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## **Linking Growth and Governance for Inclusive Development and Effective International Cooperation**

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### **Article at a glance**

- Economic growth has long been the central focus of the study of development. However, the multiple and intimate connections among the economic, social, and political aspects of development are receiving increased attention in contemporary practice.
- Development is complicated. It has many economic, social, political, environmental, and security dimensions, all of which are simultaneously interacting and influencing one another.
- International experience and research, shared in a spirit of partnership, can provide valuable information and analytical tools that will be useful to developing countries in pursuing their own paths to sustainable development.

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## Introduction

Economic growth has long been the central focus of the study of development. However, the multiple and intimate connections among the economic, social, and political aspects of development are receiving increased attention in contemporary practice. In particular, the complex relationships between growth and governance provide a distinctive background for efforts to improve the human condition.

The enlargement of human freedom, security, and opportunity has become the contemporary goal of development. In this context, interest in once-popular theories is being replaced by emphasis on local commitment, capabilities, institutions, and priorities. Human development has achieved many advances in recent decades. These advances are evident in virtually all aspects of human experience – rising incomes, longer and healthier lives, better nutrition, more children in school, more opportunities for women, and more people enjoying freedom.

Inclusive growth and good governance have been at the core of human progress. This paper reviews academic thought and practical experience concerning these intertwined factors of development.

## Growth

There is no universal formula for achieving and sustaining economic growth. The Commission on Growth and Development conducted a two-year study of the 13 economies that had sustained high growth over an extended period during the post-World War II era. The Commission found five broad areas of policy similarity among these exceptional performers. In particular:

1. They fully exploited the world economy;
2. They maintained macroeconomic stability;
3. They mustered high rates of saving and investment;

4. They let markets allocate resources;

5. They had committed, credible, and capable governments.

The Commission offered its findings as a list of useful ingredients to be considered by policymakers and experts in each local context. As the Commissioners observed, “this is because no single recipe exists. Timing and circumstances will determine how the ingredients should be combined, in what quantities, and in what sequence.”

Other analyses have examined how growth interacts with various factors of development:

Dani Rodrik has identified three “higher-order principles” of economic governance found to be present in all countries that have sustained rapid growth: property rights, sound money and fiscal solvency, and market-oriented incentives. In general, he recommends an approach that includes an investment strategy, complemented with an institution building strategy. However, like the Growth Commission, Rodrik rejects specific *a priori* policy recommendations and defers to local analysts “to supply many additional ingredients that are contingent on the economic and political context.”

Daron Acemoglu and James Robinson stress the demonstrated importance of local economic and political institutions that are “inclusive” rather than “extractive.” Their analysis shows that economic growth creates winners and losers. Opponents of change, i.e., those who believe they are likely to be among the losers, often have both the incentives and the capability to resist. Acemoglu and Robinson emphasize the political nature of contests between privileged local elites and those who would constrain their advantaged status. They are strong voices in the chorus of development scholars who stress the importance of inclusive institutions for effective policies and strong capabilities.

In a similar vein, Douglass North and his collaborators distinguish between “limited access

orders” (societies in which powerful elites control access to resources and services) and “open access orders” (societies which operate through political and economic competition and the rule of law). They contend that transition to the values and dynamics of open access is necessary to assure a receptive environment for economic, social, and political reforms.

The interconnections between societal values that favor competition, effective institutions, and sustained growth seem to be clearly established. The direction of causality appears to be less certain. Extensive research suggests that in some countries changed values have affected institutions while in others institutional change has affected values.

There is much convergence in the academic literature. But there are also many points of difference. Rather than debate the differences, it would seem better to look to local actors to identify the most significant constraints to growth and address them through contextually appropriate strategies. This is the approach pioneered by Ricardo Hausman, Dani Rodrik, and Andres Valesco. Their growth diagnostics and constraints analysis looks at factors such as savings, investment, productivity, education, and infrastructure in order to identify one or two binding constraints where action is feasible and a significant positive impact is likely. This approach has been widely adopted. An attractive feature of the methodology is that it combines local adaptation of technically sound constraints analysis with a sound political economy approach to guide implementation. This gives weight to judgments about what results should be pursued and also the practical means by which those results might best be achieved.

## Governance

As in the case of economic growth, there is broad agreement about the core elements of good governance. While historically not at the center of the international development agenda, effective and accountable governance has come to be seen as an integral dimension of the development

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process. The trend toward increased attention on governance was given impetus in the 1980s by the World Bank (initially with regard to Africa) and by USAID (initially with regard to Latin America). Since those early efforts to identify and take into account characteristics of good governance, an extensive body of research and analysis has been compiled. The principal focus has continued to be on credible, responsive institutions and on individual freedom and participation, themes that are emphasized in the Universal Declaration of Human Rights.

It is noteworthy that good governance is usually defined to include democratic values and practices, such as civil liberties, political freedom, accountability of government officials to citizens, and equal justice. Thus, good governance, for the most part, is democratic governance. There is persuasive evidence that, in the long run, democracies achieve superior results with respect to growth, stability, resilience, and distributional outcomes. At the same time, as illustrated by the diverse political histories of the 13 high-growth economies examined by the Growth Commission, historical trajectory will vary from country to country. In some cases, economic progress paves the way for political reform and in other cases it is the political opening which creates opportunities for economic growth.

Capacity to provide good governance requires competent and accountable institutions. These are the channels for providing security, ensuring the rule of law, raising revenue, managing economic development, and delivering basic services. Research

shows that the quality of institutions depends in large measure on context-specific variables of history and culture that influence the political economy and incentive structures. As in the case of strategies for inclusive growth, these variables need to shape governance strategies. Local conditions and local knowledge are crucial to judgments about strategy design and implementation. Recognizing this, the international community has broadly supported a movement away from a “best practice” approach of applying generalized guidance in disparate environments. Instead, the preferred course has become to encourage “asking the right questions” and seeking the “best fit” to local circumstances, although, as further discussed below, the day-to-day practice of development cooperation has often been slow to adapt.

The development community has created indicators and diagnostic tools for assessing and measuring governance. However, there are still few universally accepted standards. Especially promising are tools that have been designed in a collaborative manner so that developing countries can adapt them to the local context and use them in deciding on their own priorities and strategies.

Elinor Ostrom carried out extensive analysis of economic governance models with multiple decision points. Her findings documented the value of shared knowledge, communication, and incentives for collaboration. Her Institutional Analysis and Development framework for promoting cooperation for mutual benefit has been adopted in a wide range of multidisciplinary efforts. Her work is a reminder that political contests about evolving institutions and practices are continuing processes. As David Booth and Diana Cammack have pointed out, “challenges... are not fundamentally about one set of people getting another set of people to behave better in the interests of development. They are about both sets of people finding ways of being able to act collectively in their own and others’ best interests.”

## Intertwining of Growth and Governance

The distinction between growth strategies and governance strategies is an elusive one. Both need to be responsive to country-specific conditions, flexible in design and application, and capable of adapting to changing circumstances. Research demonstrates the interconnections and common challenges.

- Timothy Besley and Torsten Persson have found a positive interaction between broadly based income growth and two other factors: first, strong common societal interests and peaceful settlement of disputes, and second, state capacity, especially for fiscal management and enforcement of legal rights and duties.

- Douglass North reminds us that history matters and path dependence is a powerful force. Change means overcoming the cumulative weight of history, societal traditions and values, concentrations of economic and political power, and the strengths and weaknesses of existing institutional structures and incentives systems.

- Mishtaq Khan describes how existing conditions can produce a “political settlement” in which interaction between contending political and economic forces produces a sustainable combination of mutually supporting institutions which distribute benefits in a manner that reflects the existing distribution of power. This distribution of power is a key factor in understanding the importance of informal institutions for both growth and governance.

- In a series of papers, Matt Andrews, Lant Pritchett, and Michael Woolcock have provided a useful list of recommended principles for a context-specific, opportunistic approach to state implementation capacity. They call this approach “problem-driven iterative adaptation” (PDIA). It suggests that reform activities should:

1. aim to solve particular problems in particular local contexts *via*

2. the creation of an “authorizing environment” for decision-making that encourages experimentation and positive deviance, *which gives rise to*

3. active, ongoing and experiential (and experimental) learning and the iterative feedback of lessons into new solutions, *doing so by*

4. engaging broad sets of agents to ensure that reforms are viable, legitimate and relevant—that is, are politically supportable and practically implementable.

From this discussion we can see that both economic and political reforms benefit from a stable environment, from consistent policy direction, from effective and accountable institutions, from broadly inclusive stakeholder knowledge, communication and participation, and from basing decisions on market forces and impartially determined and equally applied criteria rather than on privilege and patronage. We can also see that the obstacles to adopting policies and institutions conducive to inclusive growth and good governance are shaped by myriad context-specific historical and social factors that have multiple and uncertain impacts on values, incentives, and capacities. The complexity of pursuing linked growth and governance objectives in widely different and evolving situations leaves no practical alternative but to rely on flexible, experimental approaches that include ample opportunities for feedback, learning, and course correction.

## International Cooperation

Over the past decade the international community has achieved a broad consensus on the effectiveness of development cooperation. A principal instrument for building this consensus has been a series of international meetings, including the 2002 Monterrey Conference on Financing for Development, the 2003 Rome Conference on Harmonization of Development Cooperation, the

2005 Paris Conference on Aid Effectiveness, the Accra Conference of 2008, and the 2011 Busan Meeting on Partnership for Effective Development Cooperation.

The Busan Partnership Declaration builds on agreements reached at the previous meetings about local ownership, alignment of international programs with national priorities, harmonization of international programs, managing for results, and mutual accountability. Busan has been endorsed by 160 countries and territories and by more than 50 international organizations and a large number of civil society organizations. It calls for a partnership framework that emphasizes inclusive growth and good governance. In particular, the Declaration provides:

It is now time to broaden our focus and attention from aid effectiveness to the challenge of effective development. This calls for a framework within which:

a. Development is driven by strong, sustainable and inclusive growth.

b. Governments’ own resources play a greater role in financing their development needs. In turn, governments are more accountable to their citizens for the development results they achieve.

c. Effective state and non-state institutions design and implement their own reforms and hold each other to account.

d. Developing countries increasingly integrate both regionally and globally, creating economies of scale that will help them better compete in the global economy.

This framework reflects many of the findings that have emerged from academic research and analysis and are described in this paper. The framework is reinforced in the Busan Declaration’s call for actions, led by developing countries, to support the implementation of institutional and policy changes, assess the needs for capacity development, and improve measurement of

institutional performance.

Busan also provided for a new international coordinating mechanism to support the implementation of the undertakings made in the Partnership Declaration. The Global Partnership for Effective Development Cooperation was established in 2012. Within that structure there is an Effective Institutions Platform in which more than 70 participating countries and organizations are developing measures to support “institutions needed for transparent, effective and accountable states.”

The capacity of the emerging framework for international development cooperation will be tested by several contemporary trends. The new partnership structure will operate in an environment characterized by growing diversity and inclusiveness of participation (including by nongovernmental actors) in the development community, the increasing complexity and changing composition of development finance, the ongoing process to devise the post-2015 development agenda, and the continuing challenge of addressing the political dimension of development within a context of international cooperation led by developing countries.

## The Way Forward

Several key points stand out from the preceding discussion:

- Development is complicated. It has many economic, social, political, environmental, and security dimensions, all of which are simultaneously interacting and influencing one another.

- Development is also complex. Capacities and commitments will vary in different countries and at different times. Progress is also influenced by distinctive considerations of geography, history, and shared values, all of which influence incentives and shape both support for and resistance to change.

- Success in the political contest between

reform proponents and those who would preserve the status quo depends on consistency of policy direction, growing institutional capacity, and ability to adapt to changing circumstances. Equally important are increased public knowledge, improved communication, and growing participation to build trust, expand the range of shared interests, exercise the public voice, and demand accountability from leaders and institutions.

- The diversity of country contexts precludes reliance on a *priori* formulae or notions of “international best practice” to determine the specific content, pace, or sequence of actions. Rather, developing country-led incremental and experiential approaches based primarily on knowledge of the local environment, good communication, and openness to stakeholder input, can help find the right fit for attaining satisfactory and sustainable progress at acceptable cost.

- International experience and research, shared in a spirit of partnership, can provide valuable information and analytical tools that will be useful to developing countries in pursuing their own paths to sustainable development.

- International cooperation in support of locally led efforts can accelerate positive development outcomes based on the agreed principles and frameworks set out in the Busan Partnership, with specific focus and content in each country determined on the basis of the shared interests, capacities and commitments of the development partners, and progressively expanded reliance on implementation by local partners using local systems.

The impressive consensus represented by the Busan Partnership – and its influence on national policies and capacities for effective development cooperation – provides an opportunity for reshaping international cooperation to increase its potential contribution to development and, in particular, its contribution to inclusive growth and good governance. The Busan Partnership Declaration is far more than a statement of shared aspirations. Its framers were very successful in

capturing sound theories as well as practical realities of effective development cooperation. These include the recognition that development must be based on local responsibility and international partners should facilitate this; that effective economic and political institutions are essential; and that international support for efforts by developing countries to strengthen their institutions needs to be appropriate to the local context.

The role of institutions is widely regarded to be one of the most important factors in achieving inclusive growth and good governance. But there is widespread disappointment with the limited impact of efforts to strengthen institutions through international development cooperation. The broad theme of institutional capacity is now prominent on the post-Busan agenda, including through the work of the new Global Partnership for Effective Development Cooperation and significant investments being made in research on empowering locally led development.

A particularly disturbing finding from current research is the conclusion that many externally supported reform efforts have failed to improve institutional performance. Professor Matt Andrews reviewed a broad range of evaluation reports and found a pattern of implementation that disregarded the dominant view in current literature and development agency guidance that rejects “one-size-fits-all” solutions and emphasizes context-specific “best fit” with maximum reliance on local leadership and use of local systems. This finding of a continuing significant divergence between declared policy and everyday practice is consistent with the conclusion of an earlier major study that although donors have recognized “the need for more politically intelligent, context-specific approaches, and more local ‘ownership,’... overall there is still a big gap between donor rhetoric and actual behavior, and for the most part development practice remains donor-driven and aid-centric.”

The renewed attention to institutional

capacity in the post-Busan environment creates an exceptional opportunity to mount a concerted effort to overcome historic impediments to achieving local ownership and building local capacity. The favorable environment is enhanced by existing frustration over the disappointing results of past efforts and the incentives that both developing countries and their international partners have to be able to rely increasingly on local institutions and local systems with confidence that the increased responsibility will be exercised responsibly and effectively.

The growing body of research is providing valuable knowledge about the risks and opportunities of new approaches. As a result, alternatives to traditional models of international cooperation are being proposed, such as the problem-driven iterative adaptation approach described above. The current trend is toward locally led collaboration to identify problems, preserve the value of existing institutions and collective action frameworks, formulate specific solutions that provide a good fit in the local circumstances, and assure broad participation in the design and implementation of strategies. This trend has the potential for changing the thinking of development actors as well as the practice of development cooperation in ways that can significantly enhance and sustain inclusive growth and good governance.

The international community should seize this moment of opportunity. ♦

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