



THE REGIONAL IMPACTS OF THE ASIAN CRISIS ON GOVERNANCE

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Abstract:

In this study, we examine the regional impacts of the 1997 Asian Crisis on Governance. We use World Bank's Worldwide Governance Indicators (i.e. WGI) which includes six dimensions of governance. These six dimensions are "Voice and Accountability", "Political Stability and Absence of Violence", "Government Effectiveness", "Regulatory Quality", "Rule of Law", and "Control of Corruption". The seven regions that we examine are North America, Europe and Central Asia, Latin America and Caribbean, East Asia and Pacific, South Asia, Sub-Saharan Africa, and Middle East and North Africa. Our findings show that, due to the crisis, while the overall rankings of Latin America and Caribbean, and Sub-Saharan Africa improved, the overall rankings of Europe and Central Asia, East Asia and Pacific, South Asia, and Middle East and North Africa declined. There was no change in the ranking of North America due to the crisis. Both pre- and post-crisis, North America has the highest ranking in all six measures of governance.

Key words: *governance, WGI, economic crisis, region*

1. Introduction

The previous financial/economic crises have affected countries in different ways. One of the main impacts of these crises on countries have been on their governance. By governance, we are talking about issues like political stability, government effectiveness, rules and regulations, corruption, voice of citizens, and accountability of the officials.

Several previous studies examine the impact of the crises like the 1997 Asian Crisis or the 2008-2009 Global Crisis on governance indicators. For example, Haggard (1999) examine the Asian Crisis and contends that the political regime type, the structure of business-government relations, and the design of government agencies are the main factors that determine how governance is affected by a crisis. Jung (2010) discusses the roles of path dependence, centralization or decentralization, politicization, coordination and coherence (or retention of power by individual ministries

or agencies), and time perspective on the disruption of the stability of public administration due to crises. Levine (2012) argues that, during the recent global crisis, “there was a systemic failure of financial regulation and that senior policymakers repeatedly enacted and implemented policies that destabilized the global financial system”. Levine (2012) recommends a new independent institution with informed, expert staff which will evaluate financial regulation from the public’s viewpoint.

All of these previous studies focus on a particular region or on a group of countries. In this study, we take a more holistic approach and focus on the impact of a crisis, namely the Asian Crisis, on all of the regions in the world (rather than focusing on a specific country or a group of countries). More specifically, we examine seven regions in the world. These regions are North America, Europe and Central Asia, Latin America and Caribbean, East Asia and Pacific, South Asia, Sub-Saharan Africa, and Middle East and North Africa.

In order to examine the impact of the Asian Crisis on these seven regions’ governance measures, we use World Bank’s “Worldwide Governance Indicators” dataset. This dataset covers 215 countries and includes data on six indicators of governance. These six indicators are “Voice and Accountability”, Political Stability and Absence of Violence”, “Government Effectiveness”, “Regulatory Quality”, “Rule of Law”, and “Control of Corruption”.

We are hoping to illustrate the regions that are affected the most due to an economic or a financial crisis. We will also show which regions are affected more in terms of each governance measure (i.e. “Voice and Accountability”, Political Stability and Absence of Violence”, and so on).

The paper proceeds as follows: Section 2 discusses the previous literature. Section 3 explains our data. Section 4 shows the results. Finally, Section 5 concludes.

2. Literature Review

Even before the Asian crisis happened, Remmer (1990) examines the relation between democracy in a country and the impact of an economic crisis. She argues that “if the magnitude of the debt burden at the outbreak of the crisis is controlled, there is no statistically significant difference between democratic and authoritarian regimes, or between new democracies and more established regimes in terms of the impact of the crisis”. Therefore, according to Remmer (1990), the debt level of a country affects the relation between a country’s regime and the impact of an economic crisis.

There are a few studies that examine the impact of the Asian crisis on governance. Two of these are Higgott (1998) and Haggard (1999). Higgott (1998) explores the similarities in the countries that are affected by the crisis. He states that Japan had a significant role in the crisis for all of these countries. Higgott (1998) also discusses how these Asian countries’ economic development models are different from the Western countries’ system.

Haggard (1999) examines three possible factors that may have a negative impact on these Asian countries. These factors are the role of political regime type, the

structure of business-government relations, and the design of government agencies. He argues that institutional weaknesses contributed to the onset of the Asian financial crisis.

Li (2003) also examines the Asian crisis. He argues that “economic development is fundamentally a process of establishing relation-based governance and subsequently making a transition to rule-based governance”. Li (2003) argues that the crisis affected different regions of the world in different ways mainly because the countries in different regions are at “different stages of development”.

There are quite a few studies that deal with the impact of the recent global crisis on governance. Fleischer and Parrado (2010) examine the impact of the 2008-2009 crisis on executive decision-making in Germany and Spain. They contend that, during this period, while both countries experienced a centralization of executive decision making, this was less pronounced in Germany due to its institutional setting.

Jung (2010) argues that the global financial crisis has had a significant impact on public administration in most countries in the world. Jung (2010) examines “path dependence (adhering to existing policies or changing course), centralization or decentralization, politicization (reliance on political appointees or the permanent bureaucracy), coordination and coherence or retention of power by individual ministries or agencies, and time perspective (the search for quick relief or long-term solutions)”. Jung (2010) argues that the crisis disrupted the stability of public administration in many countries, and this, in turn, facilitated policy and institutional changes in these countries

Woods (2010) looks at the issue from a different perspective and examines IMF’s role after the crises. Woods (2010) argues that IMF’s dependence on loans from its wealthiest members restrains it from serious reform.

Peters, Pierre, and Randma-Liiv (2011) argue that the 2008-2009 global crisis has been perceived differently in different countries. They contend that the crisis has had differing impacts in countries such as Germany or Sweden when compared to the United States. These countries were at different starting points in their governance regimes when the crisis hits, therefore the policy and governance options available to them were very different.

Another study that examines the impact of the 2008-2009 global crisis is Gieve and Provost (2012). Gieve and Provost (2012) contend that there has been a lack of coordination between monetary and regulatory policy in the subprime mortgage market, and that this has been the main reason for the crisis. They recommend better coordination between monetary and regulatory policymakers in the future.

Kickert (2012) analyzes how the UK, Germany and the Netherlands responded to the crisis. Kickert (2012) argues that the subsequent stages of the global crisis involved many more levels of government including ministries, parliaments, politicians, parties, and social partners in deliberation and decision making. Kickert (2012) contends that economic recovery requires more politicized decision-making.

Levine (2012) contends that there was a systemic failure of financial regulation. Levine (2012) argues that senior policymakers repeatedly enacted and

implemented policies that destabilized the global financial system. Levine (2012) recommends a new independent institution with informed, expert staff which will evaluate financial regulation from the public's viewpoint.

Posner and Blöndal (2012) argues that the current fiscal challenges has heightened the importance of early action and foresight in fiscal policymaking. Posner and Blöndal (2012) states that "the best chance of effectively dealing with the fiscal forces building up is to make timely decisions that have the broad support of as many interests and actors as possible".

Kahler (2013) argues that international cooperation was better after the 2008-2009 crisis compared to the two previous big crises (i.e. the Great Depression of 1929-33 and the global recession of 1981-82). Kahler (2013) argues that the character of economic globalization was different this time (i.e. economic nationalism was less attractive this time due to global economic integration). Also this time, there were combined international constraints imposed by international economic cooperation. Another important factor this time was the major developing and transitional economies being more successful during the crisis. Kahler (2013) recommends the international constraints to be stricter. He warns us about the role of key emerging economies, such as China, India, and Brazil on global governance.

There are two recent studies that deal with African countries' development issues. Desta (2012) argues that the development experts and policy makers suggest the application of East Asian developmental state model to African countries. Desta (2012) argues that East Asian development model may not be appropriate for African countries.

Mgonja and Tundui (2012) examine Tanzanian government's ambitious and far-reaching reform programs to improve the socioeconomic condition of the country since 1990s. The authors contend that unless someone addresses "institutional shortfalls" within the greater system of governance, any policy or reform initiative aimed at improving good governance will ultimately fail to deliver.

3. Data

In this study, for governance measures, we use World Bank's Worldwide Governance Indicators dataset. This dataset includes six measures of governance. These measures and their definitions (as given by World Bank) are shown below:

Voice and Accountability:

Reflects perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media.

Political Stability and Absence of Violence:

Reflects perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including politically-motivated violence and terrorism.

Government Effectiveness:

Reflects perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.

Regulatory Quality:

Reflects perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.

Rule of Law:

Reflects perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence.

Control of Corruption:

Reflects perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests.

For all six dimensions of governance, the estimate of governance (i.e. the score) ranges from approximately -2.5 (weak) to 2.5 (strong) governance performance. There are 215 countries in the dataset. The governance data are annual data and they are posted on the website www.govindicators.org. We examine the period from 1996 through 2005.

Table 1 shows each region's governance scores from 1996 to 2005.

Table 1. Governance Indicators for Regions

	Year	EAP	ECA	LAC	MENA	NA	SA	SSA
Voice and Acc.	1996	0.31	0.98	0.26	-0.69	1.36	-0.38	-0.73
	1998	0.38	0.99	0.30	-0.77	1.36	-0.30	-0.82
	2000	0.21	0.95	0.36	-0.77	1.34	-0.35	-0.85
	2002	0.34	0.99	0.46	-0.82	1.35	-0.69	-0.71
	2003	0.26	0.95	0.41	-0.92	1.30	-0.92	-0.64
	2004	0.12	0.95	0.44	-0.74	1.31	-1.02	-0.65
	2005	0.07	0.91	0.44	-0.85	1.28	-1.01	-0.53
Political Stab.	1996	0.47	0.49	0.04	-0.42	0.87	-0.77	-0.49
	1998	0.42	0.56	-0.01	-0.13	0.83	-0.95	-0.49
	2000	0.32	0.43	0.10	-0.17	1.02	-1.06	-0.48
	2002	0.41	0.76	0.20	-0.35	0.71	-1.17	-0.36
	2003	0.62	0.54	-0.01	-0.11	0.82	-1.35	-0.34
	2004	0.66	0.46	0.10	-0.31	0.85	-1.30	-0.33
	2005	0.72	0.47	-0.01	-0.49	0.79	-1.48	-0.42
Govt. Effective.	1996	0.27	0.62	-0.04	-0.06	1.71	-0.33	-0.76
	1998	-0.30	0.62	-0.05	-0.11	1.80	-0.44	-0.74
	2000	-0.17	0.62	0.01	-0.14	1.84	-0.42	-0.71
	2002	-0.09	0.72	-0.17	-0.28	1.70	-0.26	-0.81
	2003	-0.29	0.76	-0.14	-0.21	1.61	-0.29	-0.74

	2004	-0.38	0.83	-0.02	-0.23	1.80	-0.43	-0.72
	2005	-0.09	0.75	-0.08	-0.26	1.57	-0.35	-0.88
Reg. Quality	1996	0.21	0.88	0.33	-0.15	1.48	-0.45	-0.68
	1998	-0.24	0.81	0.28	-0.20	1.56	-0.43	-0.57
	2000	-0.12	0.75	0.21	-0.14	1.49	-0.47	-0.59
	2002	-0.09	0.94	0.17	-0.16	1.56	-0.52	-0.61
	2003	-0.34	1.00	0.21	-0.15	1.53	-0.39	-0.64
	2004	-0.26	1.08	0.14	-0.09	1.59	-0.67	-0.66
	2005	-0.12	0.95	0.19	-0.18	1.56	-0.46	-0.70
Rule of Law	1996	0.61	0.77	-0.29	0.04	1.45	-0.07	-0.82
	1998	0.15	0.76	-0.25	-0.03	1.55	-0.04	-0.74
	2000	0.19	0.65	-0.20	-0.04	1.54	-0.08	-0.77
	2002	0.17	0.71	-0.30	-0.01	1.49	-0.28	-0.68
	2003	0.05	0.66	-0.39	-0.05	1.55	-0.26	-0.68
	2004	0.24	0.58	-0.29	0.09	1.43	-0.36	-0.73
	2005	0.53	0.59	-0.27	0.03	1.53	-0.35	-0.84
Control of Cor.	1996	-0.01	0.36	-0.14	-0.22	1.57	-0.25	-0.77
	1998	-0.23	0.55	-0.13	-0.25	1.55	-0.36	-0.69
	2000	-0.31	0.55	-0.17	-0.39	1.66	-0.45	-0.66
	2002	-0.28	0.36	-0.20	-0.18	2.01	-0.41	-0.77
	2003	-0.37	0.38	-0.10	-0.21	1.77	-0.39	-0.76
	2004	-0.08	0.38	-0.10	-0.36	1.85	-0.61	-0.75
	2005	-0.11	0.33	-0.12	-0.30	1.53	-0.51	-0.78

Below is a list of the regions with their abbreviations:

EAP: East Asia and Pacific

ECA: Europe and Central Asia

LAC: Latin America and Caribbean

MENA: Middle East and North Africa

NA: North America

SA: South Asia

SSA: Sub-Saharan Africa

4. Results

Figures 1 through 6 present the regional governance data shown in Table 1 graphically. Figure 1 shows that, from 1996 to 2005, Latin America and Caribbean surpassed East Asia and Pacific in terms of “Voice and accountability”. Also, both Sub-Saharan Africa and Middle East and North Africa surpassed South Asia in terms of “Voice and accountability” over that period.

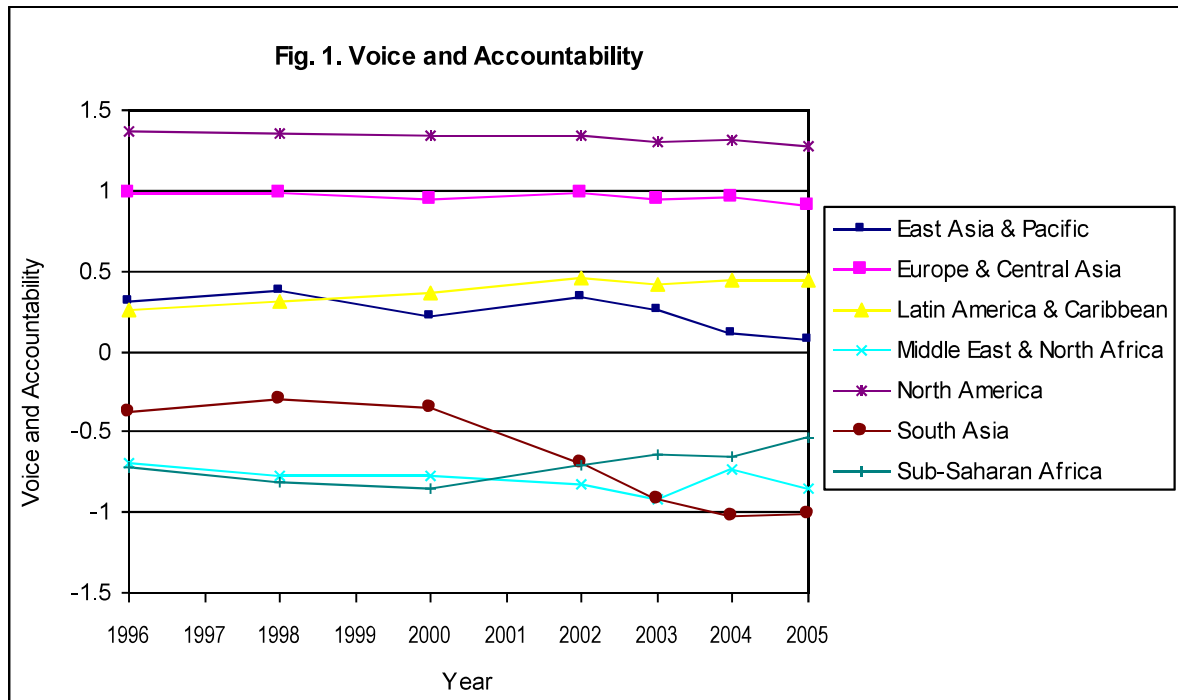


Figure 2 shows that, over the same time period, Sub-Saharan Africa surpassed Middle East and North Africa in terms of “Political stability and absence of violence”. Europe and Central Asia surpassed East Asia and Pacific in terms of “Political stability and absence of violence”. At the same time, East Asia and Pacific surpassed Europe and Central Asia in this measure over that period. South Asia declined sharply.

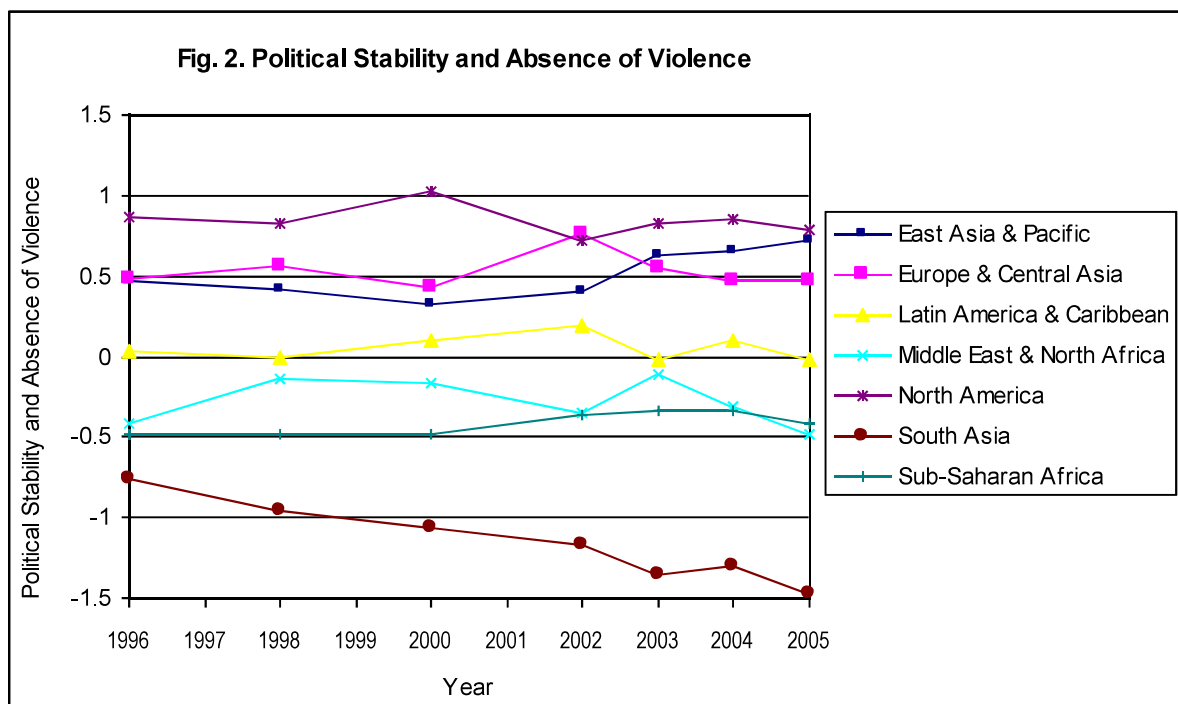


Figure 3 shows that, Latin America and Caribbean surpassed East Asia and Pacific in terms of “Government effectiveness”. Other regions’ rankings did not change from 1996 to 2005.

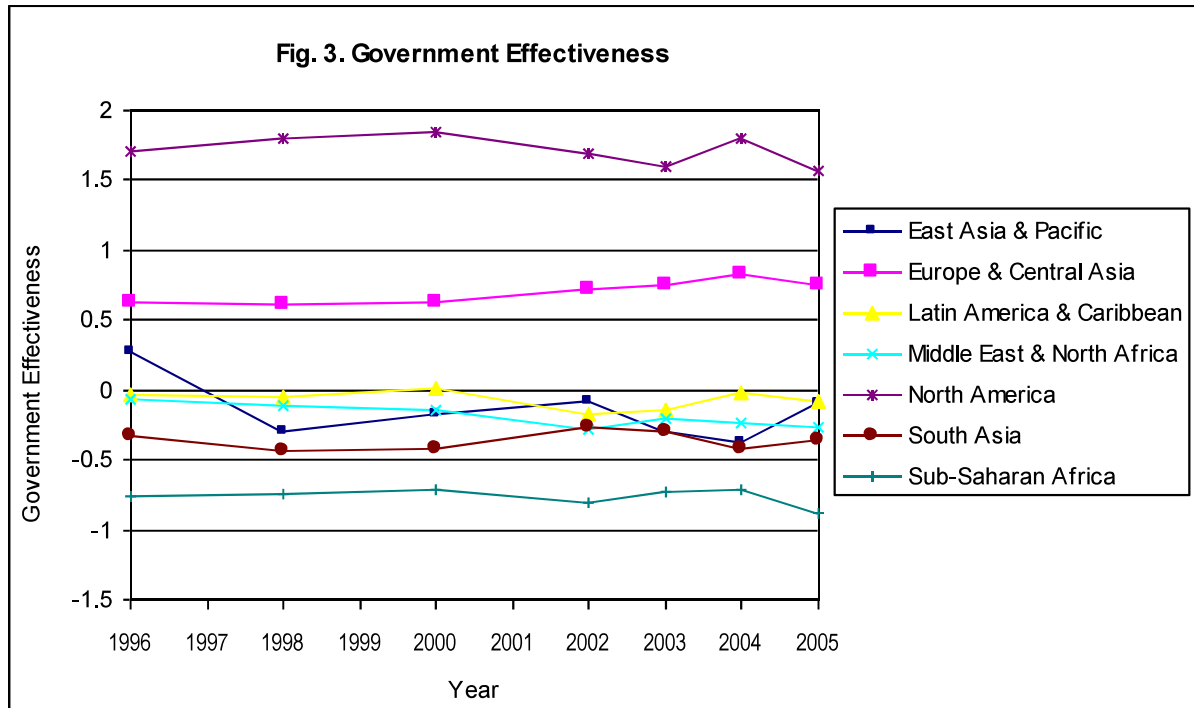


Figure 4 shows that the regions’ rankings did not change in terms of “Regulatory quality” over that time period. Middle East and North Africa surpassed East Asia and Pacific for a few years, but later it declined.

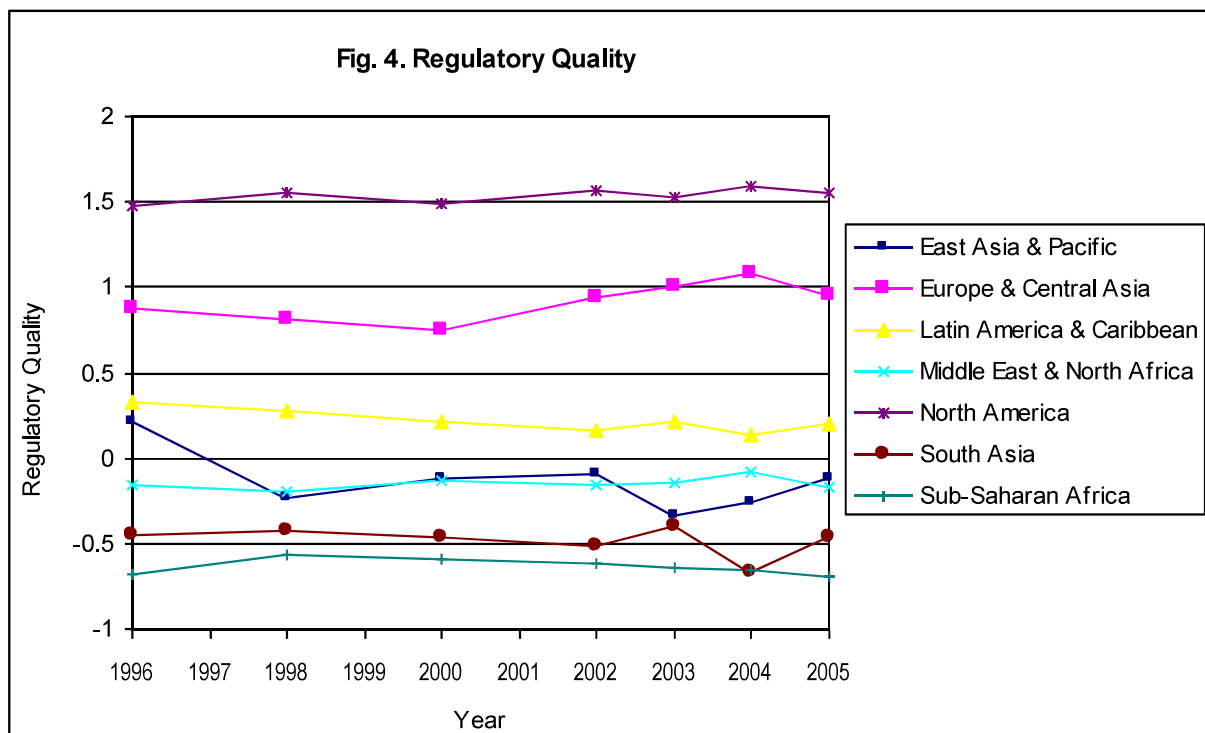
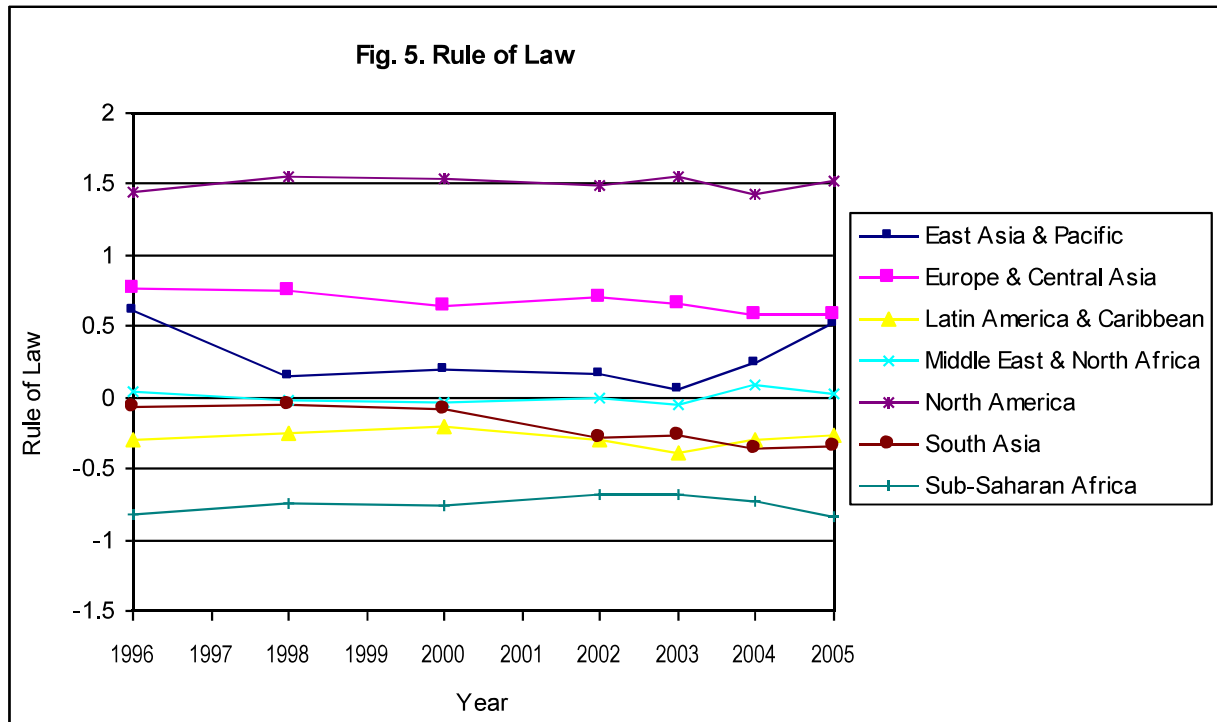


Figure 5 shows that Latin America and Caribbean surpassed South Asia in terms of “Rule of law”. Other countries’ rankings did not change.



Finally, Figure 6 shows that the regions’ rankings did not change in terms of “Control of corruption” over that time period. For a few years, Latin America and Caribbean and Middle East and North Africa surpassed East Asia and Pacific, but later, they declined.

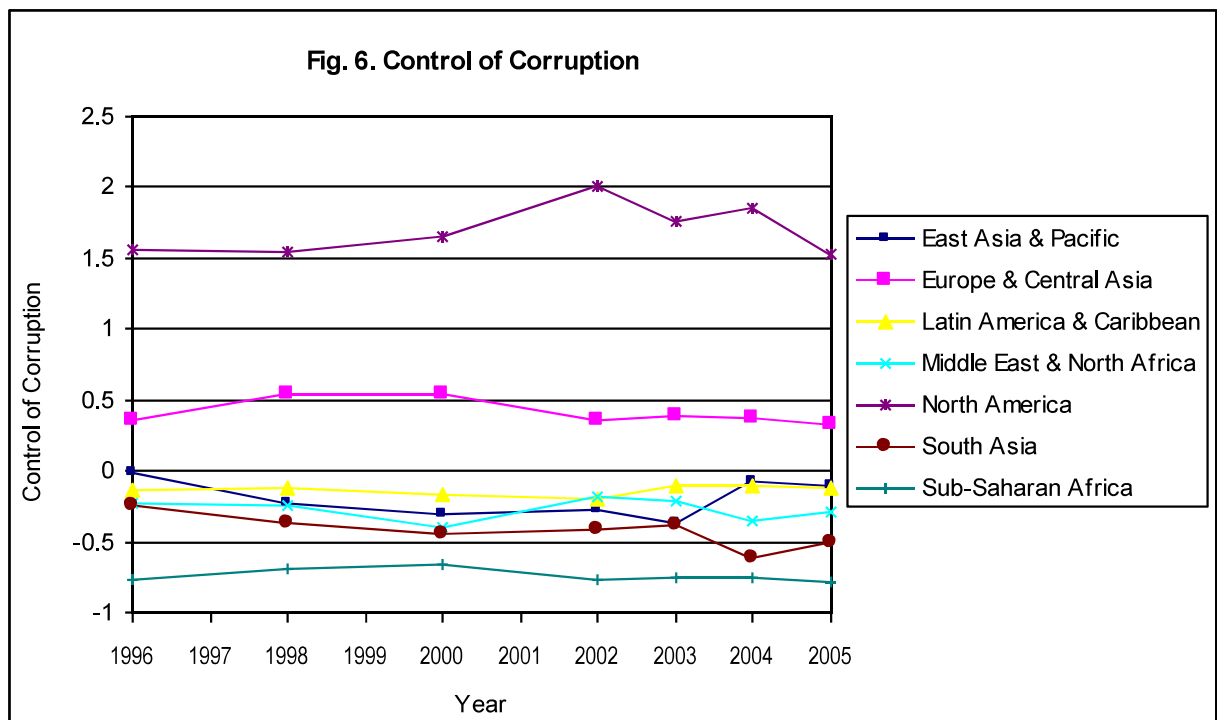


Table 2 shows the regional rankings in our six governance measures in 1996 and in 2005. Table 3 shows the changes in each region’s rankings in each measure from 1996 to 2005. In 1996, in terms of “Voice and accountability”, North America is

number one, Europe and Central Asia number two, East Asia and Pacific number three, Latin America and Caribbean number four, South Asia is number five, Middle East and North Africa number six, and Sub-Saharan Africa is number seven.

In terms of “Political stability and absence of violence, the regions are ranked from the best to the worst as follows: North America, Europe and Central Asia, East Asia and Pacific, Latin America and Caribbean, Middle East and North Africa, Sub-Saharan Africa, and South Asia.

In both “Govt. effectiveness” and “Control of corruption”, the regions are ranked from the best to the worst as follows: North America, Europe and Central Asia, East Asia and Pacific, Latin America and Caribbean, Middle East and North Africa, South Asia, and Sub-Saharan Africa.

In terms of “Regulatory quality”, the regions are ranked from the best to the worst as follows: North America, Europe and Central Asia, Latin America and Caribbean, East Asia and Pacific, Middle East and North Africa, South Asia, and Sub-Saharan Africa.

In terms of “Rule of law”, the regions are ranked from the best to the worst as follows: North America, Europe and Central Asia, East Asia and Pacific, Middle East and North Africa, South Asia, Latin America and Caribbean, and Sub-Saharan Africa.

Table 2. The Governance Ranking of Regions Pre- and Post-Asian Crisis

Panel A. Pre-Asian Crisis (1996)

Region	Voice and Acc.	Political Stab.	Govt. Effective.	Reg. Quality	Rule of Law	Control of Cor.
North America	1	1	1	1	1	1
Europe and Central Asia	2	2	2	2	2	2
Latin America and Carib.	4	4	4	3	6	4
East Asia and Pacific	3	3	3	4	3	3
South Asia	5	7	6	6	5	6
Sub-Saharan Africa	7	6	7	7	7	7
Middle East and N. Africa	6	5	5	5	4	5

Panel B. Post-Asian Crisis (2005)

Region	Voice and Acc.	Political Stab.	Govt. Effective.	Reg. Quality	Rule of Law	Control of Cor.
North America	1	1	1	1	1	1
Europe and Central Asia	2	3	2	2	2	2
Latin America and Carib.	3	4	3	3	5	4
East Asia and Pacific	4	2	4	4	3	3
South Asia	7	7	6	6	6	6
Sub-Saharan Africa	5	5	7	7	7	7
Middle East and N. Africa	6	6	5	5	4	5

Table 3. Improvement or Decline in Regions' Rankings after the Asian Crisis

	Voice and Acc.	Political Stab.	Govt. Effective.	Reg. Quality	Rule of Law	Control of Cor.
North America						
Europe and Central Asia		Down				
Latin America and Carib.	Up		Up		Up	
East Asia and Pacific	Down	Up	Down			
South Asia	Down				Down	
Sub-Saharan Africa	Up	Up				
Middle East and N. Africa		Down				

North America was number one in all six categories in 1996 and it was still number one in all categories in 2005. Latin America and Caribbean improved its ranking in "Voice and accountability", "Govt. effectiveness", and "Rule of law". Sub-Saharan Africa improved its ranking in "Voice and accountability" and "Political stability".

East Asia and Pacific was mixed. Its ranking improved in "Political stability" but declined in "Voice and accountability" and "Govt. effectiveness".

From 1996 to 2005, both Europe and Central Asia's ranking and Middle East and North Africa's ranking declined in "Political stability and absence of violence".

South Asia went down in two categories. Its ranking declined in "Voice and accountability" and "Rule of law".

Overall, we can say that three regions (North America, Latin America and Caribbean, and Sub-Saharan Africa) held steady or improved their rankings and that the remaining four regions went down in one or more categories.

Table 4 shows each region's improvement or decline in its overall ranking. The region with the lowest sum of "total rank score" had the best overall governance. For example, North America's score was 1 from each measure, so its "total rank score" is 6, both in 1996 and in 2005. Similarly, we add up the rank scores for each region from Table 2 and come up with a "total rank score" in 1996 and a "total rank score" in 2005.

Table 4. Improvement or Decline in Overall Ranking after the Asian Crisis

Region	1996 total rank score	2005 total rank score	Up/Down
North America	6	6	
Europe and Central Asia	12	13	Down
Latin America and Carib.	25	22	Up
East Asia and Pacific	19	20	Down
South Asia	35	38	Down
Sub-Saharan Africa	41	38	Up
Middle East and N. Africa	30	31	Down

North America has the highest scores in all categories before and after the Global Crisis, therefore its score is flat at 6. Four regions' (Europe and Central Asia, East Asia and Pacific, South Asia, and Middle East and North Africa) overall rankings declined and two regions' (Latin America and Caribbean and Sub-Saharan Africa) overall rankings improved after the crisis.

Europe and Central Asia's "total rank score" is 12 for 1996 and 13 for 2005, meaning that the region declined in terms of its overall governance ranking. Similarly, East Asia and Pacific declined from a "total rank score" of 19 in 1996 to 20 in 2005. South Asia declined from 35 in 1996 and 38 in 2005. Middle East and North Africa declined from 30 in 1996 to 31 in 2005. On the other hand, Latin America and Caribbean improved from 25 to 22, and Sub-Saharan Africa improved from 41 to 38.

5. Conclusion

In this study, we examine the regional impacts of the 1997 Asian Crisis on Governance. As measures of governance, we use World Bank's Worldwide Governance Indicators (i.e. WGI) which includes six dimensions of governance. These six dimensions are "Voice and Accountability", "Political Stability and Absence of Violence", "Government Effectiveness", "Regulatory Quality", "Rule of Law", and "Control of Corruption".

The regions that we examine are North America, Europe and Central Asia, Latin America and Caribbean, East Asia and Pacific, South Asia, Sub-Saharan Africa, and Middle East and North Africa. We examine how the Asian crisis affected the ranking of each region in terms of these six dimensions of governance. We use the 1996 rankings of each region as our pre-crisis rankings and we use the 2005 rankings of each region as our post-crisis rankings.

We find that, both pre- and post-crisis, North America has the highest ranking in all six measures of governance. We also find that, pre-crisis, Europe and Central Asia was number two in all measures. Our results show that, post-crisis, Europe and Central Asia was number two in all measures, except for "Political stability and absence of violence". Post-crisis, the region's ranking in "Political stability and absence of violence" declined to number three.

We find that, pre-crisis, Latin America and Caribbean was number three in "Regulatory quality" and number six in "Rule of law". In all other measures, the region was number four. Post-crisis, the region's ranking improved in "Voice and accountability", "Government effectiveness", and "Rule of law".

When we look at East Asia and Pacific, we find that, pre-crisis, the region was number four in "Regulatory quality" and number three in all other measures. Post-crisis, the region's ranking improved in terms of "Political Stability and Absence of Violence", but declined in "Voice and accountability" and "Government effectiveness".

When we look at South Asia, we find that, pre-crisis, the region was number five in "Voice and accountability" and "Rule of law", number seven in "Political stability

and absence of violence” and number six in all other measures. Post-crisis, the region’s ranking declined in “Voice and accountability” and “Rule of law”.

When we look at Sub-Saharan Africa, we find that, pre-crisis, the region was number six in “Political stability and absence of violence” and number seven in all other measures. Post-crisis, the region’s ranking improved in “Voice and accountability” and “Political stability and absence of violence”.

Finally, when we look at Middle East and North Africa, we find that, pre-crisis, the region was number four in “Rule of law”, number six in “Voice and accountability”, and number five in all other measures. Post-crisis, the region’s ranking declined in “Political stability and absence of violence”.

To summarize, due to the crisis, while the overall rankings of Latin America and Caribbean and Sub-Saharan Africa improved after the crisis, the overall rankings of Europe and Central Asia, East Asia and Pacific, South Asia, and Middle East and North Africa declined.

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