).

17 In 2012, China sent hundreds of ships with the support of the navy to the Philippines' waters, blockading the Scarborough Shoal.

18 See: Le Thi Thanh Huong. *Scarborough Standoff and the Way the Philippines Struggles for It's Sovereignty in East Sea (Bien Dong)/Southeast Asian Studies*, 2013. pp. 55-66.

19 See: Carlyle A. Thayer. *ASEAN, China and the Code of Conduct in the South China Sea*, SAIS Review of International Affairs, Vol.33, No.2. pp.75-84.

20 Since April 2013, ASEAN and China since agreed to form the Eminent Persons Group to help governments in discussing policies pertaining to DOC and COC.

21 Indonesia's newly-elected President Joko Widodo when meeting the Japanese Foreign Minister in August 2013 reaffirmed that Indonesia is ready to play the role of intermediary to mediate disputes in the East Sea.

different dialogue channels, multilateral and bilateral cooperation to “institutionalize” the above mechanisms. Firstly, ASEAN has used the ARF to promote preventive diplomacy, including those with regards to the East Sea. Since the 17th ARF (2010), participants, including ASEAN claimants with claims and the US have brought up East Sea disputes in discussions to find a peaceful solution in the tense region. In the ARF’s Joint Statements in the recent years, member countries have stressed the need to implement in full the DOC, UNCLOS 1982 and to work towards the COC. In other forums such as the EAS and ADMM+, etc., ASEAN countries also have put the East Sea issue up for discussion and received more support for “internationalization” of the issue, resolving disputes through peaceful means and maritime freedom in the region.²²

China’s illegal deployment of an oil rig in Vietnam’s waters in May 2, 2014 lead to a significant step forward in ASEAN’s thinking and strategic action regarding the prevention of escalating conflict in the East Sea. Immediately after, in May 10, 2014, at the 24th ASEAN Summit in Nay Pyi Taw, Myanmar, ASEAN issued the “Declaration of ASEAN Foreign Ministers on the current situation in the East Sea,” which expresses deep concern regarding incidents in the East Sea... and asks relevant parties to exercise restraint and avoid actions that can harm regional peace and stability; resolve disputes through peaceful means, no use or threat of force.²³ At the AMM-47 in Myanmar last August, in the Joint Declaration on the East Sea issue was mentioned with new details and firmer words compared to previous documents. The declaration affirmed that “We continue to be deeply concerned with recent developments which have escalated tensions in the East Sea and reaffirmed the importance of maintaining peace, stability and security in the maritime domain as well as the freedom of navigation and over-flight above the East Sea and call for the resolution of disputes through peaceful means, non-use or threat of force, including friendly dialogue, consultation and negotiation, in accordance with universally accepted principles of international law, including the 1982 UNCLOS and that ASEAN agrees to step up consultations with China on the measures and mechanisms to ensure and further strengthen the full and effective implementation of DOC, especially Articles 4 and 5 as well as substantive negotiations for the early conclusion of a COC²⁴. Therefore, while the Declaration did not name China as the party increasing tensions in the East Sea but it implies that China’s recent actions have “harmed peace, stability and security in the East Sea.” Moreover, this time, ASEAN wants to send a message that ASEAN wants “substantive negotiations” with China. It can be said that after 22 years since 1992, ASEAN has issued a new joint statement on the East Sea (May 2014) and at AMM-47, showing its serious, detailed and deep concern about new developments in the East Sea regarding China’s illegal deployment of the HD981 oil rig in Vietnam Exclusive Economic Zone and continental shelf. However, there has been a lack of a breakthrough. Moreover, regarding China’s violations of the DOC, especially the rapid reclamation of islands in the past 2 years and turning islands in the Paracels and Spratlys that China took from Vietnam into military and logistic bases, ASEAN’s statements including in the 26th ASEAN Summit in Kuala Lumpur on April 27, 2015 did not name China directly to avoid clashes. However, ASEAN once again stressed its grave concern towards Chinese actions and stated that “land reclamation in the East Sea is erode confidence, trust and harming peace, security and stability in the East Sea” and reaffirmed its position to resolve disputes through peaceful means in accordance with international law, including the 1982 United Nations Convention on the Sea” and directed Foreign Ministers to immediately deal with the issue in a 22 If in the 16th ARF in 2009, not half of participants support “internationalizing” and highlighting freedom of navigation in the East Sea, at the 17th and 18th ARF, more than half was in favor. At the 19th ARF in 2012 25/28 countries mentioned the East Sea in their statements.

23 See ASEAN Foreign Ministers’ Statement on the current situation in the South China Sea

24 AMM-47 Joint Statement

constructive manner, including increasing consultations to ensure the quick establishment of an effective COC²⁵. It can be said that, ASEAN has expressed deep concern over escalating tensions in the East Sea due to China's assertive actions to pursue its claims but does not want to damage relations with China as the country has great commercial and political influence in the region and that not every ASEAN country is in dispute with China.

In conclusion, security concerns due to assertive actions, especially from China in the East Sea, since the 1990's have prompted ASEAN to make collective efforts to create new institutions to help resolve disagreements and prevent conflict from escalating in the region. In reality, ASEAN documents such as the 1992 Declaration on the East Sea", 2002 DOC, 2011 Guidelines for Implementing the DOC, 2012 ASEAN's views on necessary components of the COC, "ASEAN Foreign Ministers' Declarations on the current situation in the East Sea" and AMM-47 Joint Declaration in 2014 as well as other efforts from ASEAN in other security forums such as ARF, EAS, ADMM+, Shangri-La Dialogue, ASEAN Maritime Forum Plus, etc., have and is contributing to the building of confidence, promotion of peace, creating political and legal foundations for a COC in the future. However, the substantive implementation of the DOC and the process towards the COC has been met with new challenges due to the lack of political responsibility and strategic shortsightedness of some ASEAN countries and China's hardline position. As the ASEAN Secretary Le Luong Minh has said, "the enlarging gap between diplomacy and the situation on the sea demands that ASEAN and China immediately work towards the early implementation of a COC."²⁶

3. Conclusion: ASEAN needs to be more responsible and proactive in preventing escalating conflict in the East Sea

Although the DOC and DOC Guidelines stress the need to abide by the 1982 UNCLOS and call on the parties concerned to maintain the status quo, not to further complicate the situation and promote negotiations for a COC, in reality these political commitments have been seriously violated²⁷. The fact that AMM-45 failed to issue a joint statement, China's delay in COC negotiations and ASEAN's relatively weak reactions to China's illegal deployment of an oil

25 See "Regional and International Issues" section, Articles 59, 60, 61 and 62 from the Chair's statement at the 26th ASEAN Summit "Our People, Our Community, Our Vision.", in Kuala Lumpur and Langkawi, April 27, 2015.

26 See: "ASEAN quan ngại Trung Quốc nhưng ngại đối đầu", BBC Vietnamese, April 27, 2015.

27 Apart from the DOC and DOC Guideline, ASEAN countries have also signed various legal documents pertaining to the East Sea cooperation with relevant countries. For example, Vietnam have signed Treaty on Historical Waters with Cambodia (1982), Agreement for Joint Exploitation in the South China Sea with Malaysia (1992); Treaty for Border Delimitation with Thailand (1997); Treaty for Border Delimitation in the Gulf of Tonkin and Treaty for Cooperation in Fishery (2000); Treaty for the Delimitation of the Continental Shelf with Indonesia (2003). Furthermore, Vietnam and other countries in dispute in the East Sea such as China, Malaysia, Brunei, Indonesia, Thailand and Cambodia are carrying out negotiations for maritime delimitation such as in the area outside the Tonkin Gulf between Vietnam and China, delimiting the EEZ and continental shelf between Vietnam and Malaysia, delimiting the EEZ between Vietnam and Indonesia, delimiting the waters between Vietnam and Cambodia, delimiting overlaps in the continental shelf between Vietnam, Thailand and Malaysia and between Vietnam and Brunei. Moreover, Vietnam is patiently negotiating to protect its FIR, determining the regions for VNMCC, area for search and rescue in accordance with the SAR-79 convention, etc. However, security, peace and cooperation in the East Sea is developing in a complex manner without a unifying solution and feasible to lower tensions. The main reason being sovereignty claims and geo-political ambition from a few countries as well as the lack of responsibility from some ASEAN countries.

rig in the East Sea in 2014 is seriously challenging the implementation of the DOC (especially Article 5 on maintaining the status quo and not further complicate the situation in the East Sea) as well as signaling an unpredictable future for a substantive COC. Therefore, it can be argued that ASEAN's internal divisions and external actors' policy of "divide and rule" for their own geopolitical objectives as well as differing interests of relevant parties in the East Sea may weaken ASEAN's centrality in preventing conflict in the East Sea. This not only decreases ASEAN's role in the regional security architecture now taking shape but also adversely affect the realization of the APSC as well as maintaining peace and stability in Southeast Asia. Thus, more than ever, ASEAN needs to have high political determination, will and responsibility to soon have a COC in the East Sea, which has strong and detailed regulations that are legally binding. To achieve this objective, ASEAN needs to take the following efforts:

- In terms of perception and policy, more than ever before, ASEAN must regard taking part in resolving disputes in the East Sea as a major political responsibility and strategic interest. In other words, the binding of the member countries' fates and the affirmation of the Association's value and standing as a regional Community in the current complex situation depends greatly on ASEAN's effectiveness in creating institutions that can prevent and manage escalating conflicts in the East Sea. This is a test of breakthrough significance for the community's existence and development in the years to come. On this issue, ASEAN and member countries cannot be ambiguous.
- In terms of action, firstly, ASEAN needs to find all means necessary to soon conclude a substantive COC. To do this, ASEAN and member countries, especially the claimants need to take the following efforts:

First, along with asking China to go straight to negotiations on the COC, ASEAN countries with claims to sovereignty, sovereign rights and jurisdiction in the East Sea ought to determine whether the demarcation of their borders comply with international practices, especially the 1982 UNCLOS. Afterwards, those countries need to sit together to find common grounds and a shared position and then lobby other ASEAN countries to act as one for a COC.

Second, in the face of China's hesitation and unwillingness to engage in direct negotiations for a COC, ASEAN countries should together draft a COC of their own. If China continues to delay the process, ASEAN countries can issue its own COC. This is important not only to unify ASEAN's position but also to send a strong message to China so that the latter may adjust its strategic perception and actions for a COC.

Third, ASEAN countries should proactively suggest new initiatives like the one by the Philippines in 2011 on the "ASEAN-China region of peace, freedom, friendship and cooperation in the East Sea" or "The East Sea Commission for Cooperation, Development, Peace and Security" like the Mekong River Commission²⁸ that countries in the sub-region signed in 1995. The East Sea Commission does not force ASEAN member countries and foreign partners with interests in the East Sea take part from the start. Besides, ASEAN should create the mechanism of "Maritime police for ASEAN claimants in the East Sea," then "the ASEAN Maritime Police" and afterwards the "ASEAN-China Maritime Police in the East Sea."²⁹ Moreover, ASEAN countries should boldly initiate the "Southeast Asia Maritime Treaty" suggested by Professor Carlyle A.

28 See: Đàng Xuan Thanh. "Strategic Perspectives in the East Sea (Bien Dong)" in *Southeast Asian Studies*, No. 2, 2012, pp. 85-97.

29 See: Tran Khanh. "Bien Dong (East Sea Disputes: Fom a Geopolitic Views" in *Southeast Asian Studies*, No. 2, 2012, pp. 69-84.; "ASEAN' Role in Building the New Security Structure in Asia-Pacific Region" in *Southeast Asian Studies*, No. 1, 2013, pp. 3-9; "The East Sea (Bien Dong) Disputes: Realities and Solutions" in *International Studies*, No. 30, June-2014, pp.81-100.

Thayer. According to Thayer, this treaty will bind all ASEAN countries in the maritime security and claimant countries, including Vietnam, can be more independence and less reliant on the ASEAN's unified viewpoints. At the same time, these countries can readjust its baselines in accordance with international law. Moreover, the ASEAN Maritime Treaty is an effective tool to further link the member countries together in security cooperation in all maritime areas in the South China Sea and thus, can overcome the division in ASEAN between the ASEAN claimants and those without claims, especially in negotiating with China for a COC. Furthermore, the signing of treaty will be a good opportunity to expand security cooperation with external parties and thus can contribute to a new security architecture capable of maintaining peace and stability in Southeast Asia.³⁰

Fourth, ASEAN countries should issue a legally-binding document, asking the rotating Chair each year to bring the East Sea issue into the official agenda of cooperation mechanisms such as the ASEAN Summit, AMM, ADMM, ADMM+, ARF, EAS to promote DOC implementation and soon conclude a COC. ASEAN should establish the subsidiary to the "ASEAN Institute for Peace and Conciliation" that ASEAN created in 2012. Moreover, ASEAN countries should increase information exchanges regarding maritime issues, enabling civil society to take part in the struggle to protect freedom and security in and over the region. ASEAN countries with sovereignty claims, especially Vietnam should strengthen the legal front regarding this matter. To ensure continuity and focus, ASEAN should form "connecting points" between both sides to coordinate and promote the COC process. ASEAN can delegate Indonesia and Singapore for this end.

Fifth, ASEAN should step up using other channels and forces, especially in forums such as ARF, EAS, ADMM+, Shangri-La Dialogue, ASEAN Maritime Forum Plus, etc., to exert pressure, force the parties concerned to come to the negotiating table and find solutions to maintain peace in the East Sea. Moreover, ASEAN should draw the participation from the international community, especially the US, Japan, India, Australia, India and South Korea and other European countries, etc. in security and development cooperation in the East Sea, including giving priority to companies from the above countries to exploit resources in the East Sea. In conclusion, prevention and working towards managing conflict in the East Sea is part of ASEAN's geo-political activities and a responsibility as well as interest of the Association. ASEAN has had tireless efforts in the institutionalization of the East Sea issue. However, currently, ASEAN is facing new challenges in negotiating towards a COC with one of the main reasons being ASEAN's internal divisions. More than ever, ASEAN should seriously look at itself to come up with policies and actions that are consistent with the current times and push the COC process forward. Only then will ASEAN have a reason to continue to exist and develop. This is a new test for ASEAN's effectiveness on the path towards a regional community by the end of 2015 as well as becoming a center for mediating disagreements and preventing a geo-political disaster in Southeast Asia.

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³⁰ Carlyle A. Thayer also suggest that, all signatories of a Maritime Treaty for Southeast Asia should commit to de-militarizing islands and shoals that they control, including banning a number of specific weapons, i.e. surface anti-ship missiles (See: Hiệp ước Hàng hải Đông Nam Á: Giải pháp cho tranh chấp biển Đông?, Sept. 23, 2013.

- 1992 ASEAN Declaration on the South China Sea, see in: <http://www.asean.org/asean/external-relations/china/item/declaration-on-the-conduct-of-parties-in-the-soth-china-sea>
- 1995 Joint Communique of ASEAN Foreign ministers Meeting, see in: <http://www.asean.org/asean/external-relations/china/item/declaration-on-the-conduct-of-parties-in-the-soth-china-sea>
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Turkey's Journey to Consolidate Liberal Democracy

Serhat S. Cubukcuoglu

Abstract This research looks at Turkey's journey for democratization in its historical context for the last two hundred years with the objective to assess whether the process is strictly path-dependent. The study for this paper is based on empirical evidence found in academic literature, documents readily available in the public domain, and public statements from primary sources of academic, civil, and diplomatic backgrounds. Considering a dilemma of whether it is possible to build liberal institutions in a repressive system or it would be better to build liberal institutions and a democratic electoral system simultaneously, this research finds that repressive regimes undermine liberal institutions and offer an unrealistic alternative to a gradual, inclusive evolution of democracy. What distinguished modern Turkey from autocratic regimes of the Middle East is not electoral majoritarianism that pre-conditioned a strict sequencing of public order and liberalization first, but the embodiment of democratic principles and citizenship rights into state-building from very early on. The rise of Islamism in Turkey and deviation from the goal of institutionalized liberal democracy to authoritarianism threatens to overturn the gradual evolution of democracy in the Turkish society.

Keywords Turkey - Islamism - Democracy - Liberalism - Sequencing - Path-Dependence

1. Introduction

Democracy is a form of modern political governance that 'maintains binding consultation of equal citizens and protects them from arbitrary action by governmental agents'¹. Emergence of modern consolidated democracy in the Western world was a long and painful journey. The process of democratic transition depended on a 'complex mix of historical facts particular to each country'² and it involved formation of efficacious state bureaucracy, effective legal system, economic, and political freedoms³. Often it is difficult to predict when a country

1 Charles Tilly, "Processes and Mechanisms of Democratization", Tilly Stories, Identities, and Political Change (New York: Rowman & Littlefield, 2002), 4.

2 Fareed Zakaria, *The Future of Freedom* (NY: Norton, 2003), 71.

3 Prof. Anna Seleny, "International Politics: Democracy," The Residency, Lecture 6, GMAP, The Fletcher School, Tufts University, 2014.

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can embrace democracy, much more so to establish a particular set of preconditions that must be in place in order for democracy to flourish. Assertion of certain hard-edged prerequisites⁴ associated with a gradual, liberal path for subsequent democratization does not offer a real choice in most cases.

Turkey drew on a great deal of democratic experience from the Ottoman Empire, but progression did not come ‘easily, peacefully, or in some straightforward, stage-like progression’⁵. While it is true that democracy is not an international cure-all and there is no universal applicability of the shock-therapy approach, advocates of sequentialism overestimate the importance of a standard transitional template that renders support for authoritarianism and ‘indefinitely delays democratization until deep structural conditions are ripe’⁶. This research finds that repressive regimes undermine liberal institutions and offer an unrealistic alternative to a gradual, inclusive evolution of democracy. ‘Turkey has a flawed but functioning liberal democracy’⁷ the foundations of which were laid in the mid-nineteenth century. The transition from monarchy to democracy endured problems, failures, and turmoil all of which can be seen as an ‘integral part the long-term process involving cultural learning and institution building’⁸ that was initiated during the Tanzimat era. Even the effective state-building strongmen of the Kemalist government in Turkey, who allegedly described their ‘authoritarian single party regime as a civilizing force’⁹ and followed an unhurried approach to multiparty elections, pursued both democratization and constitutional liberalism in parallel, not in a black-or-white approach. Founders of the modern republic recognized that abolishment of the monarchy in favor of the sovereign authority of people was the superior political option.

Fareed Zakaria’s policy prescription of strict sequencing that would defer people’s aspirations to vote and participate in political life would have been deeply problematic for the state establishment and peaceful development of a functioning liberal democracy in subsequent years. In Turkey, political development was not strictly path-dependent. Instead, building state-capacity beyond the initial stage was pursued at the same time as democratization, because civil liberties and democratic experimentation ‘had points of mutual reinforcement’¹⁰. Democracy was an ‘essential element of a complex system with many parts, not all of them subject to elections’¹¹.

This paper is divided into five parts. Part one provides an introduction and thesis. Part two lays out the background on democratization in Turkey and describes why iterative and cumulative way of democracy promotion, rather than democratic sequencing, offers a more realistic account of developments for successful transition. Part three looks at the rise of Islamism and deviation from the goal of institutionalized liberal democracy to authoritarianism in the context of the current government’s policies. Part four considers a more general dilemma of whether it is

4 Sheri Berman, “How Democracies Emerge: Lessons From Europe,” *Journal of Democracy*, January 2007, Volume 18, Number 1, 37.

5 *Ibid.*, 13.

6 Thomas Carothers, “How Democracies Emerge: Sequencing Fallacy,” *Journal of Democracy*, January 2007, Volume 18, Number 1, 14-15.

7 Fareed Zakaria, *The Future of Freedom* (NY: Norton, 2003), 127.

8 Sheri Berman, “How Democracies Emerge: Lessons From Europe,” *Journal of Democracy*, January 2007, Volume 18, Number 1, 39.

9 Taylan Yildiz, *Democratic Sequentialism and Path Dependency Lessons from Turkey*, 49th Annual Convention of the International Studies Association (ISA), San Francisco, March 26-29, 2008, p. 3 (accessed November 3, 2014); available from: http://www.politik.uni-mainz.de/cms/Dateien/yildiz_ISA2008paper_080405.pdf

10 Thomas Carothers, “How Democracies Emerge: Sequencing Fallacy,” *Journal of Democracy*, January 2007, Volume 18, Number 1: 20.

11 Fareed Zakaria, *The Future of Freedom* (NY: Norton, 2003), 26.

possible to build liberal institutions in a repressive system or it would be better to build liberal institutions and a democratic electoral system simultaneously¹². Part five summarizes findings and draws conclusions.

2. Development of Democracy in Turkey

The roots for democratization efforts and political reform in modern Turkey are in constitutionalist movements during the final century of the Ottoman Empire. Reformers of the period from 1839 to 1876, also known as Tanzimat, were Ottoman statesmen who aimed to establish the rule-of-law, legal equality of all citizens, property rights, fair judiciary, anti-corruption measures, freedom of religion, and abolition of tax law among other administrative improvements¹³. The declining empire sought, in a defensive reaction against ambitious Western powers¹⁴, to substitute European-influenced nationalist movements with a new notion of Ottoman citizenry and began to deviate from an absolutist monarchy to the sovereignty of people through enactment of citizenship rights for all subjects.

Although Tanzimat laid essential foundation stones of a liberal society, some of the civil rights such as religious freedom had already been in place since the early days the empire. Yet, due to the spread of revolutionary ideas after 1789, the powerful central authority could not satisfy rising demands for autonomy, political rights, freedom of speech, and press from the public. The sultan could not ignore transformative forces of his politically savvy population. As the state bureaucracy grew stronger, reforms had ‘more far-reaching effects than originally intended culminating in the proclamation of the first Ottoman constitution in 1876’¹⁵. The first general assembly convened with ‘69 Muslim and 46 non-Muslim’¹⁶ members of the parliament elected from all levels of the society. Constitutional monarchy expanded civil liberties and carried out important educational, cultural, and economic reforms such as the ‘independent participation of women, for the first time, in work and academic life’¹⁷.

Initially, the vision of Young Turks of Tanzimat era was not participatory democracy, but a tradition of consultation grounded in Islamic tradition¹⁸. Though, limits on the sultan’s authority and separation of powers found strong support from patriotic circles who aspired to demonstrate that the ‘empire was capable of resolving its problems’¹⁹ without external influence, confirming Sheri Berman’s view that ‘all sorts of countries can undergo successful democratic development’²⁰. Two years after the opening, Sultan Abdulhamid II dissolved the parliament in 1878²¹ under the excuse of the emergency conditions during the Turko-Russian War. He repossessed his autocratic power to rule the country until a military coup led by Young Turks in

12 Prof. Anna Seleny, “International Politics: Final Assignment,” GMAP, The Fletcher School, Tufts University, 2014.

13 William L. Cleveland, *History of the Modern Middle East* (Westview Press: Colorado, 1994), 79-84.

14 William Hale, *Turkey’s Democratization Process* (NY: Routledge, 2014), 69.

15 *Ibid.*, 68.

16 Tarihi Keşfet, “Türkiye’de ilk Seçimler ne zaman yapıldı?,” (accessed November 5, 2014); available from: <http://www.tarihikesfet.com/2014/03/turkiyede-ilk-secim-ne-zaman-yapld.html>

17 Doç. Dr. Hakan Erdem, *Tarih 360 “Tanzimat”* (360 TV: Istanbul, 2014), 20:10; available from: <http://www.tv360.com.tr/programdetay.asp?id=321>

18 William L. Cleveland, *History of the Modern Middle East* (Colorado: Westview Press, 1994), 82.

19 William L. Cleveland, *History of the Modern Middle East* (Colorado: Westview Press, 1994), 82.

20 Sheri Berman, “How Democracies Emerge: Lessons From Europe,” *Journal of Democracy*, January 2007, Volume 18, Number 1: 30.

21 Arthur Goldschmidt Jr., *Lawrence Davidson, A Concise History of the Middle East* (Colorado: Westview Press, 2010), 190.

1908 re-proclaimed the constitution²², and once again ‘every religious and ethnic group in the empire rejoiced’²³ on the tide of democracy.

Despite political instability, wars, revolutions, and counter-revolutions, the legacies of the period between 1839-1908 were powerful and long-lived. This was not a gradual, linear change with liberalism emerging before transition to democracy²⁴. The empire’s democratic experiment was turbulent, violent, and messy. It was the ‘first stage of a long and arduous process’, and like many countries’ early experiments with democracy, it was not smooth²⁵. Modern Turkey’s institutions derived their legacy from rooted national, political establishments of this era. The Grand National Assembly’s first delegates in 1920 included those members of the dissolved Ottoman parliament in 1918²⁶.

After the independence war in 1919-1922, Atatürk became the founder and the first president of the modern Republic of Turkey. He inaugurated Westernizing institutional reforms to expand civil liberties and prepared the country for consolidated democracy in the future. Still, he was an elected leader, and despite his strict secularization and nationalization program, he derived his enormous power from the parliament. The rapid pace of reforms were seen as necessary to cultivate a strong, enlightened middle-class who would keep the country on its course towards liberal democracy.

Kemalism was Atatürk’s doctrine to shape the new republic with his Westernizing vision. This era of regulated democracy is often branded as a ‘discourse of sequentialism’ and Atatürk as one of the preconditionists²⁷. Although the progressive development path was constrained by the Kemalist doctrine, Atatürk’s comprehensive reform program did not preclude free debate in the parliament and even, for a short period, the setup of two opposition parties. Unlike many democracy promoters in the Middle East, his strategy was to take ‘small but significant steps that create space and mechanisms for true political competition’²⁸. He built governmental capacity and strengthened central authority’s coercive power, which he perceived as the right strategy to maintain the order. There is an uninterrupted chain that links Kemalists to the Tanzimat era and the classical Ottoman Empire²⁹, but Atatürk forcefully tried to reduce Islam’s influence on politics, forge a uniform Turkish national identity, and replace Ottoman traditions with Western ways of behavior, administration, and justice³⁰. He undertook an uneasy task to construct a stable liberal democracy that ‘generally requires breaking down the institutions, relationships, and culture of the *ancien régime*’³¹. Transformational objectives and rapid pace of his ambitious state-building

22 Ibid., 189-190.

23 Ibid., 190.

24 Sheri Berman, “How Democracies Emerge: Lessons From Europe,” *Journal of Democracy*, January 2007, Volume 18, Number 1, 31.

25 Ibid., 39.

26 William L. Cleveland, *History of the Modern Middle East* (Colorado: Westview Press, 1994), 165-166.

27 Taylan Yildiz, *Democratic Sequentialism and Path Dependency Lessons from Turkey*, 49th Annual Convention of the International Studies Association (ISA), San Francisco, March 26-29, 2008, p. 10 (accessed November 3, 2014); available from: http://www.politik.uni-mainz.de/cms/Dateien/yildiz_ISA2008paper_080405.pdf

28 Thomas Carothers, “How Democracies Emerge: Sequencing Fallacy,” *Journal of Democracy* January 2007, Volume 18, Number 1: 26.

29 Huri Türsan, *Democratisation in Turkey* (Belgium: P.I.E.-Peter Lang S.A, 2004), 21.

30 Arthur Goldschmidt Jr., Lawrence Davidson, *A Concise History of the Middle East* (Colorado: Westview Press, 2010), 221-226.

31 Sheri Berman, “The Vein Hope for Correct Timing,” *Journal of Democracy*, July 2007, Volume 18, Number 3, 16; available from: http://carnegieendowment.org/files/Sequencing_Exchange.pdf

program excluded formal recognition of ‘alternative sources of identity and loyalty’³² that would otherwise undermine unity of the nation-state and impede successful modernization. Still, women enjoyed electoral rights as early as 1934³³, even before their contemporaries in France, ‘the birthplace of modern European democracy’³⁴. The democratic institutions established during Atatürk’s government have endured and Turkey peacefully transitioned to multiparty system in 1946³⁵. The era of stability between 1923-1946 and ‘Turkish people’s commitment to political pluralism and political freedom’³⁶ enabled the country to survive the turmoil and social change of the years between 1950 and 2002. Despite three military interventions in 1960, 1971, 1980 and a “post-modern coup” in 1997, achievements of democratically elected governments in overall have been impressive and enduring.

3. Liberal Democracy’s Challenge: The Rise of Islamism in Turkey

Atatürk’s relentless secularizing program did not resonate well in all parts of the society. The decades that followed the Kemalist revolution ‘brought religious reaction and provincial alienation’³⁷. Monopolization of power by a single party, state-led industrial reforms, and concentration of economic capital in a selected group of Westernized elites increasingly disturbed conservative professionals and businesspeople of the Anatolian heartland. People who felt alienated found in Islamism, a set of ideologies through which Islam is perceived as guiding social and political as well as personal life³⁸, a method to express their grievances. The secular government of the CHP³⁹ could not resist religious revival and demands for pluralism by the late 1940s. The victory of the DP⁴⁰ in 1950 elections and the rise of civilian conservatives ‘marked a break with the late Ottoman and early Republican trend, by which a career in military or the bureaucracy served as path to political power’⁴¹.

The process of further democratisation was interrupted or “re-balanced” four times in the next fifty years by the military elite who refused to submit to a popular mandate that would overturn Atatürk’s secular legacy. Their strict adherence to a historicist, reductionist interpretation of the Kemalist doctrine caused self-described moderns of the Turkish elite to eschew from pragmatism, decentralization, and pluralism as politico-cultural resources, the aggregate effect of which was ‘Islam’s reverberation effect’⁴². From 1980s onwards, policymakers of first the

32 aylan Yildiz, Democratic Sequentialism and Path Dependency Lessons from Turkey, 49th Annual Convention of the International Studies Association (ISA), San Francisco, March 26-29, 2008, p. 10 (accessed November 3, 2014); available from: http://www.politik.uni-mainz.de/cms/Dateien/yildiz_ISA2008paper_080405.pdf

33 Interparliamentary Union: Women’s Suffrage (accessed November 7, 2014); available from: <http://www.ipu.org/wmn-e/suffrage.htm>

34 Sheri Berman, “How Democracies Emerge: Lessons From Europe,” *Journal of Democracy*, January 2007, Volume 18, Number 1, 39.

35 Insight Turkey: The Politics of Turkish Democracy (accessed November 7, 2014); available from: <http://www.insightturkey.com/the-politics-of-turkish-democracy-ismet-inonu-and-the-/299>

36 William L. Cleveland, *History of the Modern Middle East* (Colorado: Westview Press, 1994), 268.

37 Anna Seleny, “Tradition, Modernity, and Democracy: The Many Promises of Islam,” *Perspectives on Politics*, September 2006 | Vol. 4/No.3, 485.

38 Prof. Anna Seleny, “International Politics: Middle East, Islam, and Democracy,” Lecture 10, GMAP, The Fletcher School, Tufts University, 2014.

39 CHP: Republican People’s Party.

40 DP: Democratic Party.

41 William L. Cleveland, *History of the Modern Middle East* (Colorado: Westview Press, 1994), 262.

42 Anna Seleny, “Tradition, Modernity, and Democracy: The Many Promises of Islam,” *Perspectives on*

RP⁴³ and then the AKP⁴⁴ used religion as a source of public legitimacy to win electoral contests. Corruption and severe economic dislocation until 2001 also contributed to radicalization and extremism⁴⁵ of certain marginal groups under the AKP's umbrella.

The Kemalist state did not oppose religion nor did it aim to replace Islam with a state religion as in Stalin's Soviet Union, but it regulated practice of Sunni Islam through secularizing social and political life. Knowing that Iranian-style revolutionary Islamism would not take hold in Turkey, the once-fundamentalist movements of RP and AKP cleverly joined pluralism of moderate, political Islam with pragmatism of embracing democracy, modernity, and liberal global economy⁴⁶ in order to lure an increasingly vibrant, affluent, and young electorate. The landslide victory of the AKP in every election since 2002 empowered moderate Islamists to reshape the political and economic mainstream. While extreme nationalist and secularist views found weak support⁴⁷, the AKP has been able to capture the strategic middle through 'successful integration of Muslim values and non-religious concerns'⁴⁸. Anwar Ibrahim explains this phenomenon as the nation's aspiration to refresh its collective memory of cultural heritage and 'to mature further as a democracy while retaining its Muslim identity'⁴⁹.

The state's 'decreasing importance as leading agent of the socioeconomic development'⁵⁰ since 1980s fueled an ambitious economic liberalization program. While this is crucially important in and of itself, it is not a precondition for democratic consolidation since economic development is often the outcome rather than the cause⁵¹. Expansion of civil liberties, political rights, and press freedom has positive spillover effects that bring economic prosperity and eventual wealth⁵². The AKP's golden age of 2002-2007, in this regard, was underpinned by steps to instigate substantial democratic and liberal reforms in economic progress, judiciary, civil-military relations, and minority rights, thus raising its popularity in parallel with hopes about Turkey's membership prospects to the EU. Despite economic and regulatory reforms, redistribution of wealth, plus the rise of new business elites to challenge the dominance of established, secular, big businesses, however, Turkey's growth over the past decade has depended on unsustainable levels of domestic consumption and trade deficits⁵³, partly due to the AKP's populism and pressure on the Central Bank for monetary expansion. The government remained 'insulated from feedback about how

Politics, September 2006 | Vol. 4/No.3, 488.

43 RP: The Islamist Welfare Party

44 AKP: Justice and Development party

45 Prof. Anna Seleny, "International Politics: Middle East, Islam, and Democracy," Lecture 10, GMAP, The Fletcher School, Tufts University, 2014.

46 Murat Somer, "Moderate Islam and Secularist Opposition in Turkey: Implications for the World, Muslims and Secular Democracy," *Third World Quarterly*, Vol. 28, No. 7, 2007, p. 1272. Accessed November 8, 2014. Available from JSTOR: <http://www.jstor.org/stable/20454998>.

47 Ibid.

48 Anna Seleny, "Tradition, Modernity, and Democracy: The Many Promises of Islam," *Perspectives on Politics*, September 2006 | Vol. 4/No.3, 488.

49 Anwar Ibrahim, "Universal Values And Muslim Democracy," *Journal of Democracy*, Volume 17, Number 3 July 2006, 8.

50 Prof. Anna Seleny, "International Politics: Middle East, Islam, and Democracy," Lecture 10, GMAP, The Fletcher School, Tufts University, 2014.

51 Ibid.

52 Richard Roll and John R. Talbott, "Political Freedom, Economic Liberty, and Prosperity," *Journal of Democracy*, July 2003, Volume 14, Number 3, 85.

53 Daron Acemoğlu, "The Failed Autocrat," *Foreign Affairs*, Council on Foreign Relations, May 22, 2014 (accessed October 28, 2014); available from <http://www.foreignaffairs.com/articles/141444/daron-acemoglu/the-failed-autocrat>.

its policies are affecting the economy⁵⁴, until violent popular protests and corruption scandals in 2013 laid bare the fragile foundation upon which the image of Turkey as a regional and global power had been presented to the world by the AKP⁵⁵.

The AKP's political entrepreneur and the current president, Recep Tayyip Erdoğan, exploited favorable conditions and banked on electoral capabilities⁵⁶ of the political society to subvert liberal institutions, such as the rule-of-law, separation of powers, and freedom of the press in order to propel the economy and create a pious, loyal middle-class. He used the state security apparatus to control every aspect of his subjects' lives and perceived Turkey's democratization program as a train to get to get-off when he reached his target. Instead of shrinking its influence, the state 'became a prime diverter itself, expropriating property and repudiating contracts'⁵⁷. The net result of AKP's counter-revolution against Kemalism has therefore been a flawed liberal democracy at best. This may even lean towards an authoritarian system with a capitalist market as AKP won the elections in November 2015 and regained power to bring is one step closer to amend the constitution and grant dictatorial powers to Erdoğan.

The AKP government triumphed in elections by making full use of the democratic process the more extreme Erdoğan's rhetoric, the more popular he got⁵⁸. Nevertheless, this should not lead to a presumption that democratization results in illiberal leadership or that Turkey is unprepared for democratic transition. However weak and problematic the outcome might be, it is not despite democratic elections, but because of it that Turkey maintains a strong prospect to prevent an outright illiberal autocracy, if it ever appears on the horizon. Liberal institutions help to 'temper public passion, educate citizens, and guide democracy'⁵⁹, but what Zakaria prescribes by giving Jordan as an example that 'an unelected monarch is more liberal, more open, and more progressive than elected democrats' would not be true for Turkey if open process of political competition and choice were absent. Just as a simple universalist perspective of democracy promotion would be detrimental to liberal rule-of-law, indefinite deferral of political empowerment would create deep fault lines on ethnic and religious grounds in the society and threaten whatever rule-of-law has been achieved in the mean time⁶⁰, not enhance it.

4. Liberal Institutions: Autocracy versus Democracy

Beyond the initial stage of having a functioning state-bureaucracy, economic development should go hand-in-hand with political freedom and civil liberty. Civil society requires law to protect it, without which the state monopolizes public sphere and persecutes its critics and rivals, like Ai WeiWei in China⁶¹. To maintain its legitimacy, an effective state should observe constraint in its coercive power. If the necessary checks and balances on the ruler are weak, country may drift towards dictatorship, which tends 'overtime to become arrogant and corrupt', as is the case with

54 Richard Roll and John R. Talbott, "Political Freedom, Economic Liberty, and Prosperity," *Journal of Democracy*, July 2003, Volume 14, Number 3, 79.

55 The International New York Times, "Mine disaster evolves into a political crisis," Tim Arango, Kareem Fahim, Sebnem Arsu, (Soma, Turkey: May 17-18, 2014).

56 Prof. Anna Seleny, "International Politics: Middle East, Islam, and Democracy," Lecture 10, GMAP, The Fletcher School, Tufts University, 2014.

57 Richard Roll and John R. Talbott, "Political Freedom, Economic Liberty, and Prosperity," *Journal of Democracy*, July 2003, Volume 14, Number 3, 79

58 Fareed Zakaria, *The Future of Freedom* (NY: Norton, 2003), 61.

59 *Ibid.*, 26

60 Francis Fukuyama, "Liberalism Versus State-Building," *Journal of Democracy*, July 2007, Volume 18, Number 3, 12-13; available from: http://carnegiendowment.org/files/Sequencing_Exchange.pdf

61 International Politics, Ai WeiWei: Never Sorry, GMAP, The Fletcher School, Tufts University, 2014.

Erdoğan in Turkey⁶². Authoritarian governance structures, as in Russia and China, are less likely to ‘keep governing a country that is increasingly open, messy, and diverse’⁶³.

Liberal institutions make democracy endure and democracy re-enforces liberal institutions. While democratic sequencing is not inconsequential, ‘dictators are not the most likely implementers of well-sequenced reforms leading to democracy’⁶⁴. Government should be responsive to people’s demands, respect each individual as a choice-maker, and treat them equally before law. If only people do not live in fear of their rulers can a healthy and growing economy be sustainable. Short of windfall revenues, like the discovery of oil in the UAE, democratic conditions cause economic prosperity, and not the other way around⁶⁵. Stable democracies are formed after long years of struggle and it is better to try and experiment with democracy than not to try at all until an indefinite future. In Iraq and Egypt, the failure of first democratic governments should not prevent further efforts for institution building. The problem in Iraq, for instance, was not so much that the US tried to impose democracy overnight, but instead Maliki and his supporters relied on the Shiite majority population to hijack the democracy-building experiment, and advocated a strong, centralized national government, defying their promises to keep a power-sharing arrangement⁶⁶. Ned Parker concludes that ‘Maliki’s harassment and persecution dramatically reduced freedom throughout Iraq’⁶⁷.

5. Conclusion

Democratic consolidation in a cosmopolitan society as Turkey’s is a formidable and long journey. There is no single, right path to democracy, and while facilitative factors such as historical experience may enable a smoother transition, practically many countries undergo problems, false starts, and reversals in their struggle for democracy⁶⁸. Liberal institutions can function most effectively in a democratic society and economic prosperity is positively correlated with political freedoms. Economic development should be subordinated to pursuit for liberal democracy.

Turkey’s flawed but functioning democracy has endured revolutions, illiberal movements, and military interventions. The country has successfully risen from the ashes of an empire and instituted reforms that brought a modern nation into life. Despite external influences, from great-power games in the Ottoman era to the prospect for EU membership in the republican era, most of the impetus for liberalization has come from within. What distinguished modern Turkey from autocratic regimes of the Middle East is not electoral majoritarianism that pre-conditioned a strict sequencing of public order and liberalization first, but the embodiment of democratic principles and citizenship rights into state-building from very early on. It is regulated, representative democracy after all that secures civil liberties, lives, and livelihoods.

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62 Fareed Zakaria, *The Future of Freedom* (NY: Norton, 2003), 269.

63 Ibid.

64 Edward D. Mansfield and Jack Snyder, “The Sequencing ‘Fallacy,’” *Journal of Democracy*, July 2007, Volume 18, Number 3, 8; available from: http://carnegieendowment.org/files/Sequencing_Exchange.pdf

65 Prof. Anna Seleny, “International Politics: Middle East, Islam, and Democracy,” Lecture 10, GMAP, The Fletcher School, Tufts University, 2014.

66 Ned Parker, “Welcome to the World’s Next Failed State,” *Foreign Affairs*, March/April 2012, 94-110.

67 Ibid., 95.

68 Sheri Berman, “The Vein Hope for Correct Timing,” *Journal of Democracy*, July 2007, Volume 18, Number 3, 15-16; available from: http://carnegieendowment.org/files/Sequencing_Exchange.pdf

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The Policy of Financial Inclusion in India

The Paradox of Inclusive Governance

Garima Sharma

Abstract The idea of inclusive development has acquired a new dimension in recent times, with rising emphasis of the state policy on resolving socio-economic exclusion through the mechanism of the market, as evidenced by the rise of the ‘semi-formal sector’ and NGO/private sector-led microfinance initiatives in countries like Brazil, Bangladesh and India. In India, this has produced a consolidated discourse of the policy of Financial Inclusion. The main aim of this paper is to study the wider social and political contradictions implicit in the idea of Financial Inclusion in the specificity of the Indian context.

Given the manner in which the initiatives to achieve socio-economic inclusion through the formal financial system are being undertaken, the policy of inclusive finance has become an instrument for the accommodation of socially-inclusive development within the neo-liberal paradigm of individual enterprise, thereby subverting the very rationale of development.

While inclusive development through the formal financial system was a core area of the state policy since the 1950s and was subsumed under the wider imperative of social inclusion, the current policy reveals itself to be more inclined towards accommodative inclusion under a neoliberal financial system, with the consensus that the merits of the ‘strategy’ of Financial Inclusion lie in that it will hike the profitability of banks if they are able to tap the potential ‘market’ of the rural poor. This has led to a proliferation of the norm of developmental self-reliance based on entrepreneurship rather than the realization of well-being as an important developmental outcome.

Keywords Development - Financial inclusion - Neo-liberalism - Well-being
Individual entrepreneurship

JEL classification A13

Development through inclusive finance: Changing patterns in Indian policy development

The evolving issue of financial inclusion represents an important dimension in the changing approaches to international development issues. The Global Financial Development Report 2014 has defined Financial Inclusion in terms of the “proportion of individuals and firms that

use financial services”¹. In the language of international development discourses, this translates into an understanding of financial inclusion as the expansion of public policy to cover the ‘unbanked’ sections of society or to increase the credit access of low-income and disadvantaged socio-economic groups. According to the Rangarajan Committee report, financial inclusion refers to, “the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups...at an affordable cost.”²

While the provision of financial inclusion entails policy action at the national level, the issue is characterized by an important affirmation of some of the key aspects of the global policy discourse. The concept of financial inclusion combines four major imperatives which makes it relevant to the international development discourse viz. poverty reduction, socio-economic development, individual-centric social self-sufficiency and promoting the role of market mechanisms in accelerating inclusion. While entailing significant internal differences, the idea of financial inclusion seeks to combine the apparently disparate objectives of social development and market intermediation in social policy. Thus, at both the global and national levels, the policy of financial inclusion is reflective of the politics of development in providing a legitimate discursive ground for the World Bank’s neo-liberal programmes in national policy.

The policy of financial inclusion in India has followed a complex pattern that has widely reflected the larger patterns of politics of development in India. While financial inclusion gained political and policy currency during the last decade, especially with the debacle of the microfinance industry in Andhra Pradesh (Ananth and Oncu 2013), the government has been playing a steady role in expanding the public access to financial services since Independence. Over the years the government has formed a series of committees to deal specifically with this issue, such as the Vaidyanathan Committee, Thorat Committee, Rangarajan Committee and Raghuram Rajan Committee. Moreover, the efforts of the government to reform the country’s financial sector, especially in the wake of the Global Financial Crisis, in the past two years, have also been primarily underpinned by the rationale of accelerating the goal of financial inclusion.

While the broad commitment to financial inclusion, since Independence, affirms the state’s institutionalization of financial inclusion within the larger paradigm of development as social welfare, the trajectories followed by the policy of financial inclusion since Independence are reflective of a change in the development thinking from the norm of well-being as the responsibility of the state to the attempts to foster an individualistic culture of self-help. The post-Independence period saw an institutionalization of a large number of initiatives by the government to expand people’s access to credit as well as a highly interventionist and political role of the government in the functioning of banks and financial institutions (Basu 2005). The Nehruvian period of the Indian political economic development is distinctive for its focus on the formation of village cooperatives. The creation of a ‘cooperative credit network’ cemented through cooperative banks and Regional Rural Banks has been one of the major modes through which the government has pushed the policy of financial inclusion (Chavan 2005). The subsequent period, under the government of Mrs. Gandhi, saw the large-scale nationalization of commercial banks in order to direct the flow of credit to priority sectors like agriculture. While the period after the 1991 liberalization and globalization saw a tentative opening up of the banking sector through the distribution of new banking licenses and emergence of new initiatives like the SHG-Bank linkage programme initiated by the NABARD, the regulatory oversight continued to predominate.

1 World Bank. 2014. Global Financial Development Report 2014: Financial Inclusion. Washington, DC: World Bank. doi:10.1596/978-0-8213-9985-9. License: Creative Commons Attribution CC BY 3.0.

2 Report of the Committee on Financial Inclusion. 2008: http://sksindia.com/downloads/Report_Committee_Financial_Inclusion.pdf

This early period of active state intervention in banking policies was, despite the goals it was oriented towards, not the same as the financial inclusion policy of the government that is in evidence today. It was based on the principle of 'social banking' or development banking rather than inclusion Basu (2005; Dev 2006). Under the principle of social banking, the underlying principles were two-fold: the poor are not 'bankable' (Chavan 2005) and the financial institutions have to be subsumed to the imperative of social development. This essentially translates into the policy discourse whereby the poor or the unbanked cannot be treated as a potential market which can be leveraged for long-term gains. Therefore, most importantly, there was little focus on self-help or promoting individual entrepreneurship among the rural poor and more on the idea of providing access to credit through state intervention, framed by a rights-based discourse.

The current policy of financial inclusion, on the other hand, as it has been articulated since 2005 and implemented rigorously since 2010, is based on completely polar principles. It has closer linkages with the microfinance model of administering access to credit, whereby the target population is not treated centrally as the beneficiary of a public good, but simply as one of the stake-holders among multiple other players like banks, government and private sector actors seeking to leverage their own interest through the policy of inclusion or accommodation within the neo-liberal framework of governance. The implicit assumption underlying such a model is that the deregulation of controls would allow banks greater operational freedom in achieving their financial inclusion objectives (Ramachandran and Swaminathan 2005). The new policy is premised on a dual rationale: on the one hand, the objective of financial inclusion will form an important part of the social welfare policy of the government as an important developmental goal, while, from the point of view of supply-side mechanisms, the new policy would also provide incentives to the new actors in a deregulated policy environment to exploit incentives available to them. Accordingly, the new policy has close parallels with the microfinance model, whereby the target groups are treated as consisting of responsible individuals who can interact with the formal financial system through the new culture of viewing the poor as entrepreneurs. This constitutes a neo-liberal discourse which is completely removed from the rights-based framework of social banking under which the early financial development initiatives proceeded. Financial responsibility is no longer defined in terms of the distributive justice idea of 'right to credit' (Hudon 2009) which formed the tenet of the early financial development policy, but rather in terms of individual responsibility to ensure one's own growth in income and assets and pay back the government. This change in the role of the state in development policy heralds implications for the wider notion of well-being in the development discourse.

Socio-economic development under changing financial inclusion policy in India: Factors and implications

In accordance with the theoretical framework that has been laid out in this paper which seeks to understand how the changing policy of financial inclusion in a neo-liberal policy environment implicates the development policy discourse in the country, an assessment of financial inclusion in India needs to be undertaken through an evaluation of two concerns:

First, how effective has the institutionalization of the financial inclusion policies in India been? An evaluation of this factor needs to assess not merely the empirical data on financial inclusion indices, but also question whether macro level effectiveness always translate into micro level effectiveness.

Second, given the discursive developmental foundation within which it is embedded, does this effectiveness translate into substantive developmental outcomes in terms of well-being and how this well-being constructed?

Implementing financial inclusion: Macro and Micro level translation

According to a recent report on financial inclusion, India ranks 29th globally on the Index of Financial Inclusion (IFI) with an IFI value of about 0.198³. This is despite the fact that, since 2010, the RBI and the central government has consistently encouraged a number of rigorous supply-side mechanisms to promote financial inclusion for the rural poor. The primary mode through which the RBI has done this is by encouraging Priority Sector Lending (PSL), which consists of agriculture and allied activities and small and medium enterprises, to which the banks have to mandatorily contribute 40% of their total credit, with 18% going to the agricultural sector (Bhunia 2014). The most prominent broad policy goal in this regard has been the systematic and phased implementation of Financial Inclusion Plans (FIPs), the first of which was implemented during the 2010-13 period and the banks have been directed to implement the second phase during the 2013-16 period.

The RBI's assessment of the FIP in its latest Annual Report (Reserve Bank of India Annual Report 2013-14 2014) is significant, as it recaps the huge bulk of financial inclusion initiatives undertaken since 2010 and provides a clear picture of the supply side initiatives taken by the policymakers at the macro level. According to the RBI's performance evaluation of the FIP, there has been a substantial increase in major parameters for assessing the FIP. A computation of the numbers given in the RBI Annual Report yields interesting results in terms of percentage increase from 2009 to 2013. There is nearly a 466% increase in the number of banking outlets in villages. The Business Correspondent (BC) model, whereby banks appoints intermediaries to promote more effective financial inclusion in remote rural and urban areas, has also shown signs of improvement. The number of urban locations covered through BCs has increased from 447 to 60,730, between the year ended March 2010 and year ended March 2014. While the number of basic Savings Bank Accounts (SBAs) has more than doubled, yet there has been far greater growth in the number of SBAs opened through the BCs which have increased nearly ten-fold during this period. However, it is interesting to note that the credit growth and transactions in the BC-opened bank accounts has not been commensurate, even though it tripled during this period. This shows that the supply side policy initiatives are still struggling to create commensurate demand among the unbanked sections of the population.

This is clearly indicative of a discrepancy between the macro and micro level policy coherence and effective translation. While the government reports show impressive supply side numbers, the micro level reality does not always complement them.

More significantly, from a political economy perspective, we need to ask what are the mechanisms and underlying principles through which such demand is being created, how these processes incorporate the target sections of population within the new model of development and how is this indicative of the new development policy discourses. In order to assess these problems, we need to re-contextualize the central rubric of state-led development policy, that is, the idea of ensuring well-being and how that has transformed in the new thinking on financial inclusion.

Reimagining well-being and development

As we have seen, the model of development that underpins the policy discourse of financial inclusion in India has undergone several changes since Independence. The

³ IFI is an index of measuring financial inclusion on a scale of 0 to 1, with 0 indicating complete financial exclusion and 1 indicating complete financial inclusion. The index uses several parameters to measure the coefficient of financial inclusion, based mainly on an assessment of banking penetration in rural areas.

policy trajectory that this discourse has historically followed demonstrates a shift from rights-based social inclusion in the financial system to market-based model that relies on individual enterprise to promote developmental outcomes.

While this shift has not been explicit and the policy of financial inclusion continues to be perceived as broadly lying within the paradigm of state-led social welfare and development, more deep-rooted departures from the welfarist model of development are visible in the principles underpinning the organizational structures of the new policy and the manner in which the policy discourse of financial inclusion has constructed alternative notions of well-being within the recipient population.

This section will look at how the discourse on well-being has transformed within the policy of financial inclusion by assessing three indicative areas: principles of organization and mechanisms of demand creation.

1. Principles of organization

Principles of organization are an important reflection of the policy ideology and discourse. They mark the independent functioning of the government and the private sector by reflecting the prioritizing and operational practices according to wider goals to be achieved. There are several features of the new organizational structure that need to be delineated in this regard:

Partnership model: In order to facilitate smooth implementation, the new structure of the financial inclusion policy envisages the provision of right incentives to the implementing agencies viz. the banks. In a departure from the early institutional norms governing the banking system in which the central government kept the Public Sector Banks (PSBs) firmly subsumed within tight regulatory institutions, the recent years, coinciding with India's economic downturn since 2012, have witnessed a dismantling of these state controls. Two major factors have contributed to this change in regulatory policy vis-à-vis PSBs.

First, the mounting debt or Non-Performing Assets (NPAs) in the public sector banking system in India has significantly exacerbated their dire institutional condition. According to the latest report on asset quality, the net NPAs have doubled from 2.83% a year ago to 5.17% now.⁴ Second, on the external front, the Global Financial Crisis of 2008 and the slow and skewed global recovery thereafter, has led to the institutionalization of stringent banking conditions applicable to developed and emerging markets alike. Notable in this regard have been the latest Basel banking requirements that stipulate a high capital adequacy ratio for banks, which is particularly difficult for an emerging market like India to achieve (Foundation 2007). Already caught in the prolonged trap of low growth, high inflation and high fiscal deficit, a uniform implementation of the Basel requirements are difficult for a country like India to achieve, as compared to more advanced economies.

With this background of a crisis and flux in the banking system, the government and the RBI are moving towards a gradual dilution of regulatory oversight. This has been done by encouraging the greater involvement of commercial private banks and private sector financial institutions in achieving the government's financial inclusion objectives, as will be discussed. As a result of this diffusion of new actors, the realization of financial inclusion objectives has come to be framed in the nature of a partnership between different actors. Thus, the PSBs, and the government, are no longer the sole providers of the good of financial inclusion.

4 Reference link: http://www.moneycontrol.com/news/result-analysis/asset-quality-remainsniggling-worry-for-indian-banks_1216229.html

Rise of new private actors: While the traditional mode of ensuring commercial banks' cooperation in promoting financial inclusion included mandating the fulfilment of priority-sector lending requirements, in recent times, the politics surrounding the implementation of these requirements has become more significant as the policy of financial inclusion has gained ascendancy as one of the primary objectives of the RBI. To foster greater private sector involvement in promoting financial inclusion, the government and the RBI distributed new banking licenses to select private banks. The fact that there had also been intensive lobbying by private sector financial institutions over the months leading up to the distribution of new bank licenses shows that, despite various regulatory and social bottlenecks, shows that the private sector views financial inclusion as a space that can be exploited for high returns.

Thus, more than being an obligation which the banks need to fulfil, there has also been recognition –albeit without successful practice or implementation –of the fact that the vast population of the rural poor or unbanked sections of society can be exploited as a market for potential long-term financial gains. This was clearly visible in the exploitative practices institutionalized by the Micro Finance Institutions (MFIs) in India, which led to a number of suicides by the indebted borrowers in Andhra Pradesh and became the cause of the downfall of the MFI industry.

Changing structure of internal accountability: Mechanisms of ensuring internal accountability form an important part of the function of regulatory oversight. The relationship between the government and the banks in this arena is also indicative of the market-determined institutional underpinnings of the policy of financial inclusion. Apart from the structure of coercion to ensure that the banks fulfil their minimum priority sector lending requirements, there are also provisions for individual-level benefits that provide incentives to the banking personnel to fulfil the financial inclusion requirements. As Shetty and Deokar (2014) note, with reference to the policies mandated by the RBI, the policy of financial inclusion is meant to be a part of the 'business strategies' and 'corporate plans' of the banks, as advised by the RBI to the banks. It is as a part of this wider management approach that the banks have to establish both mechanisms of coercion and incentives. These, for instance, include periodic performance reviews of the banking practices by the RBI, such as a review of the BC model for delivering financial inclusion. The key words in these performance reviews become both efficiency and effectivity. The supply side parameters that they focus on shows little preoccupation with delivering developmental welfare outcomes and concentrate more, in the spirit of corporate organization, on meeting the targets. The fact that the RBI reports show that private and foreign banks perform better in meeting their priority sector requirements would only further cement a management approach to public policy.

2. Mechanisms of demand creation

Creation of demand as a way of widespread legitimization and effectualisation of policy forms an important manner through which the policy is shown to be discursively embedded within larger ideational structures. The effectiveness of the institutions and principles of organization highlighted above depends upon the incentive factor of creating a market that can foster a neo-liberal policy regime of financial inclusion. Thus, in this respect, the creation of demand, within the target population, for the policy of financial inclusion, becomes a key mechanism of institutionalizing the 'market' for financial inclusion. More than creating a market for financial inclusion, this fostering of demand should be viewed within the larger framework of grounding the legitimacy of market mechanisms through the instrument of financial inclusion and the notions of well-being that such a process constructs within the development policy discourse. The central premise is based on the creation of need among the rural poor (Schwittay 2011).

What is particularly significant is that despite the stringent priority sector lending requirements and the difficulty of tapping the potential market that can be offered by the rural unbanked sections of the population, there is no dearth of policy initiatives to realize this goal. The creation of a market in the space of financial inclusion can be substantiated by the key initiatives taken by the RBI to generate demand among the rural poor. The promotion of Financial Literacy forms an important initiative and has informed the new development thinking which realizes the importance of incorporating the target population, as a way of soft mobilization, to legitimize the value, especially the market value, of financial inclusion. In this context, the Nachiket Mor Committee (Committee on Comprehensive Financial Services for Small Businesses and Low Income Households 2014), formed by the government in 2013 clearly recognized the fact that perpetuation of institutional structures will do little to achieve financial inclusion, as the experience of Regional Rural Banks, cooperative banks, Non-Banking Financial Companies, Business Correspondents and Self-Help Groups has shown. They have failed to create the requisite rural market which can be leveraged for promoting financial inclusion in a mutually profitable manner.

Thus, the promotion of financial literacy initiative provides a landmark discursive break in this regard, representing an active mode and a crucial building block through which the rural population can be accommodated within the new policy discourse. The government's major effort in this regard has been the institutionalization of the National Strategy for Financial Education prepared by the Financial Stability and Development Council, through the National Centre for Financial Education. Interestingly, it is not just the government, but also various private actors, such as ICICI bank and the FLAME initiative by IIFL (India Infoline Limited) that are actively intervening to promote financial literacy initiatives.

The new emphasis on financial literacy initiatives as a part of the financial inclusion policy marks a new approach in the government's development thinking. Having moved from social banking to financial inclusion premised on market intermediation, the new emphasis is now on institutionalizing various discursive structures through which a market out of the rural poor can actually be created. The necessity for this has begun to be realized in the government and corporate decision-making centres, as the private sector and PSBs alike perceive the various regulations like lending requirements as a hindrance in face of the fact that they do not yield long term returns on lending to the unbanked population. The rural poor are seen to be afflicted by the double factors of a lack of sustained demand and a lack of capacity which makes the repayment of loan through asset-creation particularly difficult, as has amply been seen in the debacle of the Microfinance industry. This constitutes a severe block in the profits that can otherwise be leveraged through the promotion of financial inclusion, and literacy initiatives constitute an important discursive mode through which the rural poor can be implicitly mobilized to participate in the current model of neo-liberal financial governance.

Conclusion

In this paper, it has been argued that the current policy of financial inclusion in India constitutes a new phase in the development discourse. An analysis of the evolution of financial inclusion since Independence shows the broader neo-liberal line of transformation that has shaped it. Under the current policy, this can be substantiated by looking at the principles of organization and construction of well-being that underlie the current financial inclusion policy. An analysis of both these factors is reflective of the new governance and development discourse that is taking place through the avowedly social objective of financial inclusion.

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The Small and Medium Size Enterprises and the Middle Class Evidence of the Republic of Armenia

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Abstract This paper analyzes the importance of small and medium enterprises (SME) development in the context of middle class enlargement in the Republic of Armenia (RA). The paper first describes the relationship between the relative size of the SME sector and the living standards by country groups classified by the income-based criterion of the World Bank. We then show that the shares of middle class and SMEs increase as countries grow richer and societies less unequal. We also found that despite some improvements in SMEs in RA for the last years its size remains still insignificant and the impediments restricted the future development of the sector are specified.

Keywords Small and medium enterprises (SME) - Middle class - GDP per capita - Poverty and inequality - GINI Index - Gross national savings - Economic growth

JEL Classification I30, D30, E200

Introduction

The middle class is typically identified with a large range of occupations and professions and includes people holding professional degrees such as academics, lawyers, engineers, doctors as well as clergymen and lower-level occupations different from manual workers¹. Besides being a typical public employee, middle class is also identified as an owner (as well as employee) of micro, small and medium size enterprises. That is why, the sector of small and medium size enterprises is often assumed to be a source of employment and incomes for the middle class, which, in its turn, is considered as the provider of innovations and the source of skilled labor force. In fact, based on cross country and panel econometric regressions, Easterly (2000) has shown that a higher share of income for the middle class are empirically associated with higher income, higher growth, more education and other favorable development

1 Solimano A. "The Middle Class and the Development Process", p.1 - <http://www.andressolimano.com>

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outcomes². Moreover, some recent empirical evidence shows that, (in relative terms), the SME sector is larger in higher income countries than in middle and lower income countries³. This paper comes to prove the aforementioned using a wider range sample of indicators included in the analysis as well as to determine the main causes of small middle class in Armenia and find the possible ways of its enlargement.

Cross-country analysis of the correlation between income distribution, standards of living and the share of SME

Economies were grouped according to their level of per capita income using the definition of the World Bank (Low-Income, Lower-Middle Income, Upper-Middle Income and High-Income) and estimated for each group of countries the following averaged for the period 2007-2012 indicators: GDP per capita, share of poor, middle and rich classes, income GINI Index, percent of SME's employment in total employment and percent of SME's output in GDP (see table 1).

Table 1 Country groups by several indicators

Country group (income-based criterion of the World Bank)	GDP per capita (PPP adjusted, US\$ year 2000)	Poor (Deciles 1 and 2, % of GDP)	Middle class (Broad definition, Deciles 3 to 9, % of GDP)	Rich (Top Decile, % of GDP)	Income GINI Index	SME's Employment (% of Total Employment)	SME's Output (% of GDP)
Low-Income Economies	1220	6.04	60.41	33.55	0.422	36.19	24.00
Lower-Middle- Income Economies	3339	5.54	59.94	34.51	0.438	38.76	29.41
Upper-Middle- Income Economies	9506	5.69	61.21	33.10	0.423	51.14	40.79
High-Income Economies	36959	7.47	66.67	25.85	0.330	63.93	48.77

Source: Own elaboration based on World Bank database – www.worldbank.org

Table 1 shows the tendency of increase in the share of middle class while moving towards higher level of per capita income. Also we found that the income share of the rich (top 10 percent) is smaller in high-income economies (on average 25.8 percent) than the corresponding share in low-income economies (33.5 percent). So, income distribution is less concentrated in high-income economies than that is in middle and low income economies. The same results are considered while analyzing GINI index. Such results allow to confirm the presumption that countries with high Gini index (that is more unequal societies) have relatively smaller middle class than more equal economies. Moreover, high-income economies have substantially higher share of SME in employment and output than other groups. Micro enterprises play an important role for any economy as it provides self-employment and small family business.

2 Easterly, W. (2000). "The Middle Class Consensus and Economic Development", The World Bank, Policy Research Working Paper # 2346 – www.worldbank.org

3 Ayyagari, Meghana, Thorsten Beck and Asli Demirgüç-Kunt (2005). "Small and Medium Enterprises across the Globe", p.36 - <http://www.tilburguniversity.edu>

It is a labor-intensive activity and the important source for family income growth. Among the main obstacles for development of private business, especially SME worth for mentioning is the limited access to external financing. Development of the majority of Armenian enterprises is financed from own resources, which consists about 89%, perhaps, the highest among CIS and Baltic states. Financing from formal sources consist only 11.4% of overall financing directed for establishment and development of private companies (see table 2).

Table 2 The main sources of investment financing in fixed assets in Armenia and several other countries, 2010%

Country	Own resources	Shares and other securities	Banks	Non-bank financial institutes	Public resources	Leasing	Suppliers credits	Other
Armenia	67.3	1.0	3.2	0.4	4.9	0.9	1.0	21.3
Georgia	69.6	0.7	7.2	1.3	6.8	3.4	5.2	5.8
Azerbaijan	63.4	0.2	1.9	0.4	14.4	0.8	3.4	15.5
Russia	69.6	0.9	5.6	1.3	4.0	3.5	8.7	6.4
Ukraine	69.1	2.2	6.4	1.7	4.9	1.1	7.0	7.6
Estonia	35.5	15.9	20.0	5.6	2.3	8.5	3.8	8.4
Poland	39.6	30.5	15.1	3.9	1.4	4.3	3.5	1.7
Hungary	42.1	11.0	18.1	5.7	4.2	2.4	4.1	12.4
Czech Republik	43.6	8.8	20.2	7.9	6.0	3.4	3.5	6.6
Bulgary	48.2	7.4	16.4	9.6	4.4	3.6	5.5	4.9

Source: Data of Investment Climate Around The World, WB, 2011, p. 122.

For comparison, in Estonia it consists 55.5%, in Georgia – 24.6%, in Poland – 56% and etc. Financial sector provides only 6.5% of resources, 3.2% of which is provided by banking sector. For example, in the same Poland this number consists 54.6%, in Estonia - 53.5%. This evidences of financial market underdevelopment as well as low level of financial discipline and mutual trust in business environment which would become a serious impediment for private sector development in the nearest future. Current credit policy and crediting procedures actually restricted the opportunities especially for poor people to get credit, necessity of which for this category is highest⁵. It emphasizes the importance of credit expansion and easiness for getting credit for reducing the poverty and income inequality and therefore for enlargement of the middle class.

Middle class and SME sector in RA – current state and the revelation of the main development problems

Meanwhile, in spite of certain improvements in the main indicators of SME sector development in Armenia for the last years (see table 3), the future development of given sector is restricted mainly due to high monopolization of economy.

Table 3 Main indicators of SME sector in RA, 2004-2012.

	2004	2005	2006	2007	2008	2009	2010	2011	2012
SME's output (% of GDP)	38.6	39.8	40.3	41.0	41.7	42.5	27.2	25.9	27.1
SME's employment (% of total employment)	32.9	34.0	35.1	40.7	42.1	42.2	-	-	-
Labor productivity in SME sector (\$)	1104.4	1513.0	1996.0	2844.0	3689.0	2686.0	-	-	-

Source: Data of National center of SME development in Armenia – <http://www.smednc.am/>

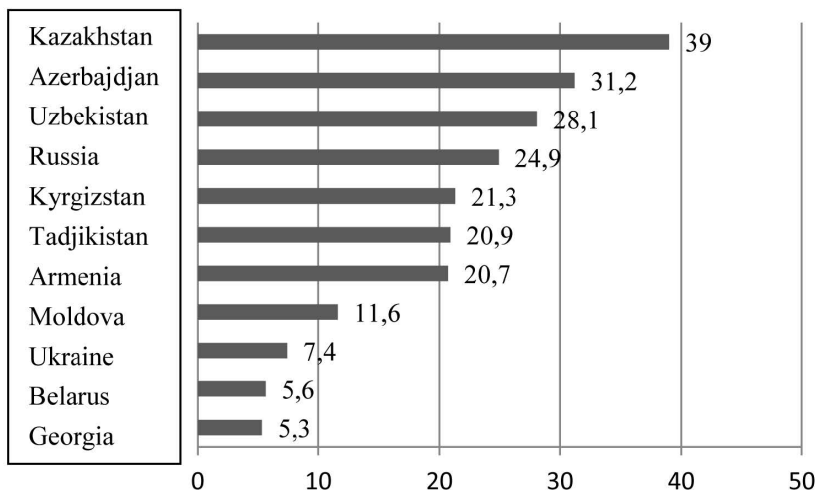
According to data of National center for SME development in Armenia, the share of the SME sector in GDP consists 27.1% in 2012, while the share of SME sector production in overall export structure consists only 15% that is 200-300 million. USA dollar. The measures for supporting SME sector implemented during last years, for example, tax benefits for VAT, simplification of tax and custom administration (prolongation of the term of custom regimes “interim export”, “interim import” for the imported by these regimes goods, three-year deferment of VAT payment for the goods which value exceeds 300 million. AMD, as well as the assignment of public guaranties for credits and direct business crediting (150 million. AMD annually for the last years), have certain positive influence on the state of SME sector.

However, the institutional environment of economy, particularly, the monopolization, lack of cheap financial resources etc. don't allow SME sector in RA develop in full and become the pillar of the economy as in the West. In such conditions a wider range of the supporting mechanisms has to be implemented and provide its addressness. For this purpose, in the context of SME development and middle class enlargement we offer to introduce legally a new business classification for micro, small, middle and large. To micro business it should be referred individuals with annual turnover up to \$20000 who doesn't use hired labour force. This class of business must be free of any tax and inspections. Business with annual turnover up to \$50000 must be free of paying VAT (20%). In current law this limit is fixed at the level of 58 million. AMD, however it is currently being revised at the National Assembly of RA to the toughening up to 30 million. AMD. Concerning small business this category must include enterprises with annual turnover below \$100000, significantly reduce the profit tax for up to 5%. Implementation of these mechanisms will contribute for the development and enlargement of SME sector in RA and consequently the formation of middle class, which in its turn is a necessary precondition of economic, political and social stability.

According to investigations of the Center of business information, sociological and marketing researches, the share of middle class in RA consists about 21% (see figure 1). Taking into account that the estimation involved only urban population and the standards of leaving in rural areas significantly yields to urban ones, consequently, the given percent would be even lower for the whole population. Meanwhile in developed countries the middle class consists the largest share of population - 70%, in developing - 45-50%. There is a great difference between

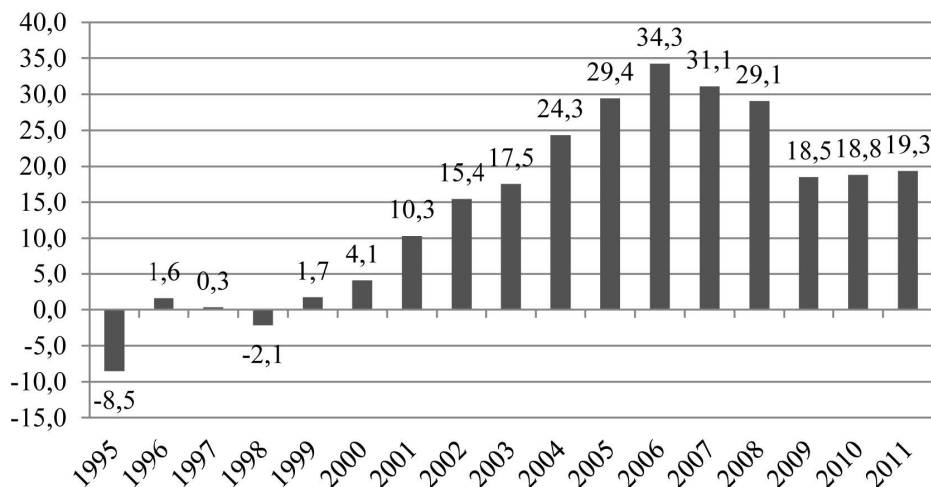
what we mean under the middle class and what it's meant in abroad.

Figure 1 Percent of middle class in selected post-soviet economies



From the other side, the enlargement of middle class is the guarantee for sustained economic growth as middle class is traditionally concerned as the main source of savings. Macroeconomic theory emphasizes the level of national savings as the predictor of economic growth rates.

Figure 2 The dynamics of gross savings in RA (% of GDP)



Source: World Bank: World Development Indicators, 2013 - <http://devdata.worldbank.org/dataonline/>

As it is presented at the figure 2, during 1995-2000 gross savings in RA remained insignificant. The level of national savings started to grow from 1999 and reached its peak in 2006 (34.3%), than it considered the decline of the given indicator. In 2011 the value of gross savings was 19.3%.

Conclusion

Taking into account that more than 35% of armenian population lives in poverty and in a very pure conditions, every extra dram (armenian national currency) will be spent, but not saved. If the present rates of saving still continiuous which means modest rates of economic growth, the problem of eradication of poverty and inequality in RA can not be solved in the nearest future, in short-term period, and the problem of formation of middle class will be postponed for years as well.

Thus, the results of aforesaid analysis prove that the outrunning of SME sector development is the necessary (but not the only one) precondition of eradication of the poverty and inequality as well as of the middle class enlargement. On the other side, the large middle class means higher level of national savings which is more stable internal source of economic growth in conditions of unpredictable external financing.

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Performance-Based Budgeting Best Practices' Evidence and Preconditions for Emerging Markets

Irina Dokalskaya

Abstract Today, a number of countries, including emerging markets, trying to improve their budgetary process by applying the model of budgeting for results, or performance-based budgeting (PBB), which, in one form or another, has been an important theme of public expenditure management for a long time. It is obvious that the full potential of these measures as the means of improving of public expenditures effectiveness is impossible to reveal in a short time, as the world experience evidences. Considering the difficulties, associated with the transition to such a fundamentally new method of public expenditure management, this article analyses how different countries are adapting the PBB technologies, depending on the potential of each country, its priorities and culture. The article, by utilizing a conceptual lens, synthesises the strengths and weaknesses of the PBB's mechanisms, and explores the best practices' experience and the opportunities which could be learned for those countries who are on the stage of PBB' implementation.

Keywords Performance-based budgeting - Budgetary planning - Emerging markets
Management of expenditures

JEL Classification H00 - H50 - H61 - P20

Introduction

Problems of increasing the efficiency of public expenditure management used to be at the centre of the budgetary policy of almost all countries of the world. In today's social and economic conditions more urgent becomes improvement in the PBB practice, dramatically alters not only the content of all stages of the budget process, but also the very concept of public expenditure management. Performance-based budgeting represents a way to allocate resources in order to achieve specific objectives based on program goals and measured results. Recent studies have accumulated much empirical data related to the problems of PBB implementation among specific states.

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Thus, the logic of performance-based budgeting is looking beyond inputs or line-item expenditures so that to ensure the adoption of informed decisions, and choices that is grounded in measurable progress or achievement. In this context, PBB has emerged as a concept, which has been both imperatively recommended and criticized among the science and practice. The New Public Management (NPM) opponents claim that it is possible to manage the performance when this process is relative to an activity consisting of simple production functions and having clear unambiguous results (e.g., Clark and Swain, 2006). While the NPM steam and its supporters note that these simple functions can be managed within the framework of a traditional line-item budgeting (e.g., Osborne and Gaebler, 1992). In this debate, we vote the side of NPM supporters since traditional bureaucratic approach of budgeting for centuries was based on unchangeable simplified procedures, aimed on funding estimates for the public sector. Current criticism on performance budgeting only contributes its further conceptual development as well as methodological improvement.

This paper is organized as follows: Section 2 identifies and examines major works on PBB systems in order to summarize the main issues and opportunities, intending to provide a critical review and deepen this research area. The best practices will be introduced in Section 3, considering both positively evaluated results and problems faced. In Section 4, we will proceed to a recognition of the main preconditions of PBB implementation in the case of emerging markets and discuss some evidences from the Russian practice. "Conclusion" concludes.

1. Introduction

Problems of increasing the efficiency of public expenditure management used to be at the centre of the budgetary policy of almost all countries of the world. In today's social and economic conditions more urgent becomes improvement in the PBB practice, dramatically alters not only the content of all stages of the budget process, but also the very concept of public expenditure management. Performance-based budgeting represents a way to allocate resources in order to achieve specific objectives based on program goals and measured results. Recent studies have accumulated much empirical data related to the problems of PBB implementation among specific states. Thus, the logic of performance-based budgeting is looking beyond inputs or line-item expenditures so that to ensure the adoption of informed decisions, and choices that is grounded in measurable progress or achievement. In this context, PBB has emerged as a concept, which has been both imperatively recommended and criticized among the science and practice. The New Public Management (NPM) opponents claim that it is possible to manage the performance when this process is relative to an activity consisting of simple production functions and having clear unambiguous results (e.g., Clark and Swain, 2006). While the NPM steam and its supporters note that these simple functions can be managed within the framework of a traditional line-item budgeting (e.g., Osborne and Gaebler, 1992). In this debate, we vote the side of NPM supporters since traditional bureaucratic approach of budgeting for centuries was based on unchangeable simplified procedures, aimed on funding estimates for the public sector. Current criticism on performance budgeting only contributes its further conceptual development as well as methodological improvement.

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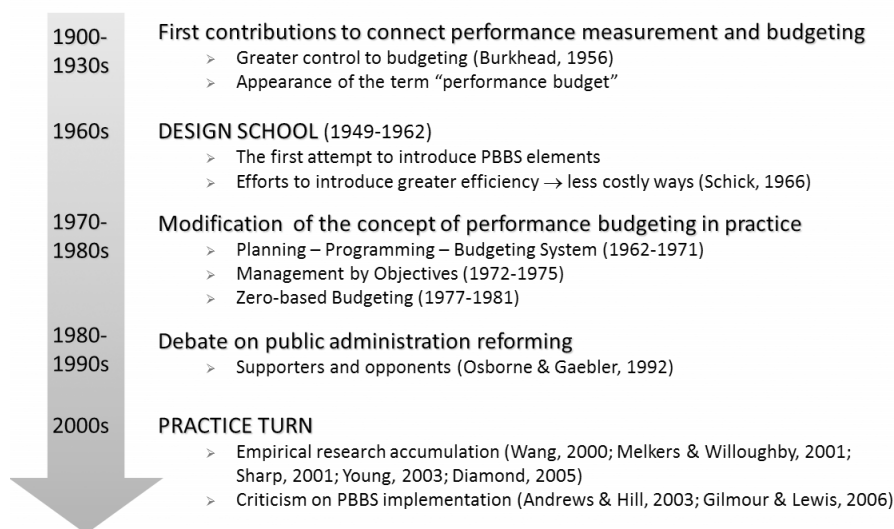
2. Conceptual framework

The Design School and the Opponents

One of the important features that characterize the practice of PBB is the *utilization of performance information* for the allocation of resources. Although performance information has been developed and introduced in both management and budget process, we will primarily concentrate on the budget process.

The very first contributions (Fig. 1) to connect performance measurement and budgeting were rooted in a model of “executive budget” (from the 1900s through 1920), aimed at implementation a greater control to budgeting as a counter to “corrupt policies, primarily centred in cities dominated by political machines” (Burkhead, 1956). The task of a later period were efforts to introduce greater efficiency into budgeting by concentrating on less costly ways of work organization and delivering outputs (Schick, 1966)¹. Further reform’s effort includes the initiatives for making the budget process focused primarily on the results achieved from the expenditure for government activities, rather than on the expenditures or activities themselves².

Figure 1 Performance-based budgeting: the design school and the practice turn



The debate on performance budgeting was then frozen. And, since 1980s, integration of performance measurement into budgeting and management process has become an increasingly popular practice (Berman and Wang, 2000; Cope, 1987; Hood, 1995; Grizzle, 1987; Poister and McGowan, 1984; Poister and Streib, 1999). This period can be considered as a *stage of revival of performance-based reforms*, primarily by a number of efforts that have been made in the United States in order to review the status of performance-based budgeting. Furthermore, these efforts

1 The example that can be given here is “performance budget” of the Hoover Commission, which, rather than emphasizing items of expenditure (salaries and supplies), was designated to describe the expected outputs resulting from a specific function or activity (such as training).

2 The Planning-Programming-Budgeting System represented probably the most famous of these initiatives, as well as another specific sample, which is zero-based budgeting.

presented a part of international trend - the “new public management”, due to significant growth in public spending and the difficulties in governing and coordinating of local administrations and public agencies encountered by the central governments, which required major changes in the detailed planning and control.

A logical extension of these past efforts was related to “managing-for-results” category that argues for a moving in the direction of “outcome-based” budgets instead of focusing on inputs. The tendency of budget process to focus on the allocation of resources to meet the needs of legislative area rather than the broader public interest is particularly criticized by the reformers. Performance budgeting re-entered the academic debate also under the impulse of the practice turn in budgeting research of the group of scholars, aspirated by the idea to draw a clear link between performance information and resource allocation decisions (e.g., Joyce, 1999). Another group have focused on comparison of various performance measurement practices (e.g., Lee, 1997). During the discussion, most concur that *performance information may be best suited for support of managerial decision-making* (Cornett, 1998; Melkers and Willoughby, 1998). Further, they tend to support a notion that there is still a large variation in the presence of performance information and the use of this information for budgeting. This stream of research has contributed to the understanding of the efforts toward increasing of performance information use in budget processes.

Stimulated by this debate, over the 2000s much empirical research accumulated (Kettl, 2005; Pattison and Samuels, 2002; Sharp, 2001; Young, 2003; Diamond, 2005; OECD, 2005). In major cases empirical works are represented by case studies (Andrews, 2004; Tat-Kei Ho, 2011; Gilmour and Lewis, 2006; Melkers and Willoughby, 2001; Moynihan, 2005; Wang, 2000). These studies showed that the uses of performance-based budgeting systems could be understood in two ways. According to the first, the subject matter should be considered in the broadest sense as it relates to its primary aims, which would include improving of decision-making process and elevation service delivery. The second way would be to examine the application and functioning of PBB practice among specific states, as well as the evolution of the “new” performance budgeting model, increasingly being applied in industrial countries. For emerging market economies identifying of its main components would be viewed as the prerequisites for converting their present budget systems to PBB model. In this regard there are studies addressed to the problems which may limit the implementation of performance budgeting in some states (Poister and Streib, 2005; Xiaohu Wang, 2000).

Referring to a *criticism* on PBB implementation there should be noticed that a common pessimistic opinion is that performance and program budgeting efforts lead to budget planning systems that are mechanistic, overly complex as well and overloaded with performance data, which have little or no impact on actual decisions (Tandberg, 2009). Also recognized as a narrow conception of performance budgeting its tendency to create links only from past performance to present funding (Andrews and Hill, 2003)³. Furthermore, critics argue that performance budgeting is a “troublesome” enterprise because it is difficult to know how to use performance information (e.g., Gilmour and Lewis, 2006). The question that arises here if a program performs poorly, does that mean it should be cut because it is wasting money or increased so that it can do better? On the other hand, there are case studies that demonstrate that on the local government level performance measurement do influence budgetary decisions; even so such results may occur at the program level rather than at the department level and during the appropriation process (Tat-

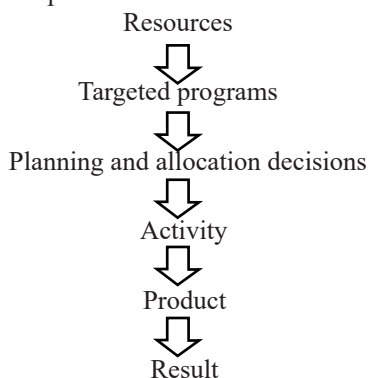
3 However, it does not mean that all PBB systems has this property: “...it is, in fact, link between funding and expected future performance which are the focus of some performance budgeting systems” (Robinson and Brumby, 2005).

Kei Ho, 2011). In particular, Andrews (2004), pointing to Florida's experience, states that it is likely that PBB will not penetrate the decision-making processes, if *performance information data are separated technically from budgeting and accounting operations*⁴. We would like to emphasize, that named criticism does not make a problem of an effective budget spending less actual. This is particularly important because each country implements its own model of PBB, relatively to its national characteristics, culture, priorities, level of fiscal stability etc. In this regard, the variety of comprehension of the mechanism of PBB should not be considered as disadvantage, but rather an advantage, which, in turn, may serve as a source of methodological framework' development. Hence, an examining the argument through its implementation among specific states could become a way to understand meaningfully the method of PBB.

Process of Transformation of the Budgetary Planning Methodology

In compare to a traditional budgeting, PBB allows tracing the relationship between resources spent on the program, activities that are performed within the program, services produced in the course of the program execution and the results. In other words, an institution is planning the resources required, sufficient to carry out activities necessary to obtain a product that will lead to the achievement of the results (Fig. 2). That is, PBB is adding performance factor to traditional aspects of budgeting thus distinguishing efficiency from effectiveness. Herewith, efficiency emphasizes on the useful utilization of the resources concerned, while effectiveness emphasizes the performance.

Figure 2 Logical sequence of PBB process



The PBB model of budgeting is characterized by costs that are less detailed when in the moment of planning; a primary importance acquires not just a "correct" budget spending, but also the achieving of planned performance (Tab. 1). In terms of the effectiveness of each of the models, while the "ideal" version of "cost-oriented" model (that assumes one hundred percent of the plan execution) is possible to achieve, the optimization of relationship of results and costs represents a long process, since the moment of the "ideal" performance of this process is not clear. However, this makes the PBB model flexible and allows its continuous improvement, as well as increasing of the effectiveness with a further development and identifying of new priorities.

⁴ Shah's (1998) institutional model of the public sector identifies three factors, which are providing a framework for analysing PBB adoption: performance evaluation ability, personnel ability and technical ability. The idea of the model is that *governments need to focus on more than just the technical side* when implementing PBB but to expand their reform space.

Table 1 Cost-oriented budgeting model versus PBB model

Criteria of comparison	«Cost-oriented» model	PBB model
<i>Planning object</i>	Budget expenses	Budget expenses and results
<i>Movement on budget «vertical»</i>	“Bottom-up”	“Top-down”
<i>Distribution of funds</i>	By cost (according to the functional, departmental, and economic classification of budget expenditures)	By program or strategic objectives designed to achieve specific results
<i>Principles of budgeting</i>	Justification of resource needs. Established, usually by indexing the amount of expenditures of the previous period	Justification of the priorities and expected results and effectiveness. Budget expenditures are related to performance indicators through resources and activities required to achieve results
<i>Planning horizon</i>	One year	Medium term (3-5 years)
<i>Limits of using of budget allocations</i>	Funding is divided into target limits in relation to a particular goal. Unacceptable or extremely difficult are transfers between items or sections of expenditures. Balances on budget account debited at the end of the year	Setting of long-term limits of budget allocations. Approved transfers between items of expenditures; possible to transfer unused funds to the next year and partial use of the budget allocations of the next year in the current year
<i>Responsibility for the effective use of budgetary funds</i>	Targeted use of budgetary funds in accordance with established procedures. Low level of delegation of responsibility; limited possibilities of budget process participants to act independently in order to enhance the effectiveness of budget spending	Results of performance. High decentralization and delegation of authorities. Setting of appropriate goals and allocation of financial resources in accordance to prioritization in spending. Individual units within the organization should be able to determine independently the best option to achieve the goals. Focuses on the achievement of ultimate social results. Monitoring of performance indicators as a tool to assess the degree of budget execution
<i>Monitoring of budget execution</i>	Implemented by external regulatory bodies (usually higher or specialized agencies). Focuses on monitoring the execution of budget expenditures	Implemented by external regulatory bodies, a specific role plays internal control. Focuses not so much on the control of budget spending, as on the achievement of goals and objectives

In contrast, implementation of a detailed plan in practice necessitates a constant adjustment of the plan in order to improve its rationality that actually discredits the planning procedure, showing a formality of a high specification of costs. In turn, high decentralization of planning limits the duration of the planning period, impeding the implementation of the strategic planning targets. The object of control in cost-oriented model is a targeted use of budgetary funds, while

cost effectiveness moves to a second place.

Assess of the achievement of strategic objectives is accomplished by the use of outcome indicators characterizing “socio significant” effect. However, the definition of the end outcome of budgetary institutions is not an easy task, since the search for the social result obtaining by the society specific services requires going beyond the financial sphere. *Selection of quantitative and qualitative indicators of efficiency and effectiveness* is probably one of the most important and, at the same time, the most complex aspects in PBB implementation. When it comes to a key value of performance indicators, it implies that these indicators should:

- be in relation to the goals and objectives of providing services;
- utilize a reliable information received on a regular basis;
- must not duplicate other indicators;
- be accessible for a wide range of stakeholders;
- be simple for calculation, analysis and use in reports.

The complexity of the choice of such performance measures, which would reflect the impact of budget expenditures, refers to the fact that it appears to be the case that, until now world practice *has not yet developed a clear, agreed-upon understanding of these terms* (particularly this concerns the term “social results”). The same applies to a common set of indicators that are recommended for use in a particular area of public services.

3. Analysing Best Practices: an Overview

The majority of the OECD countries introduced PBB in the late 1980s, or 1990s (in some of the countries much earlier), with a main goal to improve accountability and effectiveness of public programs (Lee and Wang, 2009). Since the first attempt to implement PBB elements was made, various modifications of it have been used in practice: the planning-programming-budgeting system (PPBS) (1962-1971), management by objectives (1972-1975), zero-based budgeting (1977-1981), and, finally, a “new performance budgeting” (from the 1990s.). In most cases, the practice of PBB was expanded by introducing a new legislation that required performance measurement and benchmarking (OECD, 2002; Willoughby and Melkers, 2005); many have also shifted to report outcomes and build a strong link between performance and budgeting (OECD, 2002; Perrin, 2002).

Reputedly, Australia, New Zealand, Great Britain, and the Netherlands managed to introduce the most complete version of PBB, changing the structure of their budget in order to include information about the intermediate and final results of operations. Canada and the U.S. have not made any changes to the budget classification, but instead have incorporated the results into strategic plans, which are also represented in the legislature. Programs of transition to a system of PBB are taken in France and Germany. The individual elements of the concept of budgeting for results are also used in several countries in Central and Eastern Europe, particularly in Bulgaria⁵ and Latvia⁶. Even those countries, who were able to change their budget structure, have faced some challenges in integrating performance information into a budget process⁷. The approaches

5 The first experiment was implemented in 2002 in the Ministry of Environment and Water Resources.

6 PBB implemented in the Ministry of Agriculture.

7 In the mid-1990s, the Swedish Government changed budget structure to better reflect the priorities of a state policy: expenditure was allocated to 27 areas and was created a software classification. There have been several attempts to fully integrate financial information and performance information. Despite this, performance information is not generally used as a basis for negotiating or deciding on future resources.

taken here are grouped into both formal and informal categories. The formal category assumes a mandatory presentation of planned targets and (or) a report on the performance, along with budget requests. If performance information used in decision-making process, then comes to the fore the question of how achieved / planned outcomes affect funding. According to informal category, countries do not impose formal requirements for the use of the results in the formation of budget allocations⁸. Performance information, as a rule, makes a part of the report and submitted to the legislature. The requirement of submission of the planned target values, along with the budget application may cover all ministries, or apply only to a part of them. In some countries, this requirement only affects new programs or additional costs for the implementation of existing programs. In countries where the Ministry of Finance is involved in the formation of the targets, these figures are subject of the negotiation between the Ministry of Finance and sectorial ministries.

Most of OECD countries do not adhere to universal formal rules that governing the relationship between costs and the targets (a specific exception is New Zealand). Australia and the UK have established the requirements according to which increased costs/new costs must be supported by targets or estimation of the impact. Performance management and budgeting are generally the responsibility of individual ministers and their departments and agencies. This makes a current system outcome-focused, where every department or agency within the general government sector need to identify comprehensive and explicit outcomes, outputs and performance measures for the quantity, quality, price and effectiveness of their activities. In the UK, in order to monitor the conformity of industry costs to priorities of the state policy, each ministry develops a three-year spending plan and an agreement on the providing of public services, including performance indicators that are coordinated with the Treasury. Political and economic considerations affect the structure of expenditures, while the targets are used in order to relate new or additional costs to the results to be achieved through these means. Thus, key objectives and targets are integrated into a decision-making process at a high political level (Scheers et al., 2005).

For both governments and institutions, there are some important benefits from the implementation of PBB. In particular, among the benefits for government could be distinguished:

- possibility to regularly obtain complete information about the realization of government objectives and the use of budgetary funds;
- possibility of a more efficient allocation of budgetary resources due accurate and complete information on the implementation of programs;
- opportunity to compare several proposed options in terms of expected results and costs;
- possibility to identify and eliminate duplicative and/or ineffective programs⁹ (e.g., Forsythe, 2001).

Still, it is used to monitor agencies' activities and to report on the results to parliament. The discussion of the draft budget to the government and parliament is usually in the traditional terms of expenditure trends and budget allocations and there is still a clear separation between the financial and performance aspects (OECD, 2007).

⁸ Departments and agencies may submit such information to the Ministry of Finance, and use it in negotiations, but it will not play a significant role in the allocation of funds.

⁹ In 1999, the results of inspections led by Government Accounting Office (USA) identified 61 programs that were proved ineffective. The programs have been divided into three groups:

- programs / services that could more effectively be performed / provided by the private sector;
- programs that provided outdated, not more actual services;
- unprofitable capital investments.

At the same time, the benefits for the institutions are:

- possibility of independent expenditure of budgetary funds to achieve intended results;
- possibility to establish (at least approximately) the relationship between expected results and the amount of resources required;
- opportunity to request reinforcements to increase the budget financing substantiated by economically viable calculation efficiency of the programs¹⁰ (e.g. Hatry, 1999).

Generally, OECD countries positively evaluate the results of budget reforms related to the PBB implementation, yet facing some significant challenges (Tab. 2). More than two-thirds of the countries include non-financial performance data of public bodies in their budget documents.

Table 2 PBB systems' implementation: selected international experience

Positively evaluated results	Challenges faced
Contribution to the <i>identification of policy priorities</i> in the short and medium term; aligning them to the activities of sectorial ministries	The successful use of performance information for budgeting <i>takes time to implement and has many obstacles</i> : performance cannot be measured until the goals are transferred into measurable desired results. <i>Problem of a time lag</i> , when the actions taken today are effective only after some (often very long) time
<i>Improvement of the quality of the monitoring</i> of budget expenditures due to the inclusion of performance information into fiscal accountability	PBB can distort the incentives of the budget process, give rise to a desire to <i>manipulate the performance indicators and statistical data</i>
Contribution to <i>enhancement of the role and expand the horizon</i> of budgetary planning; deviate from the justification of future expenditures through costs of previous years, linking to expected outcomes	PBB has <i>specific requirements for the qualification of staff</i> of financial agencies since information about the effectiveness of government differs significantly from the ordinary financial information; <i>requires major changes in the means of automation</i> of all stages of the budget process
Creating conditions for <i>improving the quality of governance</i> . More than ½ of OECD countries have implemented PBBS, which includes setting and monitoring targets	
<i>Increasing the transparency of public authorities</i> . 24 of 30 countries inform the public about the results of activities	

All in all, even though PBB's implementation is not a simple, rapid or cheap process, it may provide a great opportunity to improve the efficiency of public spending, considering the peculiarities of a national economy and public administration. Almost all OECD countries introduced performance indicators of public authorities and institutions in their budget process, while a direct link funding to performance indicators is used only in a few countries, generally small ones, and for a limited range of public services.

¹⁰ Department of Environmental Protection of Massachusetts appealed to the state legislators with a request for funds for the concreting of municipal waste landfills. As a reason was mentioned a product which was the number of acres of concreted land. This did not convince legislators and the request was rejected. When the department cited as expected result reduction of the amount of pollutants that can seep into the groundwater and get into drinking water sources, the funding has been obtained.

4. Challenge for Emerging Markets: Case of Russia

Identifying Preconditions of PBB Implementation into Russian Budgetary Practice

Many emerging market economies, including Russian, are attempting to improve their budget process by moving to performance-based budgeting. The goals faced by them when converting their present budget systems to PBB model are determined and it is recognized that this conversion will not be easy and will require major efforts (Diamond, 2003).

In Russia, understanding the need to change the concept of the public finance management came through primarily to the fact that further development requires a systematic increase of the budget effectiveness, while existing approaches do not allow to meet the growing needs in a more rational use of budgetary resources. Planning mechanism, which is inspired by centralized planning, is likely one of the main reasons of the current budget expenditure's ineffectiveness at all budget system levels (Zhigalov, 2009). The structure of such budget system was the result of its transformation from the RSFSR (Russian Soviet Federative Socialist Republic) period. In compare to the other countries with emerging market economy, Russian practice of budgeting is based on centralized planning economy: after the collapse of the Soviet Union, the country inherited a system of formally federal but essentially a highly centralized unitary state where regional and local authorities were not significantly autonomous. Public administration was based on the planning, which bore the form of law, realization of which was compulsory and strictly controlled. Therefore, it was assumed, that the mere execution of the plan, i.e. budget, ensures the efficiency of the public sector.

Budget execution was carried out through a comparison of “plan” and “fact”, where the budget is generally based on changes in the actual parameters of the past year. This is so-called planning system “from achieved”, implies an application to the current expenditure structure the indexation method. Such approach to budgeting, widely being used until recently, does not allow to achieve the objectives of socio-economic development, set by public authorities, as well as to plan the results of budget expenditures at the different levels of budget system. Moreover, the incremental method of budgeting can be mainly used in case of a developed system of setting priorities for spending.

The estimated expenditure approach based on reported data procedure allows a goal-oriented spending of funds and a comparison of planned and actual amounts of funding. These facts, of course, are useful considering the existing system of planning and financing, but in practice are not related to the determination of the public spending effectiveness.

However, certain traditions of planning, such as medium-term plans of balanced budget, as well as “top-down” reporting approach, provide a good basis for the transformation of the budget system in the Russian context (Lavrov, 2004; Ushakov, 2008)¹¹. In addition, a considerable experience of development and implementation of target-oriented programs (which is also making a part of PBB) on federal level was already accumulated. Finally, a fund of regional finance reform has been recently implemented as one of the PBB's element. It is aimed to provide funding to those regions who make a progress in managing of their budgets.

Why, then the PBB introduction has not begun earlier, and what prevented the reforming of budgeting planning? Active studying of experience of PBB' systems implementation by foreign countries began in 2000 and these ideas have already been considered at the time as a promising

¹¹ Compared to Sweden, for example, which is now considered one of the leaders of reform in this area passed to the method of “top-down” only 10-15 years ago. Earlier there was used the method of “bottom-up”, when the ministries prepared their applications for funding, and defended them in the higher authorities.

vector for the Russian financial management system. International experience in budgeting reforming demonstrates that the PBB's introduction is directly related to administrative and intergovernmental fiscal relations reform, which have not yet completed in Russia¹².

Therefore, in practice, the necessity and the expediency of the PBB' elements introduction can be explained due to the presence of a well-defined context:

situation when the traditional methods of improving of budget expenditures efficiency is almost exhausted and cannot solve the problems of imbalance in the budget or lack of qualitative public services;

budget crisis, which requires radical measures to reduce costs while retaining the achieved level of provision of public services;

situation when the budget is no longer a full value management instrument.

PBB Transition Process in the Russian Context

The introduction of PBB in Russia was thus necessary and legitimate since it is effectively represent a logical extension of reforms that were conducted and continue to be in the public sector in recent years. The topicality is delineated in connection to the adoption of legislation on the reform of the budgetary process¹³. According to the official sources, Russian practice of performance-based budgeting begins from the period of 2000th which was characterized by the budget reform that implied a methodological approach to the planning and execution of state and local budgets¹⁴. The very first steps towards the introduction of PBB' systems elements into practice of financial management were taken in 2004. Key events related to the creation of a legal framework and practical implementation of PBB, are presented in the Table 3.

Table 3 Main stages of performance budgeting implementation in the Russian Federation

Year	Event
2004	Approved of the Concept of reforming the budget process (22.05.2004)
	Conducted the first experiment to introduce the PBB in nine federal executive bodies
	Compiled the first report on the results and main activities for 2005-2007
2005	Started implementing of a three-year budget planning (Resolution № 118 of 06.03.2005)
	Adopted a resolution on departmental target programs (19.04.2005)
	Adopted a resolution on the order of conducting the register of expenditure commitments of the Russian Federation (15.07.2005)
	Completed an experiment in 9 ministries, allocated resources to implement PBB measures
	Compiled report on the results and main activities for 2006-2008
	Accepted the concept of administrative reform in 2006-2010 (Russian Federation Government Decree № 1789-p of 25.10.2005)

12 E.g., in most cases laws contain vague indications if expenditures commitment that entered by the State is its function, how much does it cost, how the costs should be considered, who provides a funding, who is involved in the costs of execution of these functions.

13 Russian Federation Government Resolution on May 22, 2005 №249 "On measures to improve the effectiveness of budget expenditures".

14 E.g. Russian Finance Ministry website. Access mode: <http://www.minfin.ru>.

Year	Event
2006	Term financial plan approved by the Russian Federation for 2006-2008 (№ 399-p of 21.03.2006), the budget cycle for the first time in 2007 was done in the format of «rolling three-year plan»
	Conducted a second experiment on introduction of PBB in sixteen federal executive bodies
	Prepared amendments to the format departmental target programs on the basis of understanding the negative experience of the implementation of departmental target programs
	During the budget process introduced Justification of budget allocations - a tool for planning and reporting on direct results
	Reduced first register of expenditure commitments of the Russian Federation
2007	Budget cycle for 2008-2010 is first implemented in the three-year budget format
	Registry of expenditure commitments of the Russian Federation is used in the preparation of the federal budget
	Justification of budget appropriations are used in the budget process (while only for explanatory note)
	Implemented on an ongoing basis experiment - assessment of financial management in the federal bodies of executive power. The result is not only the allocation of funds for PBB implementation, but also much liberty available in budget funds
2008	Implementation of the Concept of administrative reform in 2006-2008
2009	Adoption of guidelines on drafting the studies of budgetary allocations of the main administrators of the federal budget for 2010 and the planning period of 2011 and 2012 (№ 02-09-01/4670 of 01.10.2009)
2010	Adoption of the Federal Law “On Amendments to Certain Legislative Acts of the Russian Federation in connection with the improvement of the legal status of state (municipal) institutions» (№ 83-FZ of 08.05.2010)
	Adoption of the program of the Government of the Russian Federation to improve the efficiency of budget expenditures for the period until 2012 (approved by the Decree of the Government of the Russian Federation № 1101-p of 30.06.2010)
	Adoption of the Federal Law “On the organization of public and municipal services» (№ 210-FZ of 27.07.2010)

It should be emphasized that the process of the legal framework establishing is not yet complete. The approach, which is taken here, includes methods of allocation of budgetary resources matching with the goals, objectives and functions of the state according to the changing priorities of state policy. It is also imply the formation of the budget of the Russian Federation based on the goals and intended results of public policy. Thereby, budget allocations obtained a clear link to the functions, i.e. services or activities, and the focus in their planning should concentrate on proving outcomes within budget programs. This includes the introduction of the system of internal control. It is expected that the responsibility for decision-making be delegated to lower levels, where the evaluation of administrators of budget funds should be based on performance. There are other specific issues that impede the implementation of the new budgeting system, like, for example, the problems of a current structure of a rete of budgetary institutions, in

major cases weakly connected with the functions performed by the ministries. Therefore, there should be done some steps related to the optimization of the budget sector, such as reduction of redundant functions, the transfer of some budgetary institutions to municipalities, association of public institutions, etc. Still, some of these steps, for instance, the identification and elimination of duplicative programs, as well as elimination of ineffective programs, are actually making a part of activities, which imply the functioning of PBB.

Implementation Tools of PBB: Some Evidences

What tools, or basic elements, should be used in order to implement successfully the performance budgeting, i.e., to provide a link of the final results and the direct results of the authorities to the financing in the medium term? Conditionally, PBB tools can be divided into two main categories. One category is the *goal-setting and planning tools*, which ensure the unity of existing policies as a whole, and in its various branches; the other category is represented by the *implementation tools of goals and objectives identification*.

Based on international and already established in the Russian federal practice, the above categories include four major tools:

Reports on the results and main activities, which define the strategy of the executive authorities

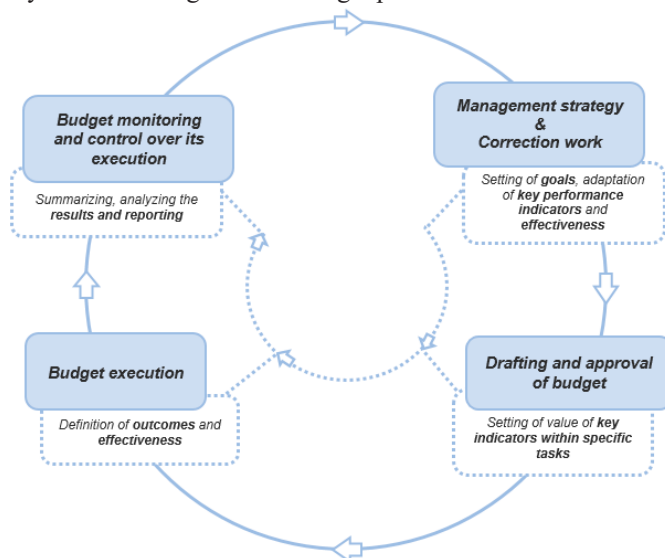
Targeted programs, defining tactics of work, linking funding with immediate results

Prospective (medium-term) financial planning

Register of expenditure commitments, allowing to define uniquely the scope of the existing commitments and to give the possibility to implement a medium-term financial planning based on accurate data.

The last two tools have been currently enshrined in the Budget Code of the Russian Federation; their use is regulated by current budget legislation; while the first two (that are actually planning and goal setting tools) may differ from those listed above. General principle that supposed to be respected here is: there must be a document that defines the activity strategy, and a document that defines tactics in relation to the financial resources allocation. All indicated tools supposed to be clearly linked to each other and be integrated into the budget process (Fig. 3).

Figure 3 PBB system at all stages of the budget process



Thereby, information on the expenditure commitments should be used in the formation of reports, medium-term financial planning and budgeting; draft budget should match the medium-term financial plan; programs should be considered in the preparation of reports and, in turn, formulated according to the objectives and tasks which were set for the appropriate authority and reflected in the reports; additional budgetary funds should be allocated based on the results of activities (including programs) of entities receiving budgetary funds, etc.

A legitimate question arises about how the goal-setting system should be designed in order to ensure its optimal functioning - “bottom-up” or “top-down”? Taking into account the Russian mentality and the practice established, it is generally considered that the best option is the formation of the “top” system: targeted strategic activities supposed to be established (and coordinated) by a superior authority/agency. For executive authorities such agency may be a supreme executive agency, e.g., government, administration, etc., for budgetary institutions it may be executive authority in charge of which they are located. While the competencies to determine the tactics of work should be fixed directly to performers - executive bodies or budgetary institutions, respectively.

Currently, a program-target method of planning is already in use on federal, and partly on regional and local levels of government, acting as a tool for improving the effectiveness of public spending (Tab. 4-5).

Table 4 Classification of budget programs

Criteria Types of programs	Formed and funded at the federal level	Formed and funded at the regional level	Formed and funded at the local level
Level of governance	<i>Federal</i>	<i>Regional</i>	<i>Municipal</i>
<i>Timeline for implementation</i>	As a rule, a <i>long-term</i> (5 years or more)	<i>Medium-term</i> (3-4 years) and long-term	As a rule, <i>short-term</i> (1-2 years)
<i>Departmental affiliation</i>	<i>Departmental</i> (have a single administrator responsible for the implementation), <i>interdepartmental</i> (have several chief administrators, one of which is endowed with the functions of coordinator and is responsible for implementing of the program)		
<i>Purpose of the program depending on the task</i>	<i>Strategic</i> (investment programs that involve long-term objectives of strategic)	<i>Strategic, tactical</i>	<i>Tactical</i> (suggesting solutions to current problems of operational management)
<i>Mechanism for selecting programs</i>	Carried out the <i>ranking and selection</i> of projects, programs, all selected programs are funded at 100%		Generally all programs are accepted in accordance to the <i>approved list of services</i>

Level of governance	<i>Federal</i>	<i>Regional</i>	<i>Municipal</i>
<i>Types of budget allocations</i>	Any kind of budget allocations, including intergovernmental transfers		Allocations for the provision of public services
<i>Procedure for review and approval</i>	Examined by the Commission on Budgetary Planning, approved by government decision (federal, regional, municipal etc. level of authority)		Examined by the budgetary planning commission, approved by the order of department

Budget classification of program budget is based on certain principles of the budgetary programs formation, their relationships and their clear classification. At the same time, the structure and the dynamics of different levels of budget expenditures are still weakly correlated to the objectives. One of the main obvious obstacles to the introduction of performance information into the budgeting process in Russian practice is the lack of a unified set of performance indicators, which would represent a degree of achievement of established goals and objectives.

Table 5 Comparison of various PPB' tools implementation in the Russian budgetary practice¹⁵

PBB tools	Degree of introducing	Features	Major problems
<i>Reports on the results and main activities</i>	<i>more than 30 regions</i>	Widely used at federal level with certain improving in preparation of reports in terms of the formation of goals and objectives. Scarcely used at regional level; series of measures are taken aimed at introducing the Reports in the budget process	<ul style="list-style-type: none"> • Poorly defined incentives to achieve planned results and/or monitoring procedures • Difficulty of Reports integration into the budget process at the subnational level • Difficulty in selecting appropriate indicators for assess goal achievement
<i>Targeted programs</i>	<i>ranged from 13 to 37¹</i>	Widely used at both federal and regional level	<ul style="list-style-type: none"> • Imperfection/lack of strategic documents • Poor drafting of regulatory basis • Contradictions/conflicts between the governments of finance and economy

¹⁵ It is for the most part based on the analysis made for doctoral thesis "Performance-based budgeting: between discourse and effective management" (Dokalskaya, I. Department of Economics and Statistics, University of Udine, Italy, 2014. Scientific supervisor Prof. Luca Brusati). The information was gathered through empirical based literature review, thematic analysis and interviews with regional actors, i.e. representatives of legislative and executive authorities, and experts in the analyzed field.

PBB tools	Degree of introducing	Features	Major problems
<i>Prospective financial planning</i>	<i>at least 35 regions²</i>	Implemented at federal level. Indirect mention of medium-term financial planning on the sub-national level ³	Difficulties in matching the values of medium-term financial plan to the main parameters of a budget project
<i>Register of expenditure commitments</i>	<i>75 from 89 regions</i>	Overall used at both federal and regional level	Weak relationship/actual lack of unity of approaches at the regional level ³

¹ Nowadays, a number of government programs in the Russian regions ranged from 13 (in Amur region) to 37 (in the Republic of Sakha-Yakutia), wherein the period of their validity is 3 (Kirov region) to 9 years (Khabarovsk region).

² Laws and regulations documents, relating to medium-term financial plan were developed and approved in at least 35 regions of Russia. Starting in 2014 (for 2014 and the planning period of 2015 and 2016) the budget legislation designed in the parameters of medium-term financial plan for the sub-national level.

³ The organization of a form of the register of expenditure commitments has been organized in different ways: in some cases, this task is on self-charge of a financing authority; in other cases, the registers may be compiled by executive authorities and be summarized by a financial authority etc.

Considering the present experience of budgetary process, it seems to be difficult to identify the stage of PBB implementation in Russia since there is the presence of both, “costly” budgeting model, and performance budgeting model. Along with the regions which have already achieved good results in the introduction of PBB tools, many regions are still dominated by so-called conservative approach to the management of budgeting process. However, it is possible to distinguish some characteristic features that have been revealed at the subnational level in the regulation of the use of PBB tools. These features call for a need of parallel implementation of measures on the legal regulation of a number of interrelated aspects.

First, the introduction of the named PBB tools into the budget process of different regions in most of the cases occurs in a way identical regulatory tools were adopted on the federal that entail a reproduction of the federal approaches without taking into consideration regional particularities and priorities of their territory development.

Secondly, it is still difficult to talk about the interrelation of different PBB tools and their embeddedness in the budget process at all stages. Often these tools cover budget-drafting stage and later in the budgetary process or are not yet used, or are poorly interconnected.

And thirdly, the problem of modernization of existing information bases, i.e. the integration of existing and new information resources, requires a provision of an electronic system design as a set of interrelated budget components. This also implies such an important issue as a sufficiency of knowledge and skills of the main actors of PBB implementation process.

Conclusion

The approach used as the basis for the implementation of performance-based budgeting technics varies depending on the capacity of each country, its population mentality and the culture. What unites all the PBB models, is the general objectives pursued by different countries. Despite academic criticism regarding ambiguity in understanding the PBB mechanisms, in this variety,

one can see the advantage rather than a disadvantage that, in turn, can serve as a source for the methodological development.

As some IMF experts point out, political commitment and a real political interest in the effectiveness of expenditure are crucial, and before countries decide to introduce performance budgeting, they need to be sure that other budgeting basics are properly in place (Robinson, 2007).

With all diversity of the PBB implementation, controversial remains a problem of integration of decisions on budget allocations spending to the results achieved. This evidence supports the idea that it appears to be the case that until now the world practice has not developed yet a clear understanding of the quantitative and qualitative indicators of the budgetary expenditures effectiveness. Several issues confirm the thesis about the importance of a primary modification of a control system (Hager and Hobson, 2001; Robinson, 2009), and then establishing of new principles of budget planning. This has been done in almost all the developed countries, where the PBB is being implemented. In turn, this suggests such an important aspect as a readiness of the whole system for the introduction of such a fundamentally new method of public expenditure management as the PBB.

In particular, we are talking about the possibility to create a mechanism, which, on the one hand, would allow building the relationship between indicators of socio-economic development of the territory and budgetary funds. On the other hand, the challenge is also to develop and to introduce a mechanism of administration, not directly related to the financial component. Thus, seems to be justified a perception of PBB as a diverse, "multi-level" concept of budget process management, which involves fundamental changes in the approach to all components of the system of budget management: from planning and goal setting, to control and motivation. The lack of such understanding is equivalent to risk of implementing of PBB as a formal project, not built into the actual processes, eventually losing the ability to use all of its potential.

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Religion-Corruption Nexus in Ghana

Micro Level Evidence

Emmanuel Carsamer • Anthony Abbam

Abstract The controversy surrounding the impact of religion and religiosity on the growth of corruption is yet to be settled. The effects of prosperity gospel and growth of African Pentecostalism organizations on the prevalence and transmission of corruption have witnessed resurgence in the economics of religions literature especially after the proliferation of individual churches in Africa. Using micro level data through survey and application of structural equation model, this study investigates the nexus between religiosity and prevalence of corruption in Ghana. The study reveals though that the two concepts are positively related it is insignificant. It also showed that socio economic status such as income directly influence corruption and trust of person positively promote prevalence of corruption. The policy implications are that religious leaders should take ethics preaching seriously. Again, there must be efforts to address public sector corruptions since it deepens poverty and its effects on society.

Keywords Corruption - Structural Equation model - Religion - Ghana

JEL Classification Z12 - P48

Introduction

Globally, corruption is recognized to impede economic development and prosperity, hampers international trade and investment, erodes the social order, peace, and stability (Transparency International 2010; Laszlo & Alastair, 2000; Mauro 1995; Kaufmann, Kraay, & Mastruzzi, 2003). World Bank estimates that every year, between USD \$20 and \$40 billion is lost from developing countries alone due to corruption and bribery, but it emphasized that corruption and bribery also impact developed economies through globalization (UN, 2013).

The devastating effects of corruption in developing countries are unquotable especially in the poor countries of Africa that are struggling to overcome their economic underdevelopment (Mauro 1995; Bardhan 1997; Laszlo & Alastair, 2000). In Ghana, issues of incidental and systematic corruption are perceived to be high and responsible for the slow pace of development (Lamptey, 2014). The causes of corruption are multi-facets, but in the case of developing economies such as Ghana, whose population is largely religious (Christianity &

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Islam), its sources are increasingly important to investigate. Ghana currently ranks 98th out of 144 countries on a global percentile measure of irregular payments of bribes in public contracts, which indicates weak institutional structure (World Economic Forum, 2014). However, at the same time she is religiously ranked second after Nigeria in West Africa.

The ignition in the religion-corruption nexus stems from the argument that fairness and honesty form the basis of many religions and as such, religious leaders can be utilized in the fight against corruption (Times of Zambia, 2003; AllAfrica.com, 2006; Luxmoore, 1999, Mauutte, 2013). Faithful adherents to religion will refrain from corruption because of the inherent theft, dishonesty, illegality, and mistreatment of others. It is argued that none faithful adherents of religions are most likely to engage in corruption because of the absence of religious guidance (Beets, 2007). The ethical dimension aspect of religion focuses on the ethical teachings of religion such that, there is no religion without ethical teachings. This includes code of conduct and standard of behaviour that is in conformity with the social norms. Religion often sets the pace for any society about its social norms, mores and moral values. The implications of this probably explain why Adesina (2003), argued that religion takes its place in the context of the social pressures that influences personality, because it is the force which has mostly influenced the character of mankind.

Past literature has established the importance of religion at the aggregate economic level (Iannaccone, 1998; Durlauf, Kourtellos, and Tan, 2012; Barro and McCleary, 2003; Shariff and Rhemtulla, 2012; Arrunada, 2010; Barro and McCleary, 2003). In contrast, it is still unclear whether it plays a role in the pervasiveness of corruption in Africa. This gap in research is surprising, given that religion has been identified as an important factor influencing individual and other economically relevant behaviour (Iannaccone, 1998; Durlauf, Kourtellos, and Tan, 2012; Barro and McCleary, 2003; Shariff and Rhemtulla 2012; Arrunada, 2010; Barro and McCleary, 2003). However, Mauutte, (2013) and Durlauf, et. al., (2012) have questioned the empirical evidence for a causal relationship between religion and levels as well as prevalence of corruption since methodologies employed thus far are insufficient for proving a causal relationship.

In spite of these numerous studies, religion has received scant attention in studies of public sector corruption in Africa, a surprising omission given the extensive literature on how religion influences individual economic and political behavior. While prior studies link religiosity to economic development (Barro, and McCleary, 2003; Barro, and McCleary, 2005; Arrunada, 2010; Durlauf, Kourtellos, and Tan, 2012; Shariff and Rhemtulla, 2012), examining religions, religiosity and corruption in Ghana is important for several reasons. First, government directs the social development of an economy, which oils the engine of the broader economy. By breeding and feeding on inefficiency, corruption invariably strangles the economy usually leading to economic downturns. Second, the public sector serves as a better laboratory for studying duty bearer s' risk-taking behavior and its consequences because their direct dealings in using public purse largely creates more opportunities and the flexibility to engage in corrupt behaviors than private sector, and also governments are significantly more responsive to external grading shocks than private firms because it affects their loan bids and investment attraction internationally. Therefore, the question is, if religion leads individual citizens to adopt certain, positive attitudes and behaviors, does religiosity function similarly and leads to less corrupt government?

The findings of the paper showed that while religions in general increase corruption, it is insignificant for corrupt behaviours. Secondly, we found that socio economic status and education might directly impact corrupt behavior among public sector workers. Overall, this article makes two main contributions to the corruption literature. First, the article address calls to look at micro level data mechanisms through which religion leads to corruption (Marquette, 2013;

Durlauf, Kourtellos, and Tan, 2012). Second, the article advances the literature by demonstrating empirically how religious innovations relate to the various dimensions of corruption in the public sector. The rest of the paper is organised as follows. The next section reviews the literature followed by the research model and the hypotheses to be tested. This is followed by the description of the research methods and results of the hypotheses. The discussion of the findings was presented next and the conclusion. The final section presented the practical implications and limitations of the study as well as directions for further research.

Literature

Several studies attempt to build a theoretical model to analyze causes of corruption and its consequences (Mishra, 2006; Khan, 2006; Guerrero and Rodríguez-Oreggia, 2008; Matei and Matei, 2009). However, these studies were generally interested in modeling the relation between corruption and economic development (Macrae, 1982; Basu, 2006; Djumashev, 2006; Mocan, 2007; and Ebben and De Vaal, 2009). Empirically, a growing number of studies investigate the causes and effects of corruption across countries (Mauro, 1995; Herzfeld and Weiss, 2003; Dreher and Herzfeld, 2005; Serra, 2006; Carraro *et al.*, 2006; and Mutascu, 2010). All these studies have established empirical relationship between corruption and a variety of economic and non-economic determinants. Nevertheless, missing from these empirical studies is cultural dimension especially religion as a cause of corruption.

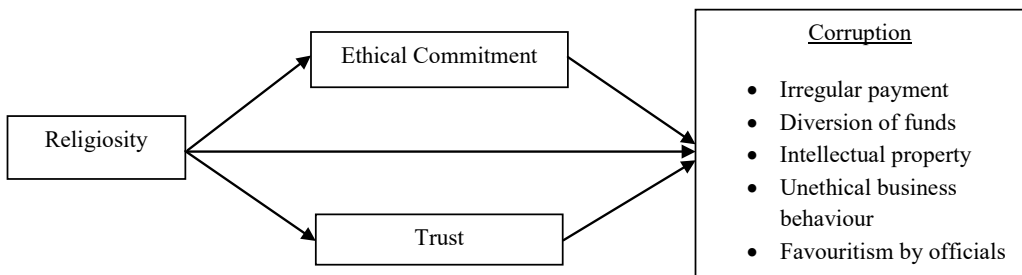
Literature on the impact of religion on deviant attitudes and behavior has established a significant negative relation between the individual level of religiosity and the possibility of deviant behavior (Stack and Kposowa, 2006). Baier and Wright (2001) in a meta analysis find that the greater the religiosity the less likely individuals are to engage in criminal activity. Hirsch and Stark (1969) studied the relation between church attendance and delinquent attitudes and behaviour. They find that attendance at church does not influence either actual delinquent acts or attitudes towards delinquency. Recently, Marquette (2010) asserts that the influence of religion on attitudes towards corruption is not clear as many factors come together to form these attitudes such as gender, age, education level and the nature of religion and religious community involved. Tittle and Welch (1983) examined the relation between religiosity and attitudes towards tax fraud, observe negative relation between religiosity, mostly represented through church attendance, and tax cheating. The result shows no difference between religious and non-religious respondents regarding behavior that is condemned by society as a whole, such as major theft, assault and tax evasion. Stack and Kposowa (2006) confirmed Tittle and Welch (1983) study when they expanded the scope of the data.

North and Gwin (2006) argue that a religious society is expected to be relatively more moral than a nonreligious one. However, as Marquette (2010) cautions, a logical fallacy may exist in this argument since it presupposes that all religions emphasize the same moral codes. Weber, (2010) and Jagodzinski (2009) support Marquette (2010) critique by establishing empirically that followers of different religions hold different views on what constitutes morality. The level of religiosity might not be the only important explanatory factor when investigating its relation with the perceived corruption levels but also the type of religion. According to Stack and Kposowa (2006), literature on the impact of religion on deviant attitudes and behavior succeeds in establishing a significant negative relation between the individual level of religiosity and the possibility of deviant behaviour.

Some studies have investigated the relation between religion and corruption (La Porta *et al.*, 1999; Treisman, 2000; Paldam, 2001; Bonaglia *et al.*, 2001; Chang and Golden, 2004) but few e from Africa (Marquette (2010b) which seems to relate to the continent. Common to these studies

is that religion reduces corruption. Devettere (2002) opines that the most effective way to combat global corruption is through giving high attention to virtue ethics. North and Gwin (2006) use a country-aggregated level data to assess whether religion affects the levels of rule of law and corruption. The authors' results show that the proposed effect of religion on corruption and rule of law is inconsistent since it significantly differs depending on the status of religious data being used. North and Gwin (2006) and Flavin and Ledet, (2008) find an insignificant relation between the public adherence to certain religion in a country and its perceived level of corruption. Flavin and Ledet (2008) use survey-based data to check if religiosity has a significant effect on the level of governmental corruption in the US states during the period 1990-2002. Although the authors use three different measures of religiosity, which are religious belief, belonging, and behavior, they find little systematic relationship between any of these measures of religiosity and corruption. Thus, religion does not seem to directly "purify" government corruption in the American States. This finding seems to have contradicted Beets and Mauquite assertion on the effectiveness of religion as an instrument to curb corruption. The fact is religiosity does not imply mere going to places of worship or littering public places with posters and magnificent signposts and structures but rather the reflection of the teachings of a particular religion on the value and attitudes of its adherents is a strong determinant of one being religious.

In a sample of 124 countries, La Porta *et al.* (1999) examined how political and religious factors affected varieties of measures of good governance. Most relevant to our study, they find that countries with higher proportions of Catholics and Muslims had lower property rights protection and higher corruption, although these results were not robust to the inclusion of GNP per capita and latitude. In a similar study, Treisman (2000) studies the determinants of corruption using several corruption indices covering between 36 and 64 countries. Regarding religion, he finds that the percentage of population that is Protestant generally had a small but statistically significant effect in reducing corruption. In addition, Dreher, Kotsogiannis, and McCorriston (2007) study the determinants of corruption in a sample of approximately 100 countries, and find that corruption was lower where there was stronger rule of law, higher educational attainment, and long-standing democracy. Although the results were not reported, Dreher, Kotsogiannis, and McCorriston apparently analyze the impact of religion on corruption but find no significant effects. Finally, Paldam (2001) analyse the effect of the population shares of several religions on corruption. He finds that a higher share of Protestants was correlated with less corruption compared to Catholic and Orthodox shares. From the review of literature, the conceptual framework is specified as follows



4. Method

4.1 Sample

Data was collected by means of a survey questionnaire distributed to adherence of Christianity and Islam within December, 2015 at the gate of a church temple or mosque after worship. Thus, all respondents had to be at the mosque or a church temple. This technique was based on the idea that, purposively selecting respondents will best help to investigate the problem under study and answer the research questions (Babbie, 2013; Creswell, 2014). Of the 375 questionnaires administered, all 375 questionnaires were return, since they were self administered by field assistants. Out of this, 64.7% were females while 35.3% were males. In terms of age, 12.5% were between 21-30 years, 43.1% were between 31-40 years, 42.7% were between 41-50 years and the rest were between 51-60 years. Again, out of the 375, 66.7% were Christians while 33.3% were Muslims. On educational qualification, 19.8 % had a Masters degree, 52.3% had a Bachelor's degree, 0.4% had a PhD degree, 16% had post secondary education and the remaining 13% had professional qualifications such as ACIB, IHRM, ACCA and CA. Of the total, 54.6% were married between 5-10 years, 41.3% had less than five years of experience of marriage, 3.9% and 2.2% had experience of 11-15 years and more than 15 years respectively with their current wivies or husbands. Respondents occupy positions of lay reader, choiristers, adherents, church leaders or Imman.

4.2 Measures

All the indicators in the study allowed respondents to answer on a five point Likert-Scale (1=strongly disagree, 5= strongly agree). Corruption was measured with five items used by World Value Survey (2010). These five (5) items measured corruption on the dimensions of intellectual property infringement, diversion of public funds, irregular payments and bribes, favoritism in decisions of government officials, and unethical behavior of firms.

Similarly, religiosity was measured with three (3) items from the scale developed by world value survey (2010). Respondents were asked to indicate how important religion is in their life, apart from weddings, funerals and christenings, how often do they attend religious services these days, independently of whether you go to church or not, would you say you are a religious person?

Studies that involve generalized trust often perceived the concept as multi-dimensional (Van Scotter and Motowidlo, 1996; Motowidlo, Borman, and Schmit, 1997). For instance, Van Scotter and Motowidlo (1996) observed that confidence in the justice system, confidence in the government in terms of performance and confidence in the police service all come to build trust in a country. Therefore, in this study trust is measured using the above dimensions.

4.3 Consistency of the Research Instrument

The consistency of the research instrument was tested with respect to content validity, internal consistency, construct validity, and composite reliability. With respect to content validity, a thorough review of the literature was done and adopted instruments that were well accepted and valid to represent the variables. The instrument was pre-tested with professionals, academicians and selected respondents for their adequacy and relevance. This helped established content validity of the items (Straub, 1989). The internal consistency evaluation was reliable as the computed Cronbach's alpha values show that the instruments are reliable as all Cronbach's alphas are much higher than 0.70 (Hair *et al.*, 2010; Tabachnick and Fidell, 2013). The construct

validity was examined by applying Confirmatory Factor Analysis (CFA) using AMOS where the Average Variance Extracted (AVE) values were higher than 50.0 percent indicating acceptable survey instrument (Hair *et al.*, 2010). The calculated composite reliability scores also indicated that the degree of construct reliability was acceptable.

4.4 Statistical Analysis

Test for normality (skewness and kurtosis) shows that, all the variables fall within the acceptable statistical limit (Hair *et al.*, 2010; Meyers *et al.*, 2013). A test of proposed framework with the methodology of Structural Equation Model (SEM) via Analysis of Moment Structures (AMOS 20), and the Maximum Likelihood Estimation (MLE) were done. It has been stated that, SEM is effective for testing models that are path analytic with mediating variables (Byrne, 2009). In assessing the model, the recommended two step analysis procedure was followed. (Byrne, 2009; Hair *et al.*, 2010; Meyers *et al.*, 2013). Validation of the measurement model in the first step and structural model in the second step was done.

We examine the fit of both the measurement and structural models with the use of multiple indices as is possible for a model to be adequate on one-fit index but inadequate on many others (Byrne, 2009; Hair *et al.*, 2010; Meyers *et al.*, 2013). Hence, we used the χ^2 test [with critical insignificant level, $p < 0.05$], the Normed χ^2 ratio [with critical level not more than three or at most five], and the RMSEA [with critical level not more than 0.08] (Byrne, 2009; Hair *et al.*, 2010; Meyers *et al.*, 2013; Tabachnic and Fidell, 2014).

5. Results

5.1 Model Evaluation

We studied corruption from five dimensions; hence, we conducted two CFAs to confirm this dimensionality. In the first CFA, we loaded the items into their various dimensions and in the second CFA, we loaded all the items together as overall corruption. The data provided a good fit to the CFA with the five dimensions: ($\chi^2 = 245.8$, $df = 123$, $p = 0.001$, $\chi^2/df = 2.50$, CFI = 0.934, IFI = 0.935, TLI = 0.920 and RMSEA = 0.070). Similarly, the data provided a good fit to the CFA for religiosity, trust and ethical commitment.

The result of the measurement is given as: ($\chi^2 = 503.1$, $df = 301.2$, $p = 0.001$, $\chi^2/df = 1.595$, GFI = 0.90, CFI = 0.960, IFI = 0.971, TLI = 0.958 and RMSEA = 0.051). All the loadings were high [0.70–0.93] and fell within the accepted range while all the path estimates were significant [$p < .001$] (Byrne, 2009; Hair *et al.*, 2010; Meyers *et al.*, 2013). Also, the indices of the structural model were as follows ($\chi^2 = 503.1$, $df = 304$, $p = 0.001$, $\chi^2/df = 1.655$, GFI = 0.893, CFI = 0.948, IFI = 0.948, TLI = 0.940 and RMSEA = 0.053). Therefore, the data provided good fit indices as obtained by both the measurement and structural model.

In our model, religiosity, trust and ethical commitment accounts for 34.7 percent of the variance of diversion of public funds ($R^2 = .483$), 27.2 percent of the variance of irregular payments and bribes ($R^2 = .272$), 29.1 percent of the variance of intellectual property infringement, 29.1 percent of the variance of favoritism in decisions of government officials ($R^2 = .291$) and 47.9 percent of the variance of unethical behavior of firms ($R^2 = .479$). Again, religion accounts for 9.6 percent of the variance in ethical commitment ($R^2 = .096$) and 7.9 percent of the variance in trust ($R^2 = .079$).

Table I Consistency and Reliability Measures, and Inter-correlation for all the Variables

Construct	Alpha	AVE	Construct Reliability	1	2	3	4	5	6	7	8
Ethical Commitment	0.81	0.813	0.927	[0.90]							
Trust	0.87	0.782	0.914	0.4	[0.88]						
IPB	0.89	0.68	0.894	-0.32	-0.1	[0.83]					
Diversion	0.88	0.662	0.887	0.52	0.36	-0.34	[0.81]				
favoritism	0.84	0.571	0.841	0.38	0.28	-0.28	0.63	[0.76]			
BH	0.86	0.617	0.865	0.38	0.26	-0.17	0.68	0.74	[0.79]		
Intellectual	0.86	0.568	0.867	0.27	0.3	-0.12	0.31	0.25	0.33	[0.75]	
Religion	0.85	0.754	0.897	0.38	0.26	-0.17	0.68	0.74	0.98	0.76	[0.84]

NB: Diagonal figures inbrackets represent square root of AVE; sub-diagonal entries are the latent construc inter-correlations IPB is the irregular payment & bribes, BH is the business Behavior

5.2 Hypotheses Testing

Table II below presents the results of the hypotheses. Hypotheses 1a, 1b and 1c predicted that, there would be a negative relationship between religion and irregular payments and bribes, diversion, and unethical business behaviour while hypothesis 1d predicted a positive relationship between religion and favouritism. The results showed that religion had a positive and significant relationship with favouritism ($\beta = 0.237, p < 0.003$), diversion, ($\beta = 0.217, p < 0.009$) and unethical business behaviour ($\beta = 0.159, p < 0.027$) while the relationship with irregular payments and bribes is negative and significant ($\beta = -0.292, p < 0.001$).

Therefore, hypotheses 1a, 1b, 1c and 1d were supported. Hypothesis 2 and 3 predicted that there would be a positive and significant relationship between religion and ethical commitment, and trust. The results showed that religion had a direct positive relationship with ethical commitment ($\beta = 0.309, p < 0.001$) and trust ($\beta = 0.281, p < 0.001$), providing support for hypotheses 2 and 3.

We hypothesised that trust would be negatively related to diversion, irregular payment, intellectual property infringement and a negative relationship with unethical business behaviour (hypotheses 4a, 4b, 4c and 4d). The results showed that trust had a direct relationship with diversion, ($\beta = 0.177, p < 0.014$), irregular payment ($\beta = 0.243, p < 0.001$) and intellectual property right infringements ($\beta = 0.150, p < 0.021$) and a negative relationship with favoritism ($\beta = -0.245, p < 0.001$). Hence, the results support hypotheses 4a, 4b, 4c and 4d.

We posit that ethical commitment will have a direct and positive relationship with diversion, irregular payment, favouritism, intellectual and unethical business behaviour (hypotheses 5a, 5b, 5c and 5d). The results showed that ethical commitment has a significant and positive relationship with diversion, ($\beta = 0.355, p < 0.001$), irregular payment, ($\beta = 0.293, p < 0.001$) and favouritism ($\beta = 0.424, p < 0.001$) while the relationship between ethical commitment and intellectual property rights infringement was found to be negative and significant ($\beta = -0.445, p < 0.001$), providing support for hypotheses 5a, 5b, 5c and 5d.

The model shows that trust and ethical commitment mediate the relationship between religions and the five dimensions of corruption. Baron and Kenny (1986) maintained that mediation exist when (1) the IV is significantly related to the mediator, (2) the IV is significantly related to the DV in the absence of the mediator, (3) the mediator is related to the DV, and (4) the effect of the IV on DV reduces when the mediator is added to the model. However, MacKinnon, Warsi, and Dwyer (1995) popularized statistically based methods by which mediation may be formally assessed. Hence, we use the Sobel test to examine the mediation effects of trust and ethical commitment. Thus, the purpose of Sobel test is to examine whether a mediator carries the influence of the IV to the DV.

Using the Sobel online calculator based on the formula, $z\text{-value} = a*b/\text{SQRT}(b^2*s_a^2 + a^2*s_b^2)$, where a = raw (un-standardized) regression coefficient for the association between IV and mediator, s_a = standard error of a , b = raw coefficient for the association between the mediator and the DV (when the IV is also a predictor of the DV) and s_b = standard error of b . The results showed that trust mediates the relationship between religions and corruption: diversion (Sobel test = 2.194, $p < 0.028$), irregular payment (Sobel test = 2.586, $p < 0.009$), intellectual property infringement (Sobel test = 2.047, $p < 0.040$), favouritism (Sobel test = 2.394, $p < 0.030$), unethical business behaviours (Sobel test = -2.739, $p < 0.006$). This mediation was not partial because the relationship between religion and corruption was found to be insignificant.

Table 2 Hypotheses Test Results

Hypothesised Relationship		t-values	p
H1a: Religion → Corruption	0.465	0.690	0.4536
H1b: Religion → Favouritism	0.217	2.606	0.009
H1c: Religion → Irregular	0.159	2.210	0.027
H1d: Religion → Intellectual	-0.292	-3.769	0.001
H1d: Religion → Diversion	0.309	4.344	0.001
H1d: Religion → Business behaviour			
H2: Religion → Trust	0.309	4.344	0.001
H3: Religion → Ethical commitment	0.281	4.004	0.001
H4a: Trust → Favouritism	0.177	2.469	0.014
H4b: Trust → Irregular	0.243	3.204	0.001
H4c: Trust → Intellectual	0.15	2.300	0.021
H4d: Trust → Diversion	-0.245	-3.554	0.001
H5a: Trust → Business behaviour	0.355	4.706	0.001
H4b: Ethical commitment → Favouritism	0.293	3.897	0.001
H5c: Ethical commitment → Irregular	0.424	6.314	0.001
H5a: Ethical commitment → Intellectual	0.355	4.706	0.001
H4b: Ethical commitment → Diversion	0.293	3.897	0.001
H5d: Ethical commitment → Business beh.	-0.445	-6.260	0.001

Finally, the results showed that ethical commitment mediate the relationship between religion and corruption: diversion (Sobel test = 3.048, $p < 0.002$), irregular payment (Sobel test = 2.806, $p < 0.005$), favouritism (Sobel test = 3.387, $p < 0.001$), intellectual property right infringement (Sobel test = 3.102, $p < 0.048$), and unethical business behaviours (Sobel test = -3.389, $p < 0.001$). Again, this mediation was partial because the relationship between religion and corruption was found to be insignificant. Further, to make the results robust, control variables such as gender, education and socio economic status were included. However, there were no significant differences among the respondents in terms of gender, and experience. But positive relationship between socioeconomic, education and corruption was found. People with high income level were more likely to engage in corruption as well as very much religiosity. Besides, highly educated people know the rules and how to manipulate them to suit any corrupt behaviour.

6. Discussion

The main objective of the paper was to examine the relationship between religion and five dimensions of corruption: diversion of funds, irregular payment and bribes, government officials' favoritism in decision making, intellectual property right infringement and unethical business behaviour through trust of institutions and ethical commitment. First, the findings showed that religion, trust and ethical commitment have relationship with all the dimensions of corruption. Second, we found that trust and ethical commitment fully mediate the relationship between religion and all the dimensions of corruption. Previous studies have found a positive relationship between religion and corruption (Dreher, *et al.*, 2007; Treisman, 2000).

However, these studies did not examine corruption from these five dimensions. On the other hand, the finding was consistent with a conceptual framework of Durlauf, *et al.*, (2012) that demonstrate the relationship between religion and various dimensions of corruption. Of interesting from the findings was that, religion had a positive relationship with diversion of funds, favouritism and unethical business behaviours but a negative relationship with irregular payment. Therefore, the findings from the study showed that religion does not only lead to positive corruption but also reduces irregular payment and bribes. Thus, religiosity and religions will lead to corruption in terms of core job functions, diversion of funds, favouritism as well as unethical business behaviours while at the same time reducing intellectual property right infringement.

Consistent with previous studies, we found that religion is positively related to trust and ethical commitment (Durlauf, Kourtellos, and Tan, 2012; Shariff and Rhemtulla, 2012; Arrunada, 2010). Thus, this finding showed that the religiosity of people is likely to induce positive ethical attitudes of workers and trust of public institutions. Religious practices are generally seen as investment in heaven which in turn increases trust and commitment to ethical values of any organisation people find themselves (Barro and McCleary, 2003; Shariff and Rhemtulla, 2012; Arrunada, 2010; Weber, (2010) and Jagodzinski, 2009). This finding provides support for the ethical teachings of religions which suggests that when people are married with their religious denomination's values and doctrines, they are likely to eschew corrupt behaviours and rather promote organisational investments in positive ways such as commitment to their jobs. Thus, religious practices trigger and force people to produce changes in work attitudes of trust and ethical values.

Our findings suggest that religious people attitude of trust and commitment to ethical values are related to all the five dimensions of corruption. These findings also support previous studies that have found a relationship between ethics and business performance (Barro and McCleary, 2003; Shariff and Rhemtulla, 2012; Arrunada, 2010; Weber, (2010) and Jagodzinski, 2009). Thus, trusted and committed people to religious values were more likely to put in more discretionary effort

to reduce corrupt behaviour in the pursuit of their official duties. At the same time such people will not be engaged in unethical business behaviours that will undermine the well-being of their people and country (Durlauf, Kourtellos, and Tan, 2012; Barro and McCleary, 2003; Shariff and Rhemtulla, 2012; Arrunada, 2010).

Finally, we found that trust and commitment to ethical values perfectly mediate the relationship between religion and all the dimensions of corruption. This finding was consistent and provides support to previous studies (Treisman, 2000; Barro and McCleary, 2003; Dreher, *et al.*, 2007; Arrunada, 2010; Durlauf, *et al.*, 2012; Shariff and Rhemtulla, 2012). This finding generally supports the tenets of the economics of religions in that religious practices generate trust and commitment in terms of performance through positive ethical work attitudes. Our findings therefore showed that, countries and employers who implement specialised religious freedom gain commitment and trust of their employees, not only reduces negative aspect of corruption but reduce negative employee behaviours as well.

7. Conclusions and Implications

The findings of this study showed that religion has a relationship with the five dimensions of corruption: diversion, irregular payment and bribes, favouritism by government officials, intellectual property right infringement and unethical business behaviour. Specifically, whereas religion increases positive aspects of corruption, on the other hand it reduces irregular payments and bribes. We can also conclude that religion is positively related to people work ethics, attitudes of trust and commitment to institutions. Again, we found that trust and ethical commitment has a negative relationship with diversion and irregular payment but a negative relationship with unethical business behaviours. Finally, we found that trust and ethical commitment partially mediates the relationship between religion and the five dimensions of corruption. From these findings, we conclude that religion does not only increase corruption but also promote unethical business behaviours through the mediating role of trust and non compliance to ethical values.

It may be said that this finding is partially consistent with Barro and McCleary, 2003; Jagodzinski, 2009; Weber, 2010; Arrunada, 2010, Shariff and Rhemtulla, 2012). Therefore, we contribute to the literature by integrating these conceptual frameworks in the Ghanaian religious context about the relationship between religion and corruption. Thus, we contribute to the literature and take both concepts of religiosity and corruption a step ahead by demonstrating how religion influences corruption. Second, the study has contributed to the religious literature by examining the mechanisms through which religion leads to corruption. Again, we contributed to the understanding of how religion relates to the various dimensions of corruption. In spite, of the abundant literature on the fact that corruption is multi-dimensional, previous studies on the relationship between religion and corruption (Shariff and Rhemtulla, 2012; Arrunada, 2010; Weber, 2010) did not show how religion relates to the various dimensions of corruption. Therefore, the blind spot of Beets, (2007) that exist in the literature concerning the mediating mechanisms through which religion may influence the various dimensions of corruption has been unlocked.

The result of the study has three important implications for government and organisations implementing and intending to implement religious programmes and systems. First, government and organisations can allow religious practices to increase negative corrupt behaviours and reduce unethical business behaviours. Second, managers and organisations can benefit with positive work attitudes of trust and ethical commitment through the implementation of religious system. Finally, managers and organisations should note that trust and ethical commitment mediates the relationship between religion and corruption. Therefore, they should implement and invest in

religious programmes and systems that will heighten their employees' trust and increase their commitment to gain maximum positive performance from employees. Thus, it is only when a religious system triggers these important religious outputs that government and organizations can achieve the goal of reducing corruption.

8. Limitations and Recommendations

The findings of the study should be interpreted with caution. First, the study used a cross-sectional data; hence, conclusions regarding causality cannot be made. That is, the results must be interpreted as associations rather than causality. Second, the data for this study was collected from adherence of religions (Christian and Muslim) who were purposively returning from mosque or temple selected in Ghana with the use of a simple random sampling technique. Therefore, the findings of this study cannot be generalized to all Ghanaians. Third, there is no agreement upon which set of religious practices should be used for empirical research. Accordingly, the three practices selected for this study may not be representative of all the religions in Ghana. However, the practices included in this study are among the most widely used practices in research and practice (Flavin and Ledet, 2008).

Based on the findings and limitations of this study, we make suggestions for further research. First, even though longitudinal research is both expensive and time consuming, future research would benefit from testing this study's model through a longitudinal research design so as to determine the causal links more explicitly. Second, although this study has clearly demonstrated the importance of trust and ethical commitment as partially mediating the relationship between religion and corruption, more research is still needed to gain a better understanding of these relationships. Other variables such as doctrines, motivation and location of religion can be added. Finally, the study only used sample of worshippers' returning from a church temple or mosque. Therefore, the literature would benefit by comparing results from employees at their offices to determine whether religion is solely responsible for the relationships found in this study.

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Rebuilding Institutions through Diaspora Engagement

Impact of Skilled Migration on Domestic Change

Chiara Cancellario

Abstract The paper – based on a wider Ph.D. research - wants to provide an analysis of the contribution of skilled migrants in the processes of institutional strengthening and institutional rebuilding through the employment of “social remittances” (Levitt, 1998) and to find out to what extent skilled diaspora may act as an international anchoring actor (Morlino, 2011). The analysis is conducted in the attempt to interpret the results according the “diaspora perspective”. The focus on diaspora actors aims to provide a cognitive model on the topic different from the current in use, influenced by International Organisations, NGOs, and Governments. The research is organised as a qualitative case study analysis assisted by process tracing. It has a double focus: together with the data collection about the interventions of organisations on home country context, it tries to capture behaves, motivation and frameworks influencing any of the intervention in object. To do so, the objects of the analysis are specific projects, which involve skilled diaspora currently resident in the UK, leaded by international organisation or civil society associations and implemented in the Horn of Africa. The research looks at the of diaspora action at a “micro level”, working on the factors of contribution of social development which are, according to Wescott and Brinekerhoff (2006), “mobilisation”, “opportunities” and “motivations”. Furthermore, the analysis refers to the variables of “legitimacy” and “effectiveness”, which definition is borrowed from Lipset’s “Some social requisites of Democracy: economic development and Political Legitimacy” (1959).

The case study analysis is conducted through a semi - structured interview based on two questionnaires, which slightly differ according to the nature of the engagement (from above/ from below). The main difference in the questionnaires regards the starting point of the case study: in the “from above” cases, the respondents will refer to the experience for which they have been ask to participate. In the “from below” cases, the respondent will have as a starting point an initiative of their choice chosen from the one of the organisation they belong to.

The organisation which participated at the research were 15, mostly based within UK and Italy, and the IOM Somalia, for the “QUESTS MIDA” case. The findings have revealed that the inclusion of local civil society is a key determinant, because is the turning point to evaluate the level of legitimacy of the initiatives of “change”, being the principal concern of single diaspora members and organisations. This element has a direct impact also on “effectiveness” which emerged to be mainly based on the ability of inclusion

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of different levels of society. In this framework the “mediation” of the international organisation is not always so sensitive to that need, and it may cause tensions and mistrust towards the whole processes in place. If it true that the institutions in the processes described as “international anchoring” develop through social learning and rule adoption, it is also true that the process has to be framed adding a reference to the “development framework” in which diaspora operates which represent the privileged ground of action for the establishment of good governance seeds.

Keywords Diaspora - Development - Democratization - Social remittances - Legitimacy
Effectiveness

JEL Classification F22

1. Introduction

The paper aims at illustrating the results of a wider Ph.D. research which investigates, through a qualitative analysis, the potential impact of diasporas on the development of home country institutions, and outlines the main criticisms of policy and practices in terms of “legitimacy” and “effectiveness”.

The study focuses on two sets of case studies named, following Smith and Guarnizo’s definition, “*transnationalism from above*” and “*transnationalism from below*” which identify two different modalities of diaspora engagement. The “transnationalism from above” refers to the projects and initiatives led by the International Organisation on Migration (IOM), and outlined in a definite policy programme; the “transnationalism from below” projects are managed by diaspora civil society organisations. The organisations involved in the research, are based in London and Wales, and have met during the research fieldwork in London in the first half of 2015.

According to the UK Office for National Statistics, a fifth of the total non-UK born population in England and Wales (1,3 Million people) come from Africa. The highest proportion of Black/black British comes from Nigeria and Ghana (89%). The analysis reports that the most relevant migration flow is dated back from 1960 to 1981, when the majority of the East and South African population settled in England and Wales.

Observing the data on education and employment of the African Population collected by David Owen in the paper “African Population to the UK” (2008) nearly a quarter of Africans have a degree or similar qualification, in particular west Africans, who are most likely to get higher education degrees.

The research was based on the three factors of diaspora contribution, identified by Wescott and Brinkerhoff¹, which are: the *ability to mobilise*, the *opportunity structures* and the consequent *motivations*. These factors are considered as the basis in response to the research question, which focuses on Lipset’s definition of legitimacy and effectiveness², reformulated as following:

1 Brinkerhoff J. Wescott C., *Converting migration drains into gain – Harnessing the resources of overseas professionals*, Asian Development Bank, 2006

2 It is fundamental to underline that the definitions of “legitimacy” and “effectiveness” have been formulated from Lipset’s article “*Some social requisites of Democracy: economic development and Political Legitimacy*”, where the definitions are elaborated as following: “*by effectiveness, meaning the actual performance of a political system, the extent to which it satisfies the basic functions of government as defined by the expectations of most members of a society, and the expectations of powerful groups within it which might threaten the system, such as armed forces. [...] Legitimacy involves the capacity of a political system to engender and maintain the belief that existing political institutions are the most appropriate or proper ones for the society.*” (1959).

Perceived legitimacy of diaspora presence and action in home country contexts: the legitimacy is understood as the capacity of the actors to engage and maintain relationships in the home country contexts which are legitimate because recognised as appropriate for the context of reception from local civil society and local authorities.

Perceived effectiveness of diaspora action in home country contexts: for effectiveness meaning the actual performance of the intervention in question, and the actual success in satisfying the needs and the expectations of the receiving societies and institutions, and the ability to contribute to the resolution of problems related to institutional rebuilding and strengthening. The research may be contextualised in the area of studies which investigates the relationship between migration and development, through the employment of remittances, both economical and social.

The impact of economic remittances on home country economy, the role of “migrant enterprise” and the positive link between migration and home country development is a well-known topic. The present research goes beyond the economic impact, trying to analyse the migration and development linkage using the instruments of political science, opening grounds to the discussion of the role of Diasporas in democratisation processes (Morlino, 2011). To this aim, the theoretical base of the research lies in the constructivist theories of International relations. The constructivist approach allows to “*focus on the role of ideas, norms, knowledge, culture, and argument in politics, stressing in particular the role of collectively held or ‘intersubjective’ ideas and understandings on social life*” (Finnemore, Sikkink, 2005).

Along these lines, diaspora contribution to institutional development may be seen as an element of the process of Socialisation, which “*aims to facilitate the internalisation of democratic norms, policies and institutions through the establishment and intensification of linkages between liberal international fora and states actors and transnational communities*” (Morlino, 2001). According to the object of study, it is important to clarify the notion of “social remittances” used in this context. Although it will recall the general idea that defines social remittances as “ideas, know-how, practices, and skills”, it is also recognised that any kind of measurement or definition of social remittances is quite impossible, because of their variety of shapes and understanding from academic literature. For this reason, it was necessary to narrow the object of the research, focusing on a definite (specific) typology of activism of diaspora which includes the following elements:

- not an economic support, but including knowledge, skills and capability sharing
- The intervention is delimited in time and space, is referable to the broader concept of “migration and development” and is “intentional” because the actors work on the basis of a project set by a definite organisation. This helps to reduce the principal bias in the study of social remittances, which may be addressed as “volatility”.

After the research contextualisation, through the definition of the theoretical framework and research methodology, the empirical analysis will start from a summed up analysis of the previously mentioned three factors of diaspora contribution, which will open the floor to a discussion on *legitimacy* and *effectiveness* in the attempt to interpret the results through the “diaspora perspective”.

A focus on diaspora actors, both at individual and organisational levels, provides a cognitive model on the topic, which differs from the current model in use, mainly influenced by International Organisations, NGOs, and governments. It will allow, in my view, a contribution in identifying the criticisms and the gaps both in policies and practices, unravelling a new inclusive policy perspective which, by modifying the current pattern, considers diaspora as an actor with a leading voice in the debate on migration and development potentialities.

2. The “theoretical space” of the research: Transnational Diasporas as epistemic communities

According to the purposes of the research, the classical definition of “diaspora” provided in literature by Clifford, has been implemented with further characteristics, which enable to highlight the activities of diaspora in the receiving context and the different patterns of action for the development of sending countries. In the paper “Diasporas” (1994), Clifford argues that the modern concept of Diaspora has to be enriched with the idea of the transnational dimension of migrant communities, highlighting that the “borders” of diaspora are rarely founded on a nation-state dimension. In this vein, Diasporas maintain connections with their native home because “*transnational connections break the binary relation of minority communities with majority societies*”.³

To this aim, it is appropriate to refer to the taxonomy elaborated by Milton J. Esman through which he identifies three “classes”: Settler, labour and entrepreneurial diaspora. The purpose of Esman’s taxonomy is to make a distinction between the reasons for migrating and the function assumed by the person in the receiving context. The three classes he identifies cover the whole ensemble of diasporic groups, such as the transnational, refugees, historical and contemporary diasporas. He also identifies some central tendencies which characterise single diaspora groups, and the predominant function which they perform in the receiving context.

In this classification, the entrepreneurial diaspora consists in those people with business experience and professional skills who choose to seize better opportunities in the host country context, gaining new competences and advancing their professional position. “*the first and certainly the second generation gain access to education and attain middle class status in business, skilled labour and professional roles. They provide role models for their youth. A few become wealthy and influential. If they encounter exclusion or discrimination, they innovate professional roles or discover and exploit niches or high-risk opportunities in the local economy that enable them to practice or further develop their entrepreneurial talents*” (Esman, 2009).

According to the aims of the present research, the key characteristic of skilled diaspora is the capacity to affect the economy of the countries of origin, not only through the economical remittances, but also through circular/return migration, participation in business, science, technology, political or educational networks and activities producing positive externalities. Furthermore, the transnational relations in object have a precise “*localisation*” which undermines a strategy of intervention of the host and home countries.

To better specify, *Transnationalism from above*, the canalisation and institutionalisation of transnational practices spontaneously occurred among diaspora groups and home countries. European Union countries and African countries, and the single programmes of intervention based on global and European migration policies are one of the grounds of this research.

In a similar way, the second set of initiative aims of the study – the *from below* ones – can be conceptualised under the framework of the so-called “core transnationalism”, as activities that: a) form an integral part of the individual’s habitual life; b) are undertaken on a regular basis; c) are patterned and therefore somewhat predictable. (Guarnizo, 2000).

Given this framework, the second point to analyse concerns the way in which transnational practices are carried out and the role of diaspora networks as one of the key actors in these processes.

Generally speaking, the theory of networks in political science is referred to as “*the role the networks of knowledge based experts – epistemic communities – play in articulating the cause*

³ Clifford, *Diasporas*, 1994

and effect relationships of complex problems, helping states identify their interests, framing the issues for collective debate, proposing specific policies, and identifying salient points of negotiation” (Haas, 1992). This definition undermines that epistemic communities are actors which - through knowledge - keep power and have a recognised influence on national and international polity (“*control over knowledge is an important dimension of power*”). Epistemic communities expertise are recognised and, as Haas points out, have the characteristics of sharing a value-based knowledge; sharing beliefs which are the basis for the contribution towards policy issues and actions; sharing an inter-subjective notion of validity, which influences the criteria for evaluating the knowledge in a specific sector of expertise; sharing of policy practices in facing a specific policy issue to which their knowledge is directed. This definition undermines a conception of epistemic community as an elite, and its role in the decision making process is relevant because of a high level of legitimation of its policy action in the institutional and political context.

With reference to initiatives ascribable to “social remittances”, the most suitable theoretical definition is the one provided by Keck and Skikink of transnational advocacy networks: “*A transnational advocacy network includes those relevant actors working internationally on an issue, who are bound together by shared values, a common discourse, and dense exchanges of information and services*”. (Keck, Skikink, 1998). The role of transnational networks in international migration is, according to Robert Lucas, twofold. On the one hand, it is a way to increase familiar linkages amplifying the migration streams; on the other hand, they may play a key role in development, influencing economics and politics.

It is clear how the migration history of each individual, cannot be addressed, excluding the relations with the network in which people are embedded. Networks shape the engagement of people in economic, social and political fields influencing both private and public spheres. As Peggy Levitt states, diaspora networks raise “*at first in response to the economic relations between migrants and non-migrants, social religious, and political connections [...] the more diverse and thick a transnational social field is, the greater number of ways it offers migrants to remain active to their homelands. The more institutionalised these relationships become, the more likely it is that transnational members will persist*” (2001).

The interactions and the interconnections of diaspora with home countries, has become deeper over time mainly due to two principal factors: Firstly, global processes at political, economic and social levels, which tend to “*de-link from specific national territories while transnational processes are anchored in and transcend one or more nation states*” (Kearney, 1995); secondly the emergence of new patterns of global capitalism, which have allowed for the raise of communication and transportation technology, with clear consequences on mobility and connections. In addition, transnationalism influences the political and institutional sphere because diaspora is able to organise its political life across national borders and demand for new rights as dual citizenship or to exercise specific political rights, as the influence on institutions of the countries of origin through a “diaspora quota”.

The issues, which constitute the object of the present work, are grounded in the transnational theory and look to diaspora networks as the key factor in the migration and development policies and practices. It is necessary to clarify that the empirical research will look at the engagement through networks as a substantial part of transnational engagement but, due to the nature of the development/institutional rebuilding practices in analysis, the engagement through networks and civil society organisations may assume peculiar forms of involvement. Diaspora networks are, according to the nature of the initiative (from above/from below), involved in different stages of the policy process. For instance, the initiatives “from above” prefer to collaborate identifying the

networks as implementing partners, while, in the initiatives “from below”, the patterns of action may assume different shapes. A further conceptualisation of this point and an in-depth study of those relations will be provided in the paragraph on case studies description.

3. Methodology and case studies selection

Generally speaking, literature on migration and development, is characterised by a widespread optimism regarding the contribution of diaspora to the home country economies and social development. This optimism is close to an institutional view of the migration and development linkage, in particular to the “triple wins” idea, namely the possibility of the implementation of a virtuous circle that provides positive outcomes (at least) for the migrants themselves, in the sending and receiving areas.

The research will try out this optimistic approach, and will look at outputs and outcomes of the institutional rebuilding programmes, working on the main actors involved in the initiatives, in particular on diaspora organisation and networks, together with the principal occasions of engagement, as the international organisation programmes, where diaspora is seen as “beneficiary”. The research hypotheses, which will be verified through the qualitative analysis, have been formulated on the elements of the literature both on international anchoring and on migration and development, and challenge the current research on the topic through the discussion regarding sensitive issues such as the relationship between diaspora and democracy (and state consolidation). The majority of case studies have been chosen during the period of visiting the School of Oriental and African Studies in London, in the Department of Development Studies, which has allowed me to be in contact with relevant organisations, scholars, activists and “eminent migrants” engaged in the transmission of social remittances.⁴

The case study analysis has been conducted through a semi - structured interview based on two questionnaires, which slightly differ according to the nature of the engagement (from above/ from below). The main difference in the questionnaires regards the starting point of the case study: in the “from above” cases, the respondents will refer to the experience for which they have been asked to participate. In the “from below” cases, the respondent will have as a starting point initiative of their choice chosen from the one of the organisations they belong to.

The questionnaire has been studied to be a flexible instrument, to adapt to the respondents needs: it has been filled autonomously, followed by an in depth interview, or by the respondent together with the interviewer, which has facilitated collection of the most relevant information in terms of accurateness.

4. Analysis

4.1. Case studies overview

For the purposes of this paper, the results will be summarised looking at legitimacy and effectiveness with a reference to “mobilisation”, “opportunities” and “motivation” factors. The empirical research has been conducted looking at twelve organisations, which engage diasporas, in particular: nine diaspora ethnic or region based organisations (mainly Ethiopian and Somali), two diaspora networks and one International organisation.

The organisations are based in the UK (England and Wales), where, as said in the

⁴ to ensure the validity of the results and respect the will of the respondents, the case studies will be anonymous.

introduction, the largest part of the empirical work has been conducted. The choice of looking at the organisation rather than the individual action has been made according to some considerations on the nature of diaspora engagement itself and the contingencies which have occurred during the research fieldwork and will be deeply explained further. The present research has tried to narrow the geographical area of origin, of the diaspora organisations involved, to the Horn of Africa, however the nature of the majority of the organisations involved in the research is differentiated. If half of the organisations have a national/regional base (for instance, the Ethiopian ones mainly work on the region of Tigray), the rest of organisations in their structure development have chosen to abandon the region -based focus building their network on a wider geographical area. It is particularly relevant with the advocacy activities on certain issues (mainly health and children - women rights), which have expanded and built partnerships in more than one country.

At a first stance, the questionnaire prepared was intended to be handed out individually to single project participants of a certain organisation, reaching a sample of at least one hundred people.

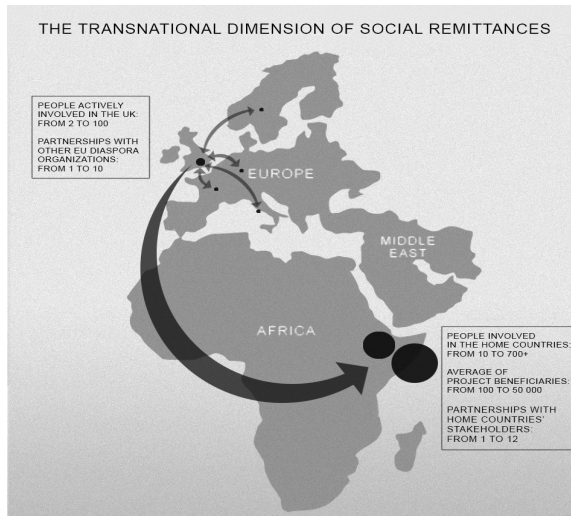
During the fieldwork, it became apparent that the first objective was unrealistic because of the structure of each organisation. It is evident that there is a strong interconnection between stakeholders or partners outside UK, and that diasporic transnational organisations personnel or volunteers residing in London were quite few. Furthermore, the organisations sometimes used to work together and/or overlapping with bigger networks or institutions.

The choice of looking at the organisations rather than individuals was made also according to the consideration that the nature of individual engagement is wide-ranging and fragmented. The organisation assures the existence of a structured project of intervention, an internal organisation of the staff and an easier traceability of the stakeholders involved. Furthermore, it is possible to exclude “unclear” intents in the home country and the predominance of “personal ambition” as principal motivation for the engagement (ie. Economic or political advantage) which represents a bias for the objectives of the research. Executives were asked to respond to the questionnaire on behalf of their organisation. The majority of these people have a high-qualified job and higher education degrees.

Almost every organisation provided data about its own activity. This data collection had been particularly difficult, because of the reticence of some of the respondents to give that type of information, considered as “sensitive”. The information provided shows that the number of stakeholders in the home country context is large, and may also reach 50,000 beneficiaries for all the activities and services provided. Furthermore, the collaboration with home country civil society and the local institutions is particularly relevant in order to understand the structure of each organisation. Ethiopian organisations in particular, are able to build very good relationships with institutional stakeholders, due to the local policy on diaspora, considered as one of the major resources for the development of the country.

It means that some organisations have a wider network of collaborators in the home country, both from institutions and civil society, and it has a great significance for the analysis of the research variables. It has been estimated that, due to the transnational nature of most of the organisations, the number of stakeholders which reside in Africa, is bigger than the number of stakeholders in the UK and Italy, as witnessed in the diagram below:

Figure 1 The transnational dimension of social remittances: diagram elaborated by the author on the basis of the data collected during the research



The choice of the case studies has also taken into account the kind of activities that each organisation carries out in the home country context. The present research work has put aside the “economic value” of remittances, focusing on institutional and social development. As previously mentioned, diaspora in its action is conceived as an “epistemic community” which provides support based on the transmission of ideas and specific knowledge in different sectors of public and community life.

In this sense, the selection of the organisations has been based on their capacities to contribute to local policies through the strengthening of institutions, local capabilities and civil society awareness on definite issues, in the framework of specific projects or programmes and defined goals. The Organisations’ categorisation was inspired by the definitions of “transnationalism from above” and “transnationalism from below” made by Smith and Guarnizo (2003).

However, empirical evidence has shown that one of the most interesting models of organisations that characterises the diaspora engagement, is wider and more structured, and characterised by the will of building and enhancing development partnerships pursuing the different needs of diaspora groups. Those organisations also assume the role of *networks*, being the principal reference point of smaller diaspora organisations and also Home and Host country governments, local authorities and transnational institutions (in particular the European Commission and the United Nations). Together with activities of diaspora supporting different sectors (employment, entrepreneurship, training..), much of the work of those organisations is based on lobbying and advocacy to governments, through the participation in principal institutional dialogue processes on migration issues but also bringing together civil society and governmental partners in self-directed activities (conferences, platforms, building of partnerships). Those organisations constitute a sort of hybrid of the two concepts of transnationalism “form above and from below”, working as a sort of “juncture” between the two levels.

4.2 Legitimacy

Diasporas temporary return programmes are one of the major activities of engagement and imply an employment of human resources – skill, knowledge and capitals – in a perspective of growth through a top-down approach.

These initiatives - marked as “transnationalism from above” - are characterised by a commitment of international organisations, governments, local authorities, which engage diaspora individuals as “beneficiaries” of the projects. The international organisations work on directly engaging diaspora, with frequent calls of application for diasporas - mainly from the Somali region – or indirectly, through the involvement of a Europe-based civil society organisation, which has the role to disseminate or make awareness about both the IO’s programme and the issue of diaspora engagement itself.

Research is not new in studying these kinds of projects, outlining the diaspora and international organisation interventions in the efforts to stop brain drain and improve brain circulation. Diasporas are hired to engage in activities that aim at strengthening the capacities of the institutions, also by providing policy guidelines and training. To this aim, personal resources as skills, capabilities and confidence in a certain work environment are essential. The majority of the people involved are men with higher education diplomas, and past work experiences in development cooperation also as volunteers. The good positions and careers undermine a good economic integration in the country of residence. In these specific cases, for the nature of the programme itself, the individuals are not affiliated to an organisation/diasporic association, and choose autonomously to apply.

The people interviewed consider the support of the international organisation and – consequently – the approach of the programme to the institutional strengthening an essential aspect. Although Diaspora demonstrates a high level of commitment and high trust in its capacities, there is also the awareness of the importance of funding and resources – both human and material – which the organisation is able to provide.

The most important case study for this section has been the IOM QUESTS MIDA project⁵, which aims at employing, for a definite period, diaspora professionals in home country institutions. To study legitimacy, the analysis will consider the interaction between the International Organisations, the local authority and the diaspora and the consequent effects on civil society. Before starting, it is important to notice that local civil society is “excluded” in the sense that it is considered an “indirect beneficiary” of the project in analysis, because it does not have an active role in the project activities.

From the interviews it has emerged that “engaging and maintaining relationships” in the home country context means to build a relationship firstly with the International Organisation, which will provide support and resources during the “return period” of the diaspora. A variegated level of trust between “beneficiaries” and the organisations has been registered, which will be the first “relation” analysed. This is a sort of pre-condition for the analysis of legitimacy because IO is the “mediator” between the diaspora and the local authority. Diaspora, in general, considers the IO accountable for, but may become particularly severe, on the basis of the perception of how the IO knows the territory it operates in. The main critical points regarding the appropriateness of the intervention lies in the perception of the level of awareness that the organisation has, and the capacity of building bridges even beyond the institutional level, including civil society.

⁵ <http://www.quests-mida.org/>

“I think that The IO has known how to access all the resources they can get from western countries. They have connections with different Diasporas. I met here in Mogadishu different people from different countries. It is very important to get a lot of experience and meet different people”.

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“International organisations have to ask us what we need. They also have to have greater consideration toward people who have background information on a country. They use to hire people who do not have enough information or have been out from the country for years. Those people have language and cultural barriers. People in Somalia need people who understand them”

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“If diaspora works together with the government of the home country, it may avoid a lot of problems. The advantages of diaspora engagement have to be communicated to the Somali people, in particular with reference to social remittances. There are no disadvantages for Diasporas. International institutions have to be a partner in this process”

The second level, which may enable the understanding of the “legitimacy”, lies in the relationship between the diaspora beneficiary and the hosting local authority. The collaboration between diaspora and local authorities is the key element of the project, and influences its success and the “appropriateness” of the interventions deriving from this collaboration on a wider scale. This element is one of the most critical ones, because for the majority of respondents, there is no full collaboration, and the local authorities are often considered as unskilled and not cooperative. In this sense, the full cooperation represents an aspect of the legitimacy, because it is the symptom of the total acceptance of the intervention and the mutual recognition of the significance of diaspora work.

“There are two different feelings among the local staff. One group is co-operating and is ready to learn while the other sees the diaspora staff as a threat to their growth and will try to sabotage the work of the expatriate”.

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“The other experts and I are very involved with the institution; in fact we have integrated very well into the institution due to the fact that we have now been there for 2 years and more. Also the reason for interaction with the organization is at a very high level because the staff are now very open and trustful of us due to the duration we have been there.”

The last level to identify the legitimacy in the “from above” cases regards the relationship between project beneficiaries (and the whole programme) and civil societies of home countries. As mentioned civil society is an indirect beneficiary of the IO initiatives, and marginally involved in the process.

However, it is the subject that mostly concerns Diaspora, which aims to establish a relationship based on accountability and trust. In particular in the Somali context, it has been noticed a widespread concern on the motivations for the return. The prevalence of personal ambitions, career opportunities etc. as the principal aims for going back may turn into a “conflict” with locals in the process of re-integration. This issue is present in the answers, and much of the respondents are critical toward the returnees who seek for political roles or economic

speculations. The engagement of civil society actors in this process allows a slight change in this perception, creating a linkage between civil society, diaspora and the International Organisation and enhancing trust among the actors. Although the projects aim of the study mainly refers to institutional strengthening, there are some spaces for civil society, both as partners (recruiters of potential project participant) or beneficiary of diaspora intervention.

Especially in the first case, their presence is essential not only for recruiting, but in building awareness and sense of belonging (identity building), and helping the re-integration within home country context minimising the risk of tensions.

“If the diaspora person has the skills to contribute, it is fine, apart from being a clan. There are engineers, doctors, nurses, even the ones who know administration or work in the local governments, if they have got money and want to make things there it is fine. But the people who go there and just want to become ministry or parliamentarian no, they are damaging the people who are there. On 300 parliamentarians, 2/3rds are from the Diaspora, and what happened to the people who are coping there? Rebuilding our country is always in our mind, but the question is how.”

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“There are many good stories and less good stories of diasporas back home, but in the end the advantages are more than the disadvantages”

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“Anyone at any age of Somali origin living outside the country has the idea of giving back to the community and a strong sense of going back. The way to do that has a lack of “how” to do it and I think it is the gap we fill because we were able to connect the diaspora young Somali in Europe to the means to go back home and encourage them to make it possible giving them the platform to meet other people such as institutions or universities.”

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“Now there is a more complete understanding from African governments that diasporas are doing what they are doing, they are acting, and the real challenge is to find a way to support the diaspora without negatively affecting local communities, and finding a compromise. This issue can be overcome, and is strictly correlated with training. At the same time, I can understand the feeling of frustration of local communities, because we are speaking about access to resources, and resources are power. Diaspora is competing unfavourably for positions. I think it is also important to stress the transnational dimension of the diaspora, so I think it is a mistake to assume that diaspora goes back only to have best jobs. In reality they do back and forth and have good relationships with the communities, because they are their relatives.”

In the case of “transnationalism from below” the decision of diaspora organisations to mobilise toward the home country vary according to their dimension, necessities and capacities. Much of those organisations are region-based and engage mainly in coherence with their professional skills. Some organisations are academic or research based, working on the strengthening of institutions; other organisations mainly work in their native region, through personal contacts and informal networks. There are also – among the case studies – issue-based transnational organisations, which involve a high number of officers and beneficiaries, with a long tradition of engagement and a trans-national recognised impact.

Although the variety of the cases, those organisations share the basic feature of being independent from an international organisation, and to prefer a grassroots approach for their

initiatives of development. There is no mediator between the diaspora organisation, the local government and the local civil society, with a consequent change of the nature of the relationships among the actors in term of interactions and – consequently – on the level of trust.

This set of case studies collect the organisations which prefer to work through a “grassroots approach”, which act through direct contact with civil society and also through the collaboration with local organisations involved as implementing partners of certain initiatives.

On the side of legitimacy, in more than one interview the basic question which diaspora asks itself is whether they are legitimised to bring change, and it has been the principal point of reflection of the majority of interviews. For the “from below” cases the nature of the relationships and the linkages with home country actors has resulted in being heterogeneous: diaspora may be seen outside civil society and- consequently- perceive itself as an “outsider”, although others feel more integrated, because of their ability to build partnerships. In this context, Local Ngos or charities are “gatekeepers” able to support diaspora in building the relationships. Once the relationship of trust is built, it becomes easier to communicate and to find a welcoming environment, while in some cases diaspora may tend to rule. A more general point of discussion is that, for those cases, the idea of “democratisation” is strongly contested, in favour of the idea of “development”.

Looking at the factors of engagement, the first difference concerns the “identity building” of the community. The reasons to engage lay in the identity of the groups, and there is no necessity of a preliminary process of identity building, as the “recruitment phase” in the from above cases. During the interviews, the “legitimacy”, was investigated through several questions on the perception that home country actors usually have on the organisation’s activities. The picture given by the separate analysis of the attitude of civil society and local authorities reveals two main points of interest: firstly, the issue of “integration” within the local civil society, secondly the modalities through which the trust between the organisation and the local authorities is shaped.

According to the first point, it has been noticed that the integration within civil society is the most problematic issue for diaspora actors. The organisation’s respondent was asked to illustrate the relationship between themselves and the beneficiaries/ stakeholders of their intervention, under the perspective of the potentialities of change. For the respondents “engaging and maintaining relationships” and the issue of “appropriateness of the actions” are related with the integration within civil society. It is, essentially, to be perceived not as a “foreign” but as an equal member of civil society with the same ambitions and aspirations.

“It is a responsibility, and diaspora is a key factor because it is the most titled actor which can take action. It is a moral responsibility. But the diaspora has to be skilled properly otherwise may cause damages rather than benefits.”

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“Diaspora has to be able to influence policy makers but at the same time not be part of the political processes. Policy advising and institutional rebuilding are the most appropriate spaces for diaspora action. Diaspora may organise themselves in several ways (in clans, or regions for instance), but it is important to have a coherent policy and be coherent to the good practices already existing carried on by the people on the ground. What is needed is a systematic approach rather than a “here and there” approach.”

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“You are a foreign person. Because of Diaspora there are some issues, which usually come out. I am not a stranger, but people think there is a lot of money and diaspora is favoured. For this reason the government tries to take some measures in order to take the population from abroad”.

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“Diaspora is a few people, we are a sort of spray of the perfume. We as diaspora are nothing. No way for me to influence the civil society. You can contribute to change. For instance, if you work in the government, but in society you are nothing”.

This tendency changes the objectives, which are not related to leading and “importing” an institutional or policy change, but to support it from the inside.

“It has been a positive learning curve overall, but now more than ever I am convinced that sustainable development in Africa will come from home-based effort. The role of the diaspora is to support this change not lead it. The narrative of Diaspora as saviour of home countries is reductive and in some cases diaspora involvement can be counterproductive as some Diaspora get involved in home affairs for personal financial and political gains, which may not align with the national good. It is legitimate for local actors to be critical of Diaspora motives in taking part in development initiatives. It is up to diaspora actors to prove the value added of their contribution to the development of their country of origin, and diaspora actors need to lose their sense of entitlement whether it is by choice or not, the fact is they are not permanent residents living the everyday reality of their country of origin”

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“It is not a matter of influence. We sit down and identify the need and then we prioritise it according to the needs. The people choose the projects.”

The second point, which explains the “legitimacy” of diaspora, concerns the relations with the institutions, which become more articulated and have a direct influence on the aforementioned issue. It is important to remember, to clarify the analysis, that the influence on institutions is mainly understood as “policy change” and is carried out through advocacy and campaigning, but also mentoring, skill transfers through training or lobbying. Policy change does not mean that the issue is “political”: the organisations are de-politicized, they are not activists but - as the respondents often remarked - actors of development.

Institutions search and ask for more diaspora, recognising the role of remittances in the local economy and societies and taking the best from diaspora action in term of knowledge, networking, policy and investments. This is particularly true for the countries in the Horn of Africa, where the interviewed diaspora comes from. In these contexts, specific regulations are in place as in the case of specific “diaspora rights” (Ethiopia), and where Diaspora is one of the key actors in the rebuilding of the country (Somalia).

The grassroots approach toward the “rebuilding” of home country institutions has to be accountable also in the host country institutions. This is because local charities or administration often finance diaspora organisations for their development projects.

In both of these cases, there is a good collaboration with the two levels, but at the same time diasporas seek for independency. Although “independency” is often mentioned as a core issue for the legitimacy in the home country, particular cases or tensions have not been registered.

Too much “harmony” may result counter productive for diaspora. Especially in the case of

Somali diaspora, when institutions give too much space or there is a manifest line up with a certain party, there are risks of tensions with civil society.

There are cases where independency is not the first and fundamental issue, and the organisations completely share governmental goals and attitudes toward the diaspora organisations' projects, through a mechanism of mutual support, in terms of finance but also in accountability and visibility towards civil society. According to the respondent organisation, it has not an impact on the legitimacy within civil society, revealing a general optimism toward the success their own work.

In general, organisations work to have an impact on institutions, which is mainly indirect. They do not work directly within a certain authority with personnel and politicians, but they prefer to bring issues from a grassroots level with the aforementioned instruments. In some specific cases, the organisations choose to be engaged in particular dialogue platforms where both institutions of host and home countries take part. This particular aspect, which has been observed in a couple of case studies, requires the capacity of mobilisation at a higher level, much closer to "activism". Their behaviour results in coherence with Price's:

*"A final issue concerning the authority of transnational civil society actors is the acceptance of their role in bringing information and moral concerns to light. As noted by Paul Nelson (in Khagram, Riker, and Sikkink), this legitimacy can derive from claims to represent affected communities (for example, of the global poor, the South), to represent a domestic constituency, or to be official participants in institutionalized political processes."*⁶

Within this particular case, it has been highlighted from the respondents the need of "learning" the policy language and an intense work of networks to be invited to the "table" and to be "legitimised" from the grassroots levels to speak in their voice.

"Now, if you entangle with central government, you will not be independent anymore. Furthermore, governments donate not in cash but in benefits, so to say, land, reduced taxation etc. If you enter in government finances you risk your freedom. If you are an independent expert you challenge them."

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"After training and workshops I am optimist because I have been financed and my local partners are happy and asked me to set the mentoring programme again because of its positive results. I am waiting for funding to start again. Civil society and local authorities accepted me and my work, and government officials have approved it entirely. The real problem is to meet the expectations of those people."

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"Diaspora has to be able to influence policy makers but at the same time not be part of the political processes. Policy advising and institutional rebuilding are the most appropriate spaces for diaspora action. Diaspora may organise themselves in several ways (in clans, or regions for instance), but it is important to have a coherent policy and be coherent to the good practices already existing carried on by the people on the ground. What is needed is a systematic approach rather than a "here and there" approach"

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"You have to invite yourself to the table, you don't have to wait to be invited to meetings. It is fundamental to identify how and where the conversation is taking place and get yourself there"

⁶ Price, R., *Transnational civil society and advocacy in world politics*, World Politics (55), June 2003, 579-606

4.3 Effectiveness

Like the concept of legitimacy, the definition of effectiveness has been borrowed from Lipset, as: *“the actual performance of the intervention in discussion, and the actual success in satisfying the needs and the expectations of the receiving societies and institutions, and the ability to contribute to the resolution of problems related to institutional rebuilding and strengthening”*.

The analysis of the effectiveness will proceed according to the examination of “outputs” and “outcomes”. In particular, the outputs will regard the direct effect of single diaspora intervention, while the outcomes the general effects, with a look to the potentials of diaspora as an actor of “democratisation”.

As described in the concept elaboration of the research, a unitary definition of social remittances - and their measurement, is almost impossible, because of their volatile nature, and the concept itself has been framed according to their *“systematic and intentional”* transmission. This is the principal reason of why it has been chosen to work on the efforts of some diaspora organisations, dividing the research into specific interventions. For the analysis of the variable, it is necessary a first look at the principal activities that each organisation – especially the ones “from below” carries out in the home country, and the principal modalities of implementation. As mentioned before in the explanation of the case studies selection, the choice has been made according to the activities implemented in the home country, which – in their heterogeneity – have the common feature of the will of impact – through a direct collaboration or indirectly – on local institutions or policy making.

Although much of the organisations implement different initiatives in different sectors, to facilitate the analysis, the projects are gathered into four “topics”, which are:

- *“advocacy and campaigning”*, which has the scope to raise awareness on sensitive social issues, and covers the two levels of civil society and governments both of European and African countries.
- *“skill transfer, capacity building and institutional support”*: which mainly concerns the “from above cases”. It implies the direct work on institutions, through the transferring of skills, knowledge and capacities “to foster transparent, accountable, and responsive governance”⁷.
- *“training, mentorship and research”* concerns the initiatives of skill transfer at civil society levels, including specific training for government officials and research at different levels including cooperation between home and host country research centres and universities.
- *“institutional dialogue”*: mainly concerns the creation and/or the participation at transnational dialogue platforms on diasporas and development, where diasporas are invited to bring a contribution for policy making at a wider level.

In this framework, with regard to the “success in satisfying needs and expectations”, the “from above cases” clearly have major opportunities in terms of resources and influence. There is a big response to the calls published by the IO and good evaluation of the activity overall.

The success in satisfying the needs is also to be considered in relation to the stakeholders. In particular, the “from below” cases have a wider range of stakeholders, including the donors of host countries. The organisations have the duty of being accountable, especially through a precise balance of finances. Furthermore, pre-departure training reduces possible tension enabling to work in such a way so as to meet the expectations of the local population.

⁷ <http://www.quests-mida.org/page.php?id=bndsNnZmYmhqMjc>

“You have to keep a timing and finance balance; a clear balance sheet and expenses have to be precise, otherwise we don’t get funding next year.”

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I think that the IOM has know-how and access to all the resources they can get from western countries. They have connections with different diasporas. I met here in Mogadishu different people from different countries. It is very important to get a lot of experience and meet different people.

The “ability to contribute” is the most controversial issue, especially because the difficulty in accessing some of the monitoring and evaluation documents, because of their “confidentiality”. According to the documentation which each organisation provided, there is a general success of the initiatives in place, especially in reference to the number of beneficiaries reached and the continuity of the projects throughout the years. As Lipset states, education is the ground and the necessary (but not sufficient) condition for the support of every democratic practice, resulting more significant than income and occupations. The work of international organisations goes in this sense, in order to meet diaspora needs and civil society needs.

Under the MIDA program, IOM is currently providing capacity injection in four key sectors: Health, Public Finance Management, Education and Justice. IOM and its partners believe that the three sectors are crucial for economic development and stability of Somalia. To date, IOM, through the implementation of 10 projects and project components has facilitated and supported; more than 372 Somali diaspora assignments within more than 80 Somali institutions, including ministries such as health, finance, planning, interior, justice, foreign affairs and others. 30 professional interns recruited from 2014 to date. The MIDA participants have trained more than 500 locals through workshops and on job trainings.⁸

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We have worked in over 9 African countries supporting over 18 partner organisations, including being the driving force behind the foundation of 3 local, women-led organisations. Currently we support 50 girls clubs across Africa, involving over 1,500 girls to provide peer support, information and signposting on sexual and reproductive health and girls’ rights.

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Sometimes there are tensions between the centre and the periphery, and- most importantly – there is a real need to manage expectations of diaspora concerning what they can achieve, in particular through authorities and local authorities, because in many cases the diaspora we are working with has an incomplete understanding of the local context in terms of local system, local procedures, entitlements and even the legal system. This is a point which has been raised to us by three African governments that we trained. There is a sort of frustration because diaspora who goes home expects a lot and sometimes those expectations are unrealistic (ie. Access to resources, infrastructures, will of receiving a special treatment).

⁸ IOM QUESTS MIDA FACTSHEET – provided by International Organization for Migration (IOM) Mission in Somalia, Nairobi Office

Going beyond numbers and official reports, it is important to consider how the presence of the “international organisation” or a “diaspora network” has an impact in terms of effectiveness. International organisation, as a mediator, guarantees finances, continuity and accountability of diaspora initiatives. The “*ability to contribute*” as from the definition refers not only to the project itself, but – with reference to the outcomes - also to the ability to contribute to spreading the idea of good governance and - in particular cases – democratic norms. Au contraire, the “from below” cases which, as seen, have a closer contact with civil society, and the impact on governance is indirect, with a lower success of adoption of certain norms or practices. However, the absence of the international organisation in the grassroots processes have increased chances to include wider ranges of civil societies and build awareness on certain topics, or to ensure a direct support in certain activities.

6. Conclusion

This paper has illustrated the preliminary findings of a wider Ph.D. research, trying to give a response to the research hypothesis illustrated in the methodology section. In particular, it has been analysed, through the analysis of qualitative interviews, the factors of contribution identified by Wescott and Brinkerhoff according to the macro-categories of “legitimacy” and “effectiveness” elaborated from Lipset’s conceptualisation.

Following the hypotheses, it is possible to develop the idea that, for the evaluation of the impact of diaspora intervention on the building of “good governance”, the joint analysis of legitimacy and effectiveness has a key importance for two reasons: firstly, it allows to give space to the study of the interactions among stakeholders, through the conceptualisation of the patterns of actions and relationships; secondly, it enables to correlate this element to the performance of intervention, in relation to definite needs and expectations. To this aim, a specific definition of social remittances becomes fundamental. The classical approach which refers to “*ideas, know how, practices and skills*”(Peggy Levitt) has been improved through a glance at the means of transmission, which has to be intentional and systematic, and definite in time and space.

In both the *from above* and *from below* set of case studies diaspora has been considered as the central actor around which the analysis has been build. The illustrated findings have revealed that the link between diaspora and democratization is not direct, and normative change undermines some conditions. In particular, the inclusion of local civil society is a key determinant, because it is the turning point to evaluate the level of legitimacy of the initiatives of “change”, being the principal concern of single diaspora members and organisations. This element has a direct impact also on “effectiveness” which emerged to be mainly based on the ability of inclusion of different levels of society. In this framework the “mediation” of the international organisation is not always so sensitive to that need, and it may cause tensions and mistrust towards the whole processes in place. It is possible to argue that the relation between diaspora and democratisation (or better, “good governance”) is not based on a direct correlation. With reference to diaspora as an “external” or an “international” actor of democratisation, capable of influencing institutions through the existing social linkage, it is necessary to refer also to the concrete conditions of access to democratic building practices. If it is true that the institutions in the processes described as “international anchoring”, develop through social learning and rule adoption, it is also true that the process has to be outlined, adding a reference to the “development framework” in which diaspora operates, which represents the privileged ground of action for the establishment of *good governance seeds* through the promotion of social learning.

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Master-Slave Dialectic and Russian Way of Industrial-Postindustrial Transition

Sergey B. Kulikov

Abstract In social sciences, the modeling of industrial-postindustrial transition preserves its topical character. In this context, Russian society demonstrates the transition of industrial society into postindustrial or knowledge-based society, which allowed constructing innovative economy. The essence of processes within development of knowledge-based society and innovative economy depends on so-called Master-Slave dialectic. In Europe, Master-Slave dialectic caused the leading role of scientists. In Russia, scientists depended on Government and played the secondary role in economy. As a result, an author discussed the social forms, which caused the modern social progress, for instance, the future of European democracy in interpretation by William Outhwaite

Keywords Social development - Knowledge - Anxiety - Russia - Economy.

JEL Classification O3

Introduction

The relations between Lordship and Bondage in the context of so-called Master-Slave dialectic can elucidate a very special case of the knowledge-based society as a kind of modern capitalistic society. The Russian society demonstrates the case of transition of industrial society into the postindustrial or knowledge-based society, which allowed constructing the innovative economy. Therefore, this article tests one of the sociological paradigms, because it is the primary task of Russian social thought. For instance, Kulikov (2014) has shown that discretization of the social space as the situations concerning isolated development of small groups, which move as the elements of non-equilibrium processes, causes polyparadigmatic character of the modern sociology. In sociology, however, there are theoretical foundations for understanding of the social phenomena, which reveal the base of new variant of determinism that is technocratic by nature.

This article discusses at least two aspects of general social theory. Firstly, it is the causation of social progress by types of social order, for instance, the causation by principles of democracy. I presuppose that democracy is the best form of innovative development. Democracy allows building the relations on the base of the business attitudes. However, I doubt that the future of

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European democracy can be only same as in Outhwaite (2014). Secondly, I follow Fuchs (2013) and discuss a theoretical contradiction between capitalism and information society. I cannot fully agree that present-day structure of society exclude the possibility of own description as by theory of capitalism so by theory of information society.

The explication of Master-Slave dialectic regarding the knowledge-based society presupposed the debating of three fundamental moments of the economy growth and the society development. I concerned the origin of the knowledge-based society at the first section. Then, I described the effects of the social transformations at the second section. Finally, I discussed the basic features of the knowledge-based society in Russia at the third section.

Short History of Knowledge-Based Society

Knowledge-based society, knowledgeable society or simply knowledge society are the concepts from the area of political sciences (Innerarity 2013), which received special interpretation in the field of the economic researches. For instance, Robert Lane (1966) believed that knowledgeable society coincided with creation of power structures in the field of technologies influence. The concepts of knowledgeable society, knowledge society and knowledge-based society were initially applied to the theoretical description of the relations between domination and submission, that was, Master-Slave dialectic, in Hegelian terminology (Hegel 1807/1977). These concepts were included into economics as the parts of methodological arsenal according to the description of dominating role of equipment and technologies at economic activity (Drucker 1969).

Master-Slave dialectic was an explication of the relations between Lordship and Bondage since Antiquity. Almost all ancient authors supposed that slavery was a normal situation. Criticizing some forms of this phenomenon, they did not criticize slavery as itself. For instance, Aristotle has noted:

But is there any one thus intended by nature to be a slave, and for whom such a condition is expedient and right, or rather is not all slavery a violation of nature? There is no difficulty in answering this question, on grounds both of reason and of fact. For that some should rule and others be ruled is a thing not only necessary, but expedient; from the hour of their birth, some are marked out for subjection, others for rule (Aristotle 350BC/2015).

Smith (1983), Heath (2008) and some other authors have shown the development of theory of natural slavery by Aristotle. Heath (2008) has illustrated Aristotle's theory by analysis of the statement that natural slaves did not reach the eudemonia, which was the main purpose of human life. Such negative ability was an essential character of each non-Greek. Each of them was almost non-human being. Non-Greeks at all were the natural slaves.

Classical Antiquity formed the propositional attitudes, which served as a norm of thinking until modern period. It meant that, in society, one group always had the domination over other groups. However, historical forms of Master-Slave dialectic changed. In Postclassical (medieval) period, Master-Slave dialectic presented relations between Señor and Serf. Forms of relations between these groups of medieval society depended on the cultural features of communities, which occupied the particular territories. For instance, Jonathan Lyon (2008) has shown the sort of the Lordship of the twelfth-century German empire. He illustrated that the authority could issue variety of heritable rights and properties, which provided each noble family to keep the lordship in a unique manner. Jeffrey Fynn-Paul (2008) has described the forms of slavery in medieval Spain. For instance, he mentioned the specific of Spanish women as the slave owners. In modernistic period, Master-Slave dialectic had the character of general conflict between two types of self-consciousness (Kain 2005). The opportunity to risk the own life was the constant

essence of this conflict. Each real master should risk his life, but each real slave consciousness was afraid to do this, so, the fear was the essence of slavery. Everyone who was not afraid to fight for freedom could be free, even if freedom had the life as the cost. Everyone who put the value of his/her life above freedom was compelled to remain a slave. That was why, the passion but not the rationality alone was laid in the base of master's activity. In addition, the slave consciousness was the state of mind, which coincided for its owner with the neediness to be servant. The owner of such consciousness had the intention to be near from the master who made all decisions instead of his/her servants. The will of freedom was the matter of relation between Lordship and Bondage.

Nowadays status of Lordship does not surely mean the real ownership but exactly means the intention to be a leader. Therefore, Master-Slave dialectic can find an applying in the context of the modern processes of innovative production. From that point of view, knowledge-based society is the concept that described special type of power relations, namely the authorities of science and technique in society and in economy. Present-day hi-tech productions and the global telecommunication are born in the global networks, created by the science-technique interaction. In economic attitude, modern society is not guided by the classical industries but oriented to the production of information (Hornidge 2007).

A key moment of present-day scientific and technical progress is the production of scientific information. Such production allows treating modern science as techno-science. Technoscience, or technoscience is the concept, entered by Hottois (1984) and originally interpreted by Bruno Latour (1987). Techno-science means the unity of science and technologies (or emergent technologies in Freeman (1982)), which provides the high level of life comfort on the base of commercial applying of scientific knowledge. That is why modern representation of science places emphasis on technological effectiveness and efficiency of the results reached in it. Moreover, the indication of a special role of equipment and technologies is the characteristic of knowledge-based society. Therefore, the understanding of science as a production of scientific information allows explaining nature of the general influence on the society of scientific and technical progress as well as feature of its modern forms.

Contemporary studies of knowledge-based society distinguished two main meanings for implementation of knowledge into the social practice. Firstly, knowledge provided the possibilities of innovative development for administration, especially for business administration. Kaplan and Vakili have shown that process of innovative development should base on the diverse knowledge, because they supposed that narrow domain might lead to myopia (Kaplan and Vakili 2015). Nevertheless, there was a question about meaning of diversity regarding business administration. No doubt, strategic management was required for building of holistic pictures of each situation. Such approach might guarantee the effectiveness of decision-making. However, responsible administrators should also see the details of the picture to avoid the risks. Therefore, these administrators ought to be competent using the specialized knowledge, which could not be widely diverse. Secondly, the knowledge provided the socialization accompany the personal progress for inclusion in present-day social processes. However, it was only the one aspect. Another aspect concerned so-called smart environment presupposing special kind of learning technologies (Giovannella 2014). In addition, last aspect, which needed special attention in the context of research, oriented to the role of Lordship and Bondage in knowledge-based society. Carlo Giovannella (2014) supposed that the problem of the making of smart environment coincided not only with the task to gather some high-skilled people into the one territory. The solving of such task had the historical precedents (Glaeser and Berry 2006). But not only the high-skilled people themselves made smart environment in some place. The territory where

high-skilled people lived ought to have the smart infrastructure to support the beginnings of such people. Besides, Galser and Berry (2006) have shown that any high-skilled group should have the leaders like Bill Gates or, perhaps, Steve Jobs, who might reveal the purposes for led persons to motivate them.

The knowledge-based society as a civilization of high-skilled people who lead other groups with slave's consciousness, in Hegelian terminology, is close by the understanding of modern civilization in a view of risk society (Beck 1992; Giddens 1999). However, I ought to explain this analogy, because it is not quite intuitive. In knowledge-based society, the leaders and the led people who are technically the slaves have identical volume of knowledge. But then, leaders try to apply their knowledge for search of the ways to purposes, which has put by themselves for the led people. The situation of anxiety is born, which demand administration of the risks for their measurement. Beck (1992) has shown that administration of risks can lead to the positive action, while any other acts bring the dangers. Beck notes as follows:

What corresponds to the political subject of class society – the proletariat – in risk society is only the victimization of all by more or less tangible massive dangers. ... In classical industrial society, everyone is engaged in the struggle for his job. ... But can intangible, universal afflictions be organized politically at all? Is 'everyone' capable of being a political subject? Is this not jumping much too casually from the global nature of the dangers to the commonality of political will and action? Is not globalized and universal victimization a reason not to take notice of problem situations or to do so only indirectly, to shift them onto others? Are not these the roots that lead to the creation of scapegoats? (Beck 1992, 49)

It is not hard to see that, in society, only the decisions of leaders can lead to the way out of the problem situations. Mass subject cannot make such decisions. On the other hand, these decisions can lead into the blind alley. Anyway, the knowledge as a foundation of social behavior is connected with the risks, which can be the base of leadership or Lordship, in Hegelian terminology. One more explanation could be realized concerning the symbolization of the knowledge-based society as the risk society that was caused by Master-Slave dialectic. The extreme sport, especially some kinds of adventure tourism might demonstrate modern society from this side. Contemporary investigations have shown that risk become a good, which brought big profit for some groups of modern society (Palmer 2002; Higgins- Desbiolles 2006; Buckley 2012). The extreme sport helped to exploit the passions of ones for the profit of others.

The knowledge-based society constituted innovative economy, which led to the new forms of relations among people and to the new business opportunities. It presupposed friendly environment for high-motivated people with general purposes, set by the leaders. The led people and the leaders in the context of relations between Lordship and Bondage could reveal the relations between slavery and mastering. Discussion of the features of the knowledge-based society and the innovative economy concerning Russia presupposed the demonstrations who were the real masters, or lords as well as the slaves there.

Knowledge-Based Society as a Challenge for Russian Scientists

In modern Russia, national kind of realization of the global techno-science phenomenon discloses the possibility of the building of knowledge-based society as the effect of production of scientific information. This procedure might realize on the base of new mechanisms of scientific-technologies interaction, which pull together the concept of knowledge-based society and concept of risk society. In Russia, risk society is the turn into other party as per development according to the worldwide standards. Worldwide tendency correlates with the transformation of risks from social danger to the profitable good. In Russia, the point of view that judgments like

the “intersubjective ingredient of political measurements” (Schedler 2012) must be rationalized is not supported. Leaders of knowledge-based society presuppose that business initiative is a moving force of social progress. The calculated risk itself allow creating successful undertaking, which can lead to the founding the big corporations. Almost each present-day corporation, for instance Apple Inc., is the result of such risk-oriented actions. The risk is the essence of modern relations in society. Leaders of Russian society prefer to avoid the risks, except the sphere of international policy where they can apply the foreign elaborations of contemporary social-humanitarian technologies. I can suppose that scientists and engineers have to become the masters of society reorganization in Russia. The assessment of noted opportunity assumes clearing of two moments. The union of science and technologies allowed executing a radical transformation of the world around. Then, danger to fall into illusions and to start overestimating the forces became quite real for humanity. Strict control over fruits of scientific and technical development was necessary. In Russia, such approach revealed new opportunities for judgment about priorities of social and economic development. It demonstrated some weakness, namely the literally risk forgetting about problems of the real person behind so-called big purposes.

In addition, returning to the discussing of knowledge-based society in Russia I have to note the following. There is a question about possibility of Russian scientists to forget society problems and problems of the real person when they make the scientific researches. Historically, the main purpose of science is providing of social benefit. *Scientia est potentia*, that is, knowledge is power. Fundamental science elaborates technologies, which offers many ways to make the life more comfortable. For instance, the medicine presents the technologies that allow prolonging the timeline of human life. Only one vaccination of children against smallpox and poliomyelitis has saved millions of lives for the moment. However, I must mention one fact, which accompanies the applying of medical technologies in modern society. Some representatives of modern society do not have full picture about consequences of refusing vaccines, and they think that avoiding of the vaccination is quite harmless (Largent 2012). Moreover, a part of researchers, namely sociologists, in fact, acts as the opponents of vaccination. For instance, in Davies et al. (2002) have shown the coverage width of anti-vaccination movement. In these investigations, authors make a study of the internet sites, which distribute the anti-vaccination representations. More than 40% of sites reveal the anti-vaccination, oriented on propaganda against physicians. In addition, communications, focused on conspiracy of Government and business elites, as the facts of harm denote the activity of physicians. Physicians interpret this state of affairs as the situation of war. They suppose that people do deadly choice when avoid vaccination (Offit 2011). By the way, such discussion in itself, especially from the side of anti-vaccination supporters, testifies the role of initiative persons, called masters in Hegel (1807/1977), because they ready to risk by own lives for personal beliefs. Knowledge-based society presents all opportunities for these people.

In social life, despite debatable character of the role of scientific-technologies interactions the remembering the problems of an ordinary person is not the problem for European and American scientists. Moreover, it is quite rhetorical question for them, because they work under support of independent funds and public associations. The final consumer of their works is different communities and only after that – the Government. In Russia, the main customer of scientific activity is the Government supporting the scientists through the system of state-sponsored agents. That is why Russian scientists solve the tasks mainly that put by Government, and only then, they solve the tasks that put by communities. In addition, it is rather curiously, but, in general, even just the hypothetic priority of so-called small problems of the person but not all humanity problems or Government problems open the great opportunities for innovative development in Russia. For instance, it is necessary to continue the investigations of human genome. These

investigations might give new knowledge in the field of medicine, and they could give the new goods in the global market of pharmacy. The unique technologies could help to develop a ways of successful fight against hereditary diseases. Moreover, it was quite amazing that some Russian researches could not agree with this statement. They presupposed that purposes of classical science, for instance, the search of truth, could be coordinated with standards of techno-science (Chernikova and Chernikova 2014). I believed that it was a big mistake; I proved my thesis at the next section.

I came to conclusion that, in Russia, the modern model of scientific-technology interaction had the one-sided interpretation, and it was not the version of techno-science, which corresponded to the worldwide standards. In Russia, the formation of knowledge-based society demanded radical change of the approaches to the representation of social-economic role of science. Because of that, I ought to make the conclusion that scientists were the slaves of this situation.

Russian Features of Knowledge-Based Society

In Russia, coincidence of development vectors of worldwide economy within production of scientific information gave a chance for inclusion of the Russian economy into the global processes of society evolution, based on techno-science. But raw material exporting economy complicates growth of innovative sectors, and it was historically current situation, which had some fundamental reasons.

The science demonstrates the process of production of reliable knowledge par excellence. It is quite clear image of science, which developed during the Age of Enlightenment (see Knight [2009]). In contemporary situation, such image ceases to meet the requirements of society and economy. Ensuring reliability activates difficult system of checks. Work of this system demands the additional financing, and, in general, it reduces profitability of production. Only very profitable business is able to afford such expenses complicating interaction of science and business. It is understandable that measure of profit is rather relative. For instance, Marxist point of view can comprehend profit as follows. By selling, therefore, the commodity at its value, that is, as the crystallization of the total quantity of labor bestowed upon it, the capitalist must necessarily sell it at a profit. He sells not only what has cost him an equivalent, but he sells also what has cost him nothing, although it has cost his workman labor. The cost of the commodity to the capitalist and its real cost are different things. I repeat, therefore, that normal and average profits are made by selling commodities not above, but at their real values (Marx 1898/1995/2009).

It is not hard to see that profit, in Marxism, is the capital that capitalists can get via selling of products with value, which appears as a crystallized labor. Engaging of scientific technologies into the production process can decrease the volume of the spent efforts. The volume of labor and thereby value of products decreases. On the other hand, I can comprehend profit as the disparity between the spent and the got capital. Profit is the capital that one gets, having received resources more, than he/she spent (see Meek [1954], for discussion). First strategy leads to the deficit of products, because labor-oriented producer requires the saving of spent efforts, or such producer must get very productive technologies. Second strategy leads to the increasing of production volume for decreasing of costs. One of the ways of decreasing of costs is the applying of cheap but effective technologies.

In addition, in Russia, the traditionalism in understanding of social roles of science and technique discloses the specific structure of scientists' printing activity. The works of Russian scientists entering the international references indexes, for example at Scopus, solve mainly the physical and technical problems. At that moment, works of European and American scientists at same bases are generally works on medicine and biology and after that – on physics and

chemistry. Russian scientists secure direct orders from the state institutions. In Russia, the science poorly depends on the mass consumer market, that is, on the needs of ordinary citizens. Works of Russian scientists are not oriented on getting the cheap but effective technologies for decreasing of production costs.

Then, in Russia, opportunity to continue production of scientific information within traditional attitudes specifically characterizes Russian economy. It shows the low level of the competition. It is necessary to create special social and economic conditions that would support as individual so groups of people who combat each other for resources. In this fight, scientific knowledge and hi-tech production might become necessary. However, there is many resources in Russia, and it is not necessary to conduct for them fierce fight. External pressure that demonstrates high level of a lack of necessary hi-tech resources can replace the sharpness of the internal fight. I can see it nowadays in Russia, which got under sanctions from United States of America (USA) and European Union (EU).

The pure economy demands from the Russian science the orientation to the innovative production for saturation of the mass market. In Russian society, there are no sufficient incentives for emergence of own hi-tech productions, but there is a large number of natural resources, which can be sold in the world market. The selling of the raw material resources prevailed in foreign trade, which ought to give the answer to the requirements of the market of mass consumption. Besides, the science was not stimulated with economy of Russia for transition to new understanding of scientific knowledge and technologies roles in society.

International sanctions provided external pressure, which was the chance that Russia, in economic attitude, would reorganize the production of scientific information for the response to the needs of the reduced external and inner markets. Because of that, I could not agree with statement that Russian science needs additional financing (Prytkov 2012). Russian science ought to commercialize the knowledge; consequently, most of financial problems would solve.

I have to repeat that contemporary formation of knowledge-based innovative economy caused by transition of science and society to the submission to the rules and standards of techno-science. In Russia, the realization of special set of the social factors, which can allow the coordination with worldwide standards of techno-science, may help to build the real knowledge-based society. However, how actually realization of such transition can put a big question. Contemporary scientist is more an engineer, than searcher of pure truth. Searching of truth must give the way for commercial realization of scientific knowledge in social space. That is why, in Russia, gadgets production needs to constitute the forefront regarding the production of scientific information. Compliance of production of scientific information to the standards of techno-science assumes creation of specific social circumstances. It is necessary to provide communication of scientific researches and business activity. In particular, the scientific policy of Russian Government needs some improvement.

In contemporary Russia, some state corporations create the research divisions that have a strong financial support. These centers of innovations act as a counterbalance to the traditional centers of scientific and technical development. However, they are not the kinds of competition that necessary for Russian innovative economy. Duplication of functions provides a lack of scientific personnel within separate branches of science and their surplus within other branches. As a result, the general level of innovative development decreases. The State ought to create the new centers of innovations along with support of the traditional centers of science and technology development. In addition, it is important to take measures for maintenance of balance of the general employment in separate scientific institutions. Russian Government has to define quotas for scientific development and give tax preferences to the innovative enterprises. In general,

society must be reoriented to the needs of mass consumer as well as the society has not to put an unconditional priority only for needs of the State.

In the context of Master-Slave dialectic, situation in Russia demonstrates the relations between the leaders and the led people, or technically slaves that can serve as a curve mirror for situation concerning the worldwide knowledge-based society. I can demonstrate it during discussing of the so-called triple helix model, which describes the interaction among universities, industries and governments in the frames of the production of innovations (Etzkowitz and Leydesdorff 1998). The kernel of model is the representation of horizontal attitudes of universities, industries and governments. These attitudes provide the production of innovations as the process, activated by free will of each participant. In Russia, Government seeks for leading role regarding industries and universities. Therefore, already at the beginning, the basic model undergoes the distortion.

The Russian experience of applying of triple helix model have sum up in Bychkova at al. (2015). This investigation uses the metaphor dirty dances to describe the academic- industrial interactions. Such metaphor provides the designation of the place of participants as the action in relatively closed position, which dance master defined. The analogy between innovative process and dance provide the possibility for describing of the imitation forms of interactions, which present in Russian circumstances. For instance, universities do not constitute the real private sector of innovative production that can help for the needs of industry. Universities stay by the kind of the State property continuing the state policy in all its contradictions. Because of that, representatives of industry cannot agree with such situation. In Russia, the general picture demonstrates rather the moves of dance than real building of innovative economy.

Bychkova at al. (2015) suppose that despite creating the spin-off companies at the universities, the offices of these companies work apart from industries. They execute only the decorative function supporting the realization of some Federal Laws. Expert interviews show the skeptical beliefs of interviewers concerning the perspectives of innovative development on the base of academic-industry interactions. These beliefs are born by small number of successful examples of business projection within spin-off companies, created by universities.

There are some problems regarding imperfectness of juristic basic of innovative production. For instance, in Russia, Federal Laws preserve the uncertainty of intellectual property rights on products, made on the base of universities. Uncertainty of intellectual property rights made a problem during transferring of the innovation. Condition when the State is a main owner of products complicates the process of accepting of license by third party owing to slowness of mechanisms of registration and transfer of rights to use of the final products. Because of that, representatives of industries who are interested in innovation as itself, as a result, have to refuse the offers of university spin-offs to deal with foreign partners. By the way, I can note that norms of Marxist theory of capital can reveal this situation as it is. Producers are almost aloof from products of their production. Bychkova at al. (2015) do not reveal this circumstance, perhaps, by the reason of empirical orientations of investigations.

However, in theoretical attitude, this moment is very important. In Russia, the crossing the new approaches with the norms of Marxist background of their application can show that there is no real contradiction between describing of modern society on the base of theory of capitalism or on the base of theory of information society. Because of that, I can criticize some theoretical alternatives that present-day investigations are exposed (Fuchs 2013). Russian Federal Laws presuppose different models of academic-industry interactions. One of these models, based on the Government Decree No. 218, directs the industries to develop the innovative production uniting with academic structures on the principle of co- financing. As a result, representatives of the industry make the investment but do not get the profit. In Russia, nowadays business relations

do not demand the using of efficient technologies, which decrease the costs. Investments into the innovations demonstrate the loyalty of business elites who do not pursue the profit as a basic aim.

The features of knowledge-based society that develops in Russia are the consequences of existing social system. In this system, State and Government play the leading roles, while business elites and representatives of universities have the secondary value regarding process of innovative production. However, there are the objective reasons for development of noted situation such as the character of national history, authoritarian ethos of political attitudes, and other reasons. Contemporary researchers observe the deficit of democracy in European Union (EU) (see Outhwaite [2014], for discussion). Probably, the same situation is in Russia. In EU, deficit of democracy presupposes the barriers, built by the representatives of bureaucracy. It complicates the making-decision process, because this process becomes opaque from the external side. However, I cannot fully agree with statements in Outhwaite (2014) that future of democracy depends on improvement of making-decision process. Probably, it is correct for EU but as for Russian society, there is another cultural context, which presupposes alternative behavior of the participants of political processes. In Russia, people do not seek to find the ways of influence on Government. People prefer to avoid the conflict situations and constantly ready for submission. It does not mean that, in Russia, democracy is perfect one. Of course, Russian society needs some improvement of democratic ways of decision-making. At the same moment, active action of participants of process from the side of universities and/or industries can help to avoid many problems, which concern the academic-industrial interaction. Constant pressure on State institutions provides the efficiency of decision-making. As a result, the relations between Government, industries and universities would return to the horizontal kind of view and participants could correct all basic distortions.

In Russia, the creation of knowledge-based society signifies the way of implementation of standards of techno-science. The production of commercially favorable scientific information can help to execute the real modernization of Russian society. There is essentially necessary a full support of social communications, which strengthen a public role of network community of initiative citizens uniting economic and scientific activity. Master- Slave dialectic provides the situation where one side of relationship always is a victim for another.

Conclusion

As a result, I revealed the general conditions of knowledge-based society and features of its forming in Russia. This article discussed two aspects of general social theory. Firstly, the author debated the social forms, which caused the social progress, for instance future of European democracy in interpretation of William Outhwaite. Outhwaite (2014) believed that European Union demonstrated the deficit of democracy by the reason of unelected power institutions. Because of that “the elected parliament surely has to be the main focus for questions about European democracy.” (Outhwaite 2014, 327). In Russia, a future of democracy coincided with development of civilian society. Secondly, I support the critique of theoretical contradiction between theory of capitalism and theory of information society, presented by Christian Fuchs (2013) who mentioned as follows

The notion of transnational informational capitalism sublates both lines of thinking dialectically because information and networks have both an objective and a subjective aspect, they transform the means of production and the relations of production. The notion of transnational informational capitalism grasps this subject-object dialectic, it conceptualizes contemporary capitalism based on the rise of cognitive, communicative, and co-operative labor that is interconnected with the rise of technologies and goods that objectify human

cognition, communication, and co-operation. Informational capitalism is based on the dialectical interconnection of subjective knowledge and knowledge objectified in information technologies. The reason why this approach is better grounded is that dialectics allow reality to be conceived of as complex and dynamic, which questions one-dimensional and static accounts of reality. (Fuchs 2013, 419)

It was clear that the close association of techno-science and economic activity at concrete communities was the cornerstone of knowledge-based society. The scientific-technical interaction showed a special area of the economic relations for applying of knowledge. This area contained the development of commercially favorable ideas. Ideas, transferred to subsystems of society from the environment of research laboratories, gave the impulses for innovative development. However, the complex of existing problems complicated entering into the global trends for science and Russian society at all. In Russia, present-day formation of knowledge-based society is an ideal purpose. The real reaching of this purpose is a problem.

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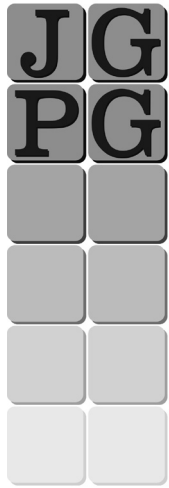
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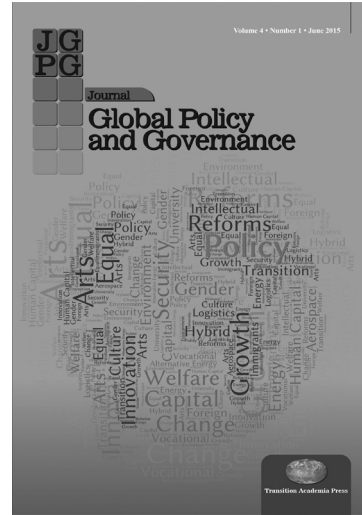
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Journal
**Global Policy and
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Journal of Global Policy and Governance Aims and scope

Global governance is a challenge of our era and us as human beings no matter where we live and what values we believe in. After a 100 years of development, international relations are so closely and tightly knit. A problem in a community might affect the life of the people in a remote part of the world and its solution might also be in the hands of these people but can't be assumed outside the more global International Relations theories and practices approach, an interrelated already practiced at every policy decision making, economic and financial levels and first of all by the main powers.

How can we manage this complex of various relations matters for our life and common future? It is the time for us to invest our wisdom and energy to make global governance work now and to give a sense to the United Nations already reduced to a zero-sum-game playing on the major emergencies and conflicts due first of all to the obsolete veto system that would be at least extended to all the 15 countries of the Security Council, being them permanent or at rotation, with the weighting of votes bringing less hypocrite the present five Jalta powers partition already 70 years ago. We are talking of the world not existing anymore.

There is no simple way and framework for global governance. Global governance is a general term which means to think globally and act globally. It is complicated because problems might be local. It is complicated because problems might be also global. It is complicated because the solution of problems might be local but also in a global framework global. That is why we need to check issues case by case carefully. We need to sort out what solution is the best choice for the problem. We need to identify who should be the persons of good will taking the challenge and adding their intellectual and scientific capabilities to the human destiny. We have to take an action worldwide. Global issues are definitely the subjects of global governance. Meanwhile, global governance takes care of issues with local reasons and local solution because we believe the experience might be helpful for people living in other parts of the world.

Interdependence of International Relations with finance, economy, technology, research and

advanced knowledge until a few years ago unimaginable, new military might introduced by innovation must be some of the crucial challenges, where also our Journal Global Policy and Governance intends to contribute opening its pages, issue after issue, to faculty, experts, testimonies, articles and relevant review of books, junior researches working papers. But we know also that traditional conflicts would not have any perspective in the medium term and will bring to the defeat of the ones who are imagining a return to the past.

We intend to embrace and reach all the possible interested colleagues and fellows around the world, as choices and strategies in all the sectors involving public and private governance, nobody excluded, are under questioning and innovative evaluation. Global world is not anymore a provocative statement, a kind of utopian return to realism and the theories dominant up to the German reunification, the end of Soviet Union and the war in the Balkans have now become obsolete by definition.

Middle East, Black Sea, Eurasia, Ukraine, Baltic, Turkey have the capability to reshape the future. Even if they are now in the middle of the fire, soon the devastations and impressive mass killings will be overcome and reconstruction taking the lead in many of these countries.

But why not underline the successful 30 years development and growth of China, a unique case in the last 500 years. China is the third world power, after European Union and USA, and has now similar problems we have encountered and are still facing nowadays, needs to find a political solution to reforming and giving voice to an accountability to its almost 1 billion 500 million inhabitants.

We really have to rethink the International Relations and the theories of Global Governance and Policy Choices, accepting the pluralities of institutional architectures and ways to give voice and accountability to the citizens. The European Union represents a “non Statehood” institutional governance, without even a Constitution and the Sovereignty belonging to the member countries. Do you believe the EU will change its architecture established by the Treaty of Rome in the future? This is an illusion of the antagonists of the different strategies and policies that were adopted right up to the Euro and the high welfare and technologic standards already achieved, even in the face of a crisis on 2008 that from the Atlantic arrived to Europe three years later and is now affecting East Asia. By 2020 we will be out of this tunnel everywhere in the world. To add a valuable contribution to this scientific debate is our very aim and scope

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