

## **PROGRAMME**

### **Governance for Economic Growth in Developing Countries: What Matters, and Can We Measure it?**

Technical Workshop hosted by SOAS in collaboration with DFID

**Date:** 2<sup>nd</sup> and 3<sup>rd</sup> July 2007

**Duration:** 2 days

**Venue:** Hotel Russell, 1-8 Russell Square, Bloomsbury, London

**Dress Code:** Smart Casual: no ties required!

#### **Workshop Objectives**

- a) Constructive opportunity to discuss latest ideas/reflections/research findings and the policy implications
- b) Seek practical steps to identify and measure key aspects of governance that are critical for economic growth.
- c) Develop networks to improve research and its impact on policy development

#### **Issue:**

1. Economic growth is critical, directly or indirectly, for delivering the MDGs. Growth in turn clearly depends on the type and quality of governance in developing countries. However, despite extensive research on the relationship between governance and growth, the aspects of governance that matter most remain uncertain and contested, and therefore difficult to track – either through quantitative or qualitative indicators. This constrains the ability of donors to assist with governance reforms that can promote growth.

2. Recent research (both case studies and re-assessment of work on cross national relationships) has questioned the robustness of some of the links between 'good governance' (e.g. as defined by WBI or Knack-IRIS indicators), and growth. A common response to this has been to cite very long-run evidence, for instance from the work of Acemoglu, Johnson and Robinson that seems to show that while countries can grow for some time with poor governance (as measured by good governance indicators), in the long-run the only rich countries are those that have 'good governance'. Is this response adequate?

3. From the policy perspective of making a difference in poor countries, the long-run relationship is not directly relevant. We need a much better understanding of:

- Why some countries with poor scores for good governance manage to take off while many other developing countries with similarly poor governance conditions fail to grow? Indeed it appears that *all* developing countries have poor scores on good governance (or market-enhancing governance<sup>1</sup>), but

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<sup>1</sup> Khan, Mushtaq H. 2006. *Governance, Economic Growth and Development since the 1960s: Background paper for World Economic and Social Survey*. United Nation's DESA: Washington.

high-growth countries had some specific governance capacities for managing the processes of growth.

- To what extent are the standard governance goals actually implementable in poor countries, as opposed to being important aspirations for the long run?
- What are the feasible reform priorities in developing countries that are growing rapidly but want to know how to sustain their growth, and what should slow-growing countries do to accelerate their growth?

3) Some of these issues have already been indirectly raised in discussions on the appropriateness of existing *measurements* of governance. For instance, the World Bank Roundtable Discussion on Measuring Governance held earlier this year raised many problems faced by policy-makers in implementing the contemporary governance agenda<sup>2</sup>. However, before we can have a debate on *how to measure*, we need to reach some agreement on *which* characteristics of governance are most important to measure, either in general or in particular developing countries. Once we have a better understanding of the priorities for governance reform, the statistical knowledge and techniques that are being developed will undoubtedly be very useful.

#### Workshop Tasks

Given that a number of different initiatives are already under way to respond to these challenges, this is a good time to take stock of progress made to date, and the outstanding issues – on *what* to measure and *how* to measure it.

The workshop will bring together different stakeholders and will:

- 1) Review the major issues identified in the literature on the evidence on the links between "good governance" and growth;
- 2) Consider different interpretations of this evidence, and the implications for policymakers: e.g.
  - Did growth takeoffs in developing countries (typically with poor scores on good governance) depend on critical governance capabilities that we are not measuring?
  - Are some good governance characteristics simply desirable in themselves or are some also required to make growth sustainable in the medium and longer run?
  - Are the required governance capabilities and priorities in different countries sufficiently similar for us to track the same indicators across countries or should we look for context specific indicators for subsets of countries facing similar problems?

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Available on <http://mercury.soas.ac.uk/users/mk17/Docs/Desa%20Background%20Paper%201.pdf> See also M.Khan: *Governance and Anti-Corruption Reforms in Developing Countries: Policies, Evidence and Ways Forward*. Paper for G4 Technical Group at WB annual meeting 2006. <http://www.g24.org/khan0906.pdf>

<sup>2</sup> <http://info.worldbank.org/etools/BSPAN/PresentationView.asp?PID=1967&EID=907> See also OECD (2006) *Uses and Abuses of Governance Indicators* and UNDP (Sudders and Nahem, 2005) on *Governance Measures*.

3) Consider what does all this mean for:

- Policy: what should the WB, DFID and others be doing differently?
- Better governance Indicators and qualitative analysis?
- Research: where are the gaps in our understanding?

## **PROGRAMME**

**MONDAY 2 JULY**

**9am Welcome: SOAS and DFID**

**9.15: Process issues:** The facilitators

**9.20-1035 Session 1: Overview of evidence ,alternative research and policy responses:** the broad issues raised by data and history, the responses coming from different approaches, the research agendas that already exist, and the likely problems and challenges faced by each. There are large areas of overlap between these approaches, as well as areas of difference. The overview will introduce the main issues to be discussed in the following sessions.

**Presenter: Mushtaq Khan, SOAS**

**Respondents: William Kingsmill & Graham Teskey, DFID**

**1035-1100: coffee/tea**

**11-12.30: Session 2: How research and policy are responding at the World Bank**

The main directions of new research and policy initiatives on governance priorities and measures. Actionable/ technocratic indicators. How to take account of different country starting points and different trajectories of reform; dealing with the demand side as well as the supply side of governance. Technocratic. The role of more specific, "actionable" indicators.

**Presenters: Phillip Keefer, WB**

**Brian Levy WB**

**LUNCH 12.30-2 pm**

**2-3.30pm Session 3**

**Relations between investors and political actors**

Advice to pay attention to the investment climate often comes packaged with advice to reform institutions in line with 'best practice' in OECD countries. This may not be very practical or useful in countries where institutions are weak and public policy highly politicised. Efforts to improve the investment climate might do better to focus on the political relations between holders of public

power and holders of capital. Rather than trying to create 'arms length' relations of institutionalised trust through universalistic, standardised legal mechanisms, reformers might do better to pay more attention to temporary, heterodox 'hand-in-hand' arrangements that could help boost private investment in weak governance contexts.

**Presenter: Mick Moore, IDS**

**Respondent: David Booth, ODI**

### **3.30-4pm Coffee/Tea**

#### **4.00-5.00m**

##### **Session 4: Limited Access Natural Orders in Developing countries:**

New work by North, Weingast, Wallis and Webb suggests that the source of both economic and political development is the transition from a 'limited access' to an 'open access' society, and that understanding the forces maintaining a balance between economic and political institutions is key to understanding this transition. New policy agenda being developed by Webb and others at the World Bank. Areas of overlap with Levy, Khan and other approaches.

**Presenter: Steve Webb**

##### **5-00 – 5.45 pm: Wrap Up session:**

**What are the implications of today's presentations for research, policy and indicators and the links between them:**

**Commentator: James Putzel, LSE/Crisis States Development Research Consortium**

**Facilitators: table discussion**

- **Policy**
- **Indicators**
- **Research**

**7pm DINNER at SOAS**

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**TUESDAY 3 JULY**

**9-9.30: Review of main learning points from yesterday**

**The facilitators**

**9.30-11.00am:**

**Session 5: Growth-Enhancing governance capabilities.**

Developing countries face common challenges in a number of areas. The institutional responses may be different in different countries depending on their internal political structures, but economic success depends on addressing these issues. Developing countries have structurally weak property rights and their systems of governance allocate rights through non-market mechanisms, they confront large technology gaps and need to respond to the challenge of technological catch-up, and most importantly, they need to manage political stability through patronage in a resource constrained environment. Market enhancing capabilities are desirable, but a) not achievable in early stages of development, and b) not sufficient.

**Presenter: Mushtaq Khan, SOAS**

**Respondents: Brian Levy WB, and Philip Keefer WB**

**11.00-11.30: coffee/tea**

**11.30-13.00**

**Session 6: How can we better measure the governance for growth**

The technical challenges in responding to the issues identified in the workshop. and how to address them. Lessons already learned. Are there more imaginative approaches and new sources of data e.g. proxy indicators in developing country contexts on political governance that directly or indirectly can nurture or constrain economic growth?

**Presenters: Daniel Kaufmann WBI**

**Respondent: Marta Foresti ODI**

**LUNCH: 13.00-2.15pm**

## **2.15-3.15pm Session 7 Break-out Groups**

### **Implications for next steps in**

- 1. Policy: led by William Kingsmill, DFID and Brian Levy WB**
- 2. Indicators: led by Julius Court, DFID, Daniel Kaufmann WB**
- 3. Research: led by Adrian Leftwich, York/IPPG and Steve Webb WB**

**3.15-3.45: tea**

**3.45 -4.30 pm Feedback**

**4.30-5.30: Final Session. Next steps:**

**Can we:**

- 1. identify critical areas of the evolving research agenda for improving governance indicators and policy;**
- 2. agree how to support closer dialogue about governance and growth through networks linking researchers and policymakers**

**Max Everest-Phillips and Peter Owen, DFID**

What are the directions in which further work can be done to identify governance priorities in developing countries in general, or in different types of developing countries? What are the implications of the above for research priorities?

**Deliverables:**

- 1. The evidence: what aspects of governance matter most for economic growth? What is the evidence? What we know and gaps in our knowledge.**
- 2. Improving approaches to 'governance for growth' – better inter-disciplinary understanding of 'governance for growth' as a political *and* institutional process**
- 3. Indicators: are we measuring the right things in the right ways; are there things we are not measuring but could – could there be more imaginative use of existing data or do we need to generate new data?**
- 4. Follow up: Report of workshop; key issues requiring further work - leading to next meeting?**

7 June 2007