1. Supply side governance as principal agent

Explicitly named or not, our current approach to governance and anti-corruption is deeply wedded to the principal-agent framework. In the supply side approach to governance, the principal is the government, which has the best interest of the country at heart, yet struggles to get the agents, which are individual bureaucrats and officials, to act accordingly. Given this line of thinking, development agencies have concentrated their efforts on helping the government improve the performance of its agent, both via better capacity development (modern budget process, staff training) and better monitoring (audit and evaluation).

Underlying this framework is the assumption of the government as a monolithic entity with a single-minded goal of improving the quality of lives for the people. Yet this assumption is not defensible. The state does not exist—there is only a collective of individual bureaucrats politicians with their own goals and interests, one of which self-enrichment. Under the pressure of the development community and in order to keep the stream of aid flowing, politicians may allow the adoption of modern bureaucratic form while keeping the function riddled with opportunities for rent-seeking.

In recent years, it has become increasingly clear that this improvement in form but not in function is indeed happening. Coining this phenomenon “isomorphic mimicry,” Matt Andrews points out that it is inherently hard for development agencies to extend their influence past the appearance because implementation is much less visible. Under the surface, where the core practice has a material impact upon the interests of officials, the resistance to change is much greater. This duality of de jure and de facto governance is ubiquitous in public finance and civil service.

It must be made clear that there is nothing harmful about the adoption of best practice. Instead, the key problem is whether the government, the principal, is genuinely interested in better managing its agents. If yes, it will automatically look outward for best practices, as seen in all development miracles in history. Meiji Japan, fore example copied the best models in the Western world—Britain’s postal office, France’s police, Prussia’s army (Krause, 2013, p. 2). Likewise, in 1980s China, the idea to expose SOEs to free market mechanisms came directly from Deng Xiaoping 1978 visit to the impressive factories of Japan. Instances of such unified political will are exceedingly rare—and yet that is the starting assumption of supply side governance initiative.

1. Demand side governance as principal agent

The aforementioned shortcoming of supply side initiative does not escape the attention of development practitioners, giving rise to the trendy demand side approach. In this framework, the people are the principal, who struggles to ensure that their government, their agent, works toward their best interests. At first sight, the idea makes great sense: since the government is not automatically committed to citizens’ need, we must empower the citizens to claim their rights with better transparency and accountability.

However, just as the state does not exist, neither does the people—there are only rational individuals weighing the cost and benefit of fighting against corruption. In a thoroughly corrupt system, an individual acting ethically will have little impact while giving up the immediate benefit of speedier service or patronage bribe. Therefore, even if the majority in society utterly condemns corruption, it is not in any individual’s interest to stand up and take the fight alone. In other words, corruption is the result of a classic second order collective action problem—the society may coordinate to come up with a moral and legal system (first-order problem) but no one is willing incur individual cost to enforce the code (second-order problem) (Heckathorn, 1989).

As dismaying as it sounds, the people do not always have their collective good as the highest priority. In fact, contrary to the assumptions of the principal-agent framework, voters do not punish corrupt politicians at the poll, seeming to “display relative indifference to the moral culpability of elected officials” (Persson, Rothstein, & Teorell, 2010, p. 10 Chang et al 2007). Indonesia’s Parliament, widely considered the most corrupt entity in the government, is democratically elected after all. Similarly, Philippines’ patronage politics, rife with vote-buying and grassroots intimidation, has been an intractable character of the country’s electoral system for decades. Even though it is better for the country to get rid of patronage, no individual voter has the incentive to forgo the canvasser’s bribe or to suffer the retaliation. It is egregiously simplistic to think that the citizens will always be the “principled principal” and discipline the scoundrel politicians—and yet this is exactly what the principal-agent framework assumes.

Freeing ourselves from this framework, it is no longer surprising that a host of RCTs on greater transparency and accountability have produced disappointing outcomes. For example, Banerjee (2010) shows that communities have great difficulties in participating to improve the school system, even when they are provided the information about school performance and the desire to change it. The culprit is a general skepticism that the large group action against school officials is likely to collapse, thus prompting the citizens not to join the effort in the first place. In a more comprehensive review of all RCT studies trying to improve demand-side transparency and accountability, Joshi shows that there are contradicting results in all types of intervention. The emerging conclusion is that the success is only possible when the citizens are able to coordinate and impose formal sanctions—otherwise, intervention can only produce short-lived results.