

Governance & Development



Dr. Ibrahim Akoum
Division Chief
Arab Financial Markets
Arab Monetary Fund

1. Development: An Elusive Goal.

**2. Governance: The New Development
Theory Mantra.**

3. Raison d'être of Governance.

4. Conclusion.

It's a virtuous circle

**Good governance leads to
stronger development**

&

**Stronger development leads
to stronger governance ...**

World Bank

... the World Bank has committed itself to a new strategy ...

... the revised strategy lays emphasis on governance as central to development...

**... Good Governance is
indispensable for countries
to sustain progress over the
longer term ...**

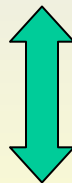
UNDP

Development

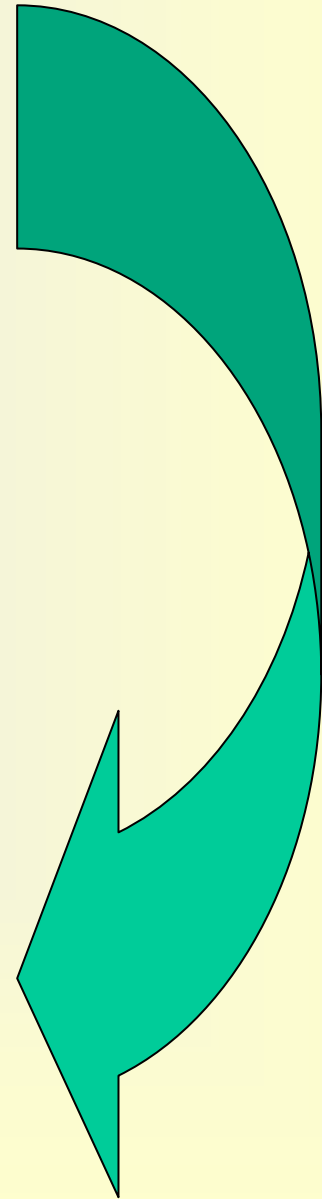
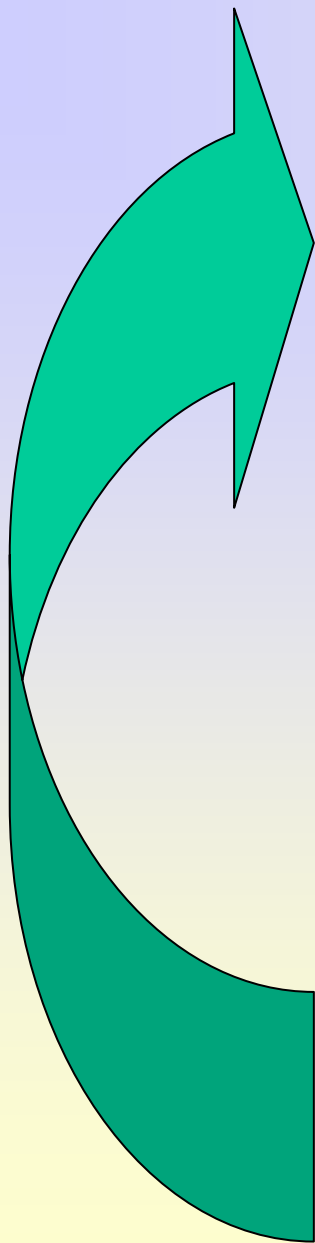


Competitiveness

- Resource allocation
- Productivity
- Stability



Governance

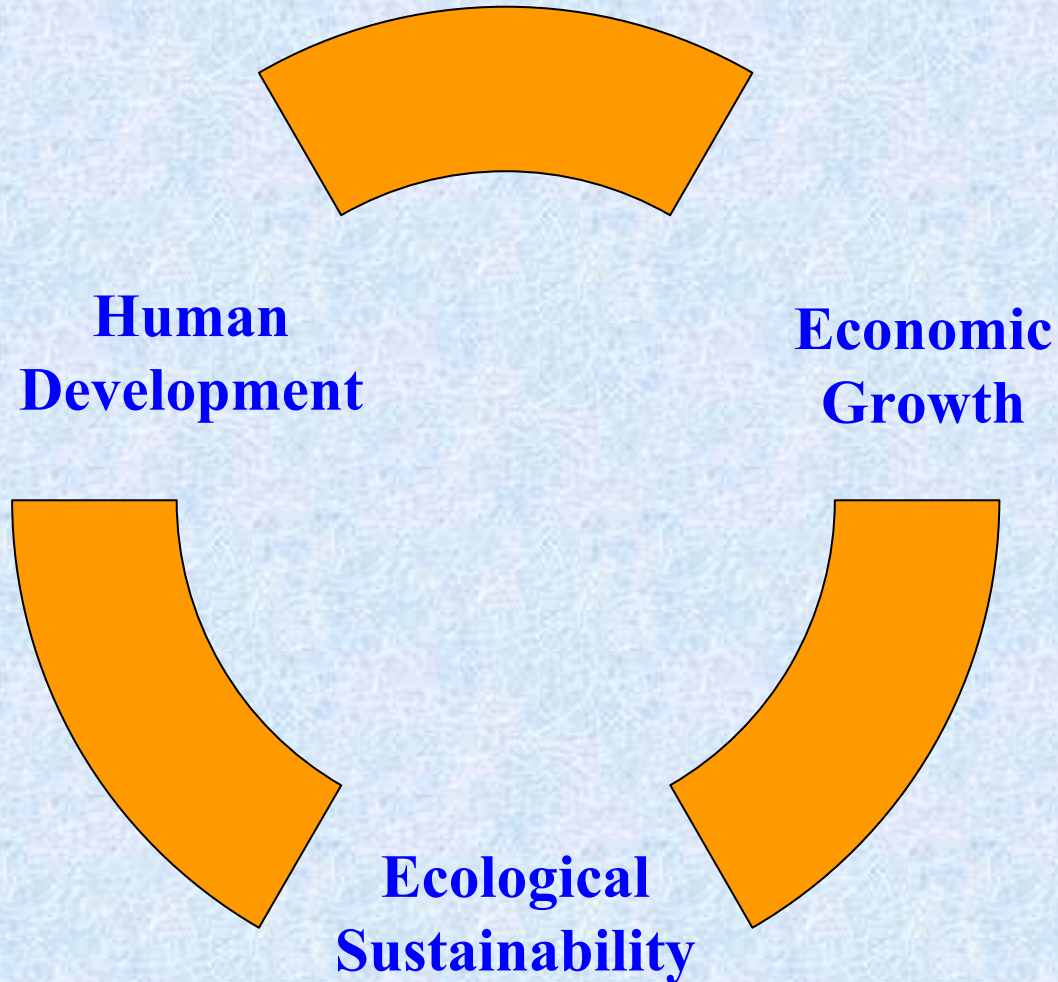


Development

An Elusive Goal

- **Wealth Accumulation ?**
- **Economic Growth ?**
- **Income Per Capita ?**
- **Social Development ?**

Development



**“Human development is the end...
economic growth a means”**

Human Development Report 1996. United Nations.

Development

Sustainable Development

Development is sustainable if it “meets the needs of the present without compromising the ability of future generations to meet their own needs.”

United Nations World Commission on Environment and Development

Development Theory:

- ☆ What are the sources of growth?
- ☆ Why some countries succeed in accumulating relatively more wealth than others?
- ☆ Why some countries are more developed than others?
- ☆ Why some countries have wider inequality gaps than others?

Development Track Record Satisfactory?

Yay: *The world economy has fared well and living standards have risen markedly*

Nay: *Economic growth has been unsatisfactory and poverty and inequality are on the rise*

Development Track Record Satisfactory?

Yes ..

the 20th century saw great progress in reducing poverty and improving well being..

...average incomes more than doubled in developing countries during the period 1965-1998 ..

World Bank

People in Poverty

(% of population)

(percent)

90

80

70

60

50

40

30

20

10

0

Europe &
Central
Asia

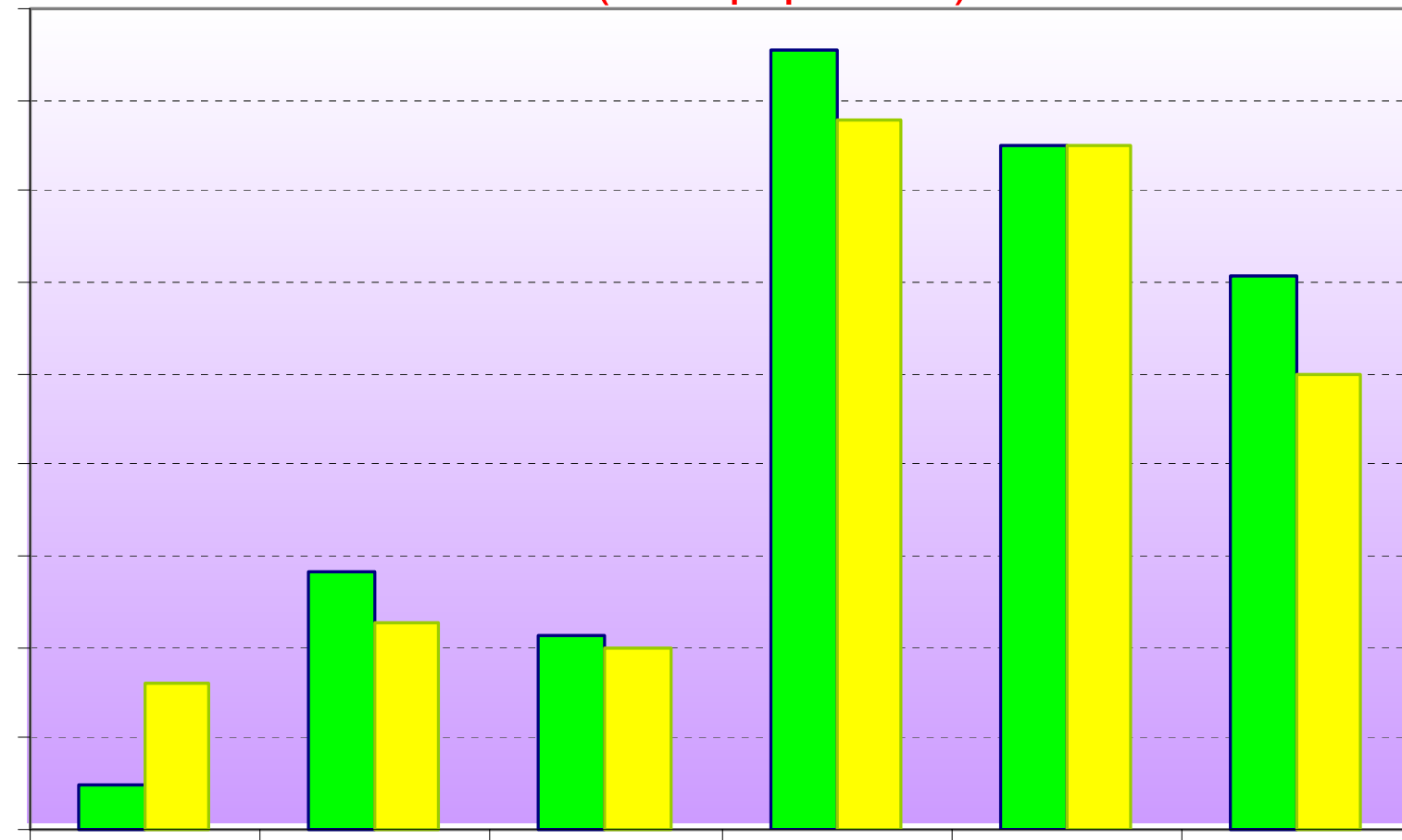
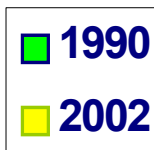
LAT &
Caribbean

MENA

South Asia

Sub-
Saharan
Africa

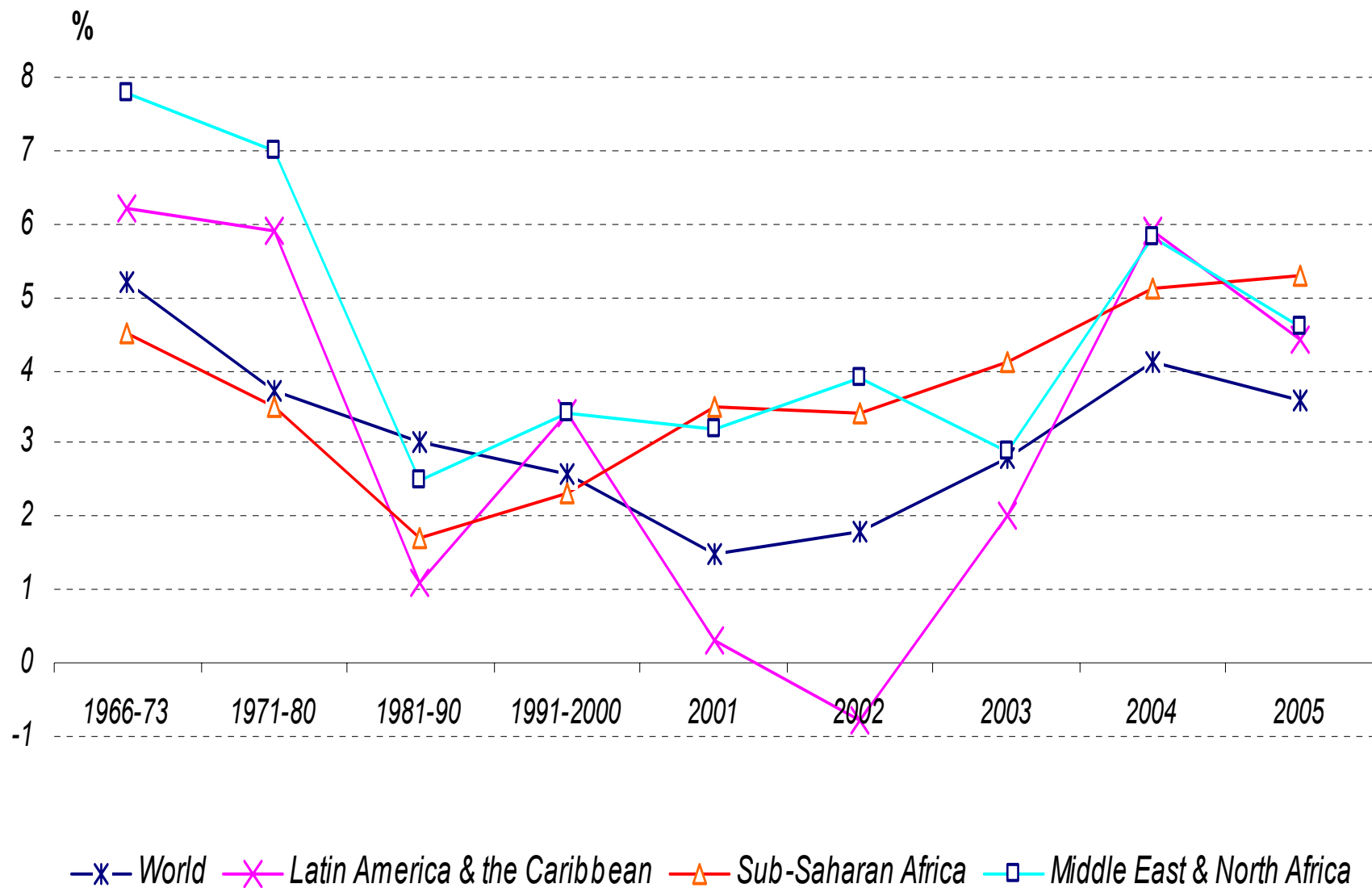
World



Development Track Record Satisfactory?

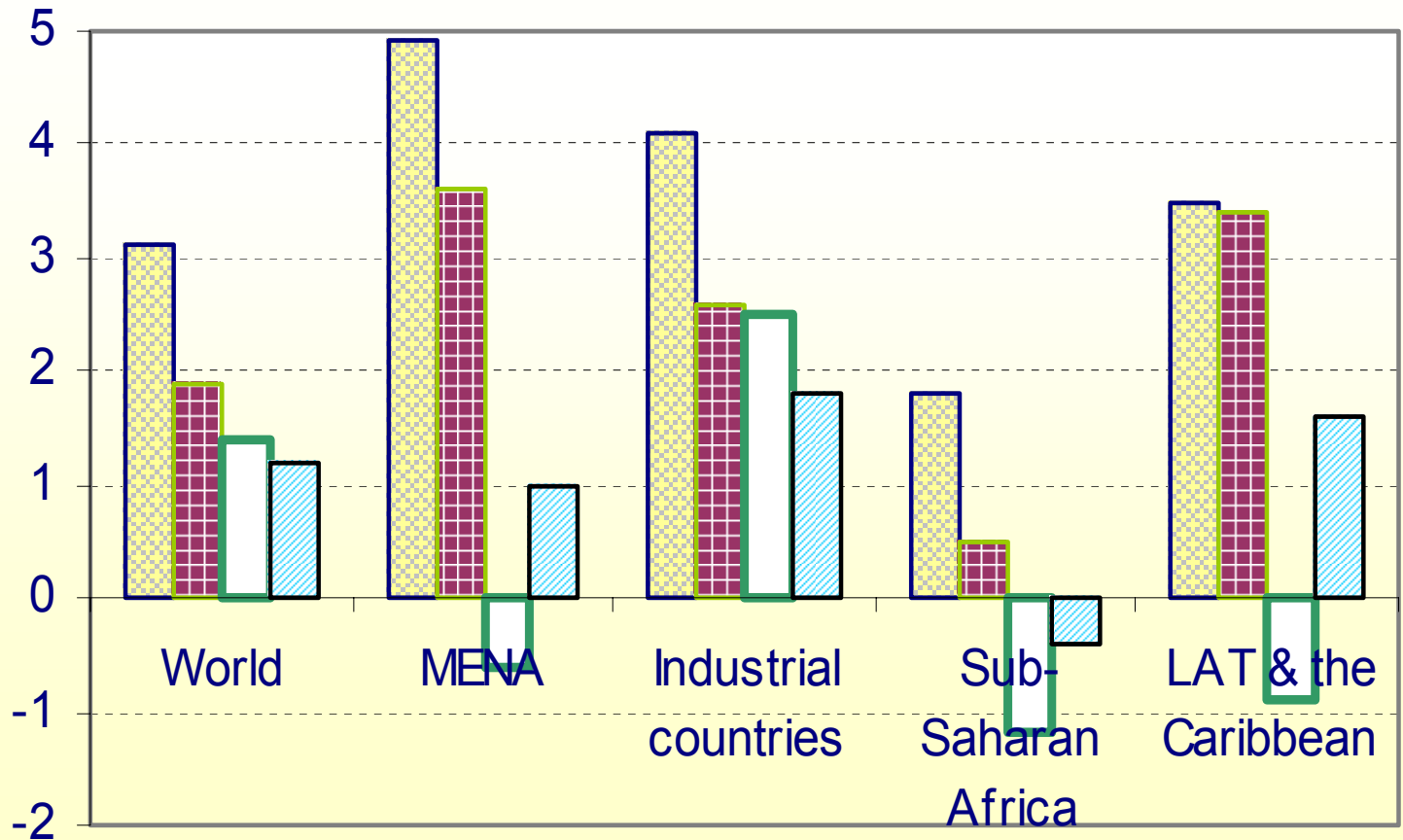
Nay: Economic growth has been unsatisfactory and poverty and inequality are on the rise

GDP Real Growth



Real Per Capita income Growth

(percent)



1966-1973

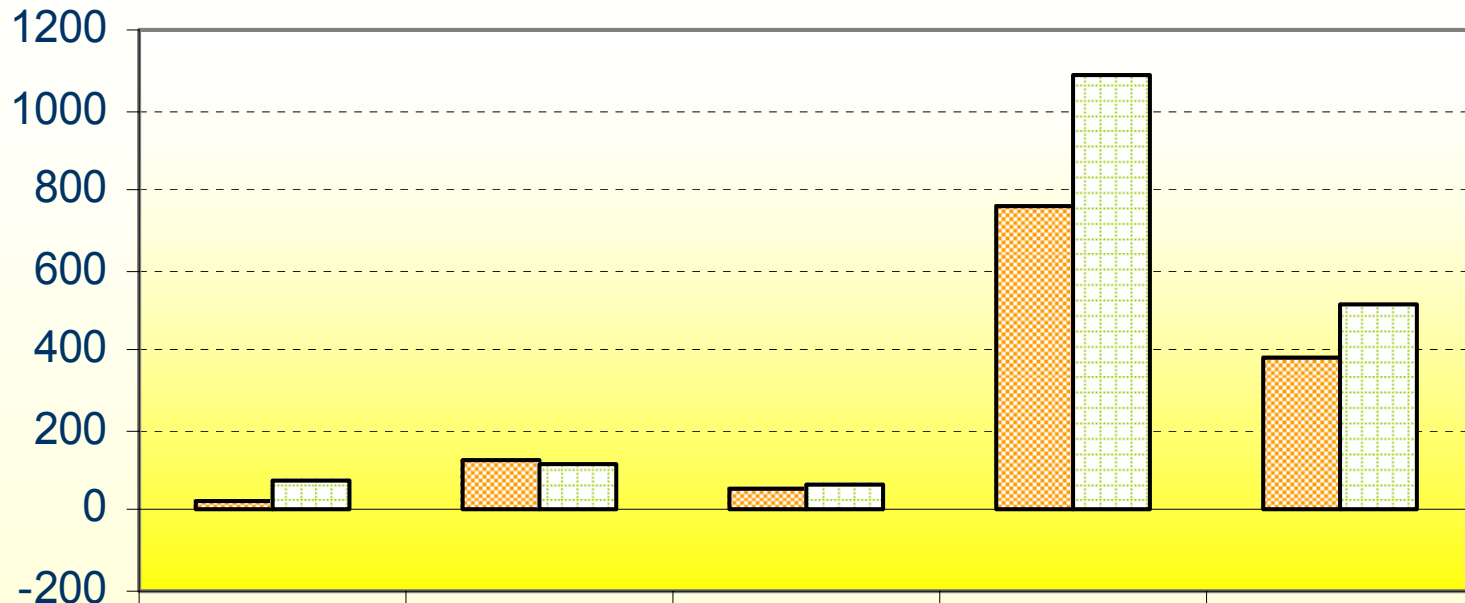
1970s

1980s

1990s

Number of people living on less than \$2 a day

(million)



	Europe & Central Asia	LAT & Caribbean	MENA	South Asia	Sub-Saharan
1990	23	125	51	758	382
2002	76	119	61	1091	516
% increase	230	-5	20	44	35

1990 2002 % increase

Financial crises are on the rise with ever increasing magnitudes and more destabilizing effects ...

- ✧ Debt crisis (1980s);
- ✧ Mexico (1995);
- ✧ Argentina (1995 and 2001);
- ✧ Brazil (1998-1999);
- ✧ East Asia (1997);
- ✧ Russia (1998);
- ✧ Turkey (2001).

Development: An Elusive Goal

Divergence on the development track record due to theoretical & methodological differences;

But

Convergence on the need for better governance of the development process.

Development Theory:

- ☆ Resource Endowment.
- ☆ Industrialization.
- ☆ Investment Lending.
- ☆ Structural Adjustment/Policy Lending.
- ☆ *Governance and Institutions.*

Governance

The New Development Theory Mantra

Governance

“ the term *governance*, as generally used, encompasses all the aspects of the way a country, corporation, or other entity is governed ”

IMF

Governance

No One Single Definition of Governance

☆ Global Governance.

☆ National Governance.

☆ Corporate Governance.

Yet, research findings indicate that poor governance ...

- ☞ Undermines confidence in government;
- ☞ Acts as a tax, thereby discourages FDI;
- ☞ Diverts FDI to short term portfolio flows;
- ☞ Misallocation of government spending;
- ☞ Contributes to larger budget deficits;
- ☞ Aggravates poverty & inequality.

Research findings ...

... Experience has shown that even some technically sound programs and projects fail to deliver anticipated results for reasons connected to the quality of government action;

The World Bank

Research findings ...

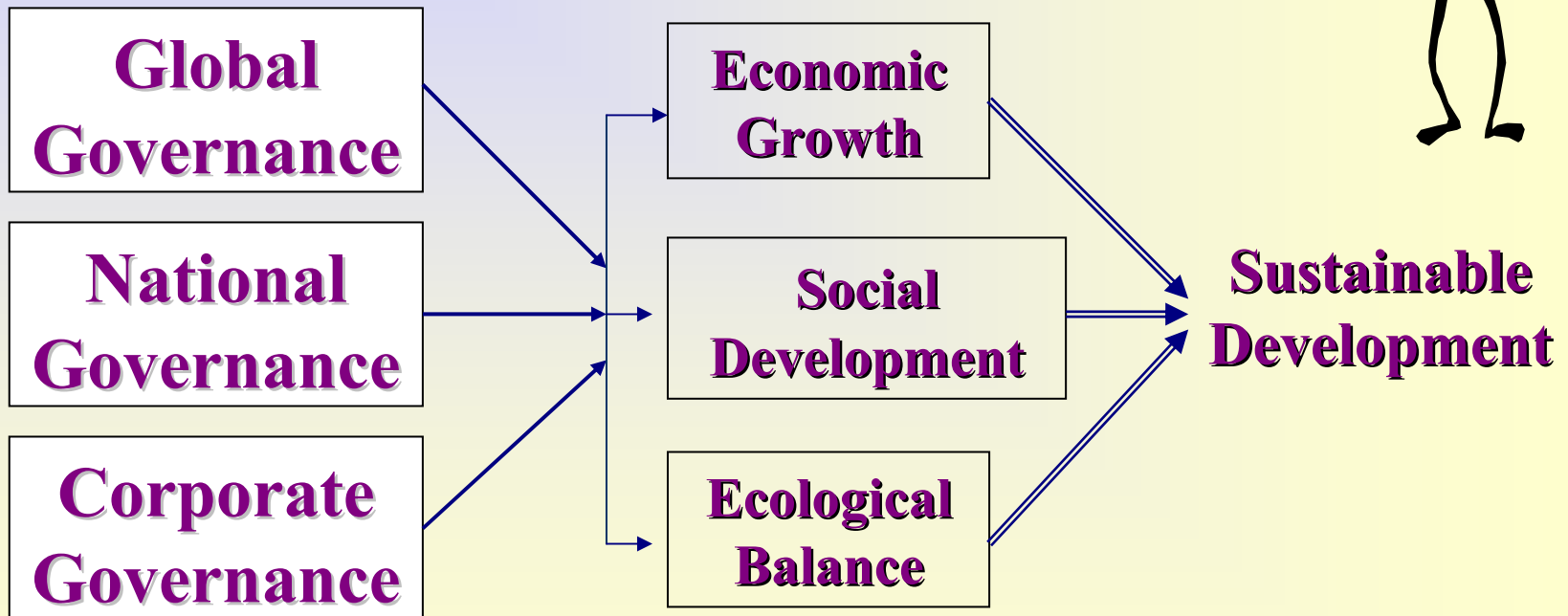
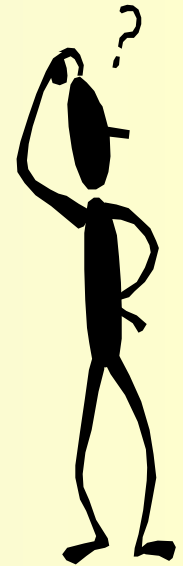
... although many factors contributed to the Asian financial crisis of 1997 and the subsequent crisis in Russia, Turkey, and Argentina, it is widely recognized that each suffered from a failure in governance, particularly in their financial sectors.

The World Bank / IMF / Bookings

Consequently

- ☞ Impedes growth;
- ☞ Stymies efforts to increase standards of living;
- ☞ Deepens deprivation;
- ☞ Aggravates ethnic differences;
- ☞ Engenders social unrest and economic instability.

Why Governance



Global Governance

***Is the world economy
governed properly ??***

Global Governance

The set of rules, regulations, measures, and institutional arrangements governing the global economy, including international organizations and the economic, financial, and trade policies they promote, along with the international standard-setting agencies

Global Governance

Key Questions

1. Who Sets the Global Agenda ?
2. Who Sets the Rules ?
3. What are the Rules ?
4. Who Benefits ?



Global Governance

Governance of the global economy has been a primary item on the agendas of meetings of G7 & international financial and trade institutions

**Theoretical underpinnings:
*laissez-faire***

- ✦ **WWII Era: High Politics & National Security.**
- ✦ **Collapse of the Bretton Woods System.**
- ✦ **Collapse of the Soviet Union: New Geopolitical & Economic Landscape.**
- ✦ **Globalization.**

 **New World Economic Order**

Point of View

Economic growth in the last fifty years has been faster than it was in earlier centuries...

...a larger proportion of the world's population has become better off at a faster pace than ever before ...

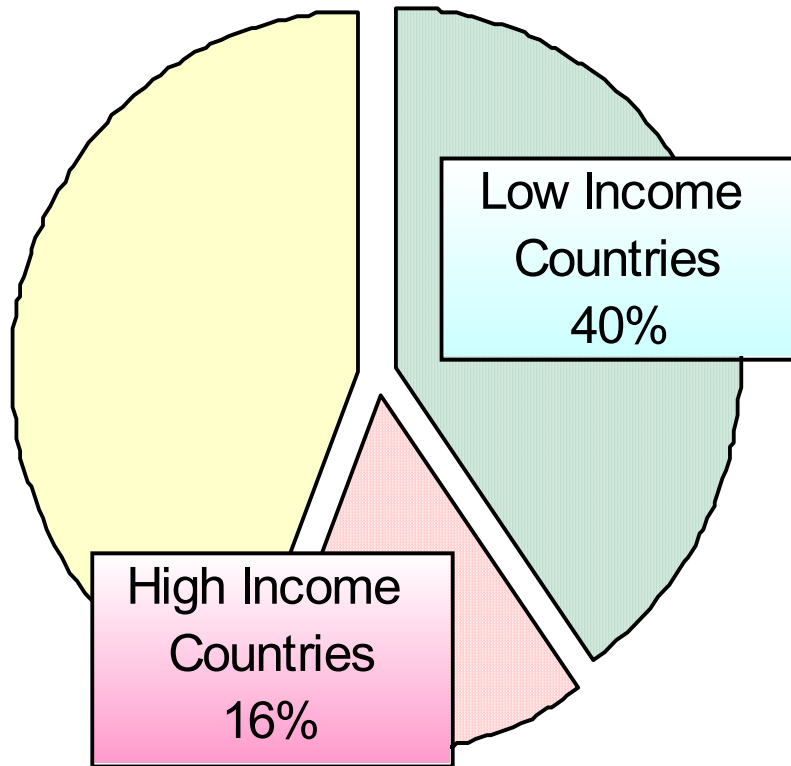
.... Globalization & trade and financial liberalization have contributed to prosperity.

Contrasting Point of View

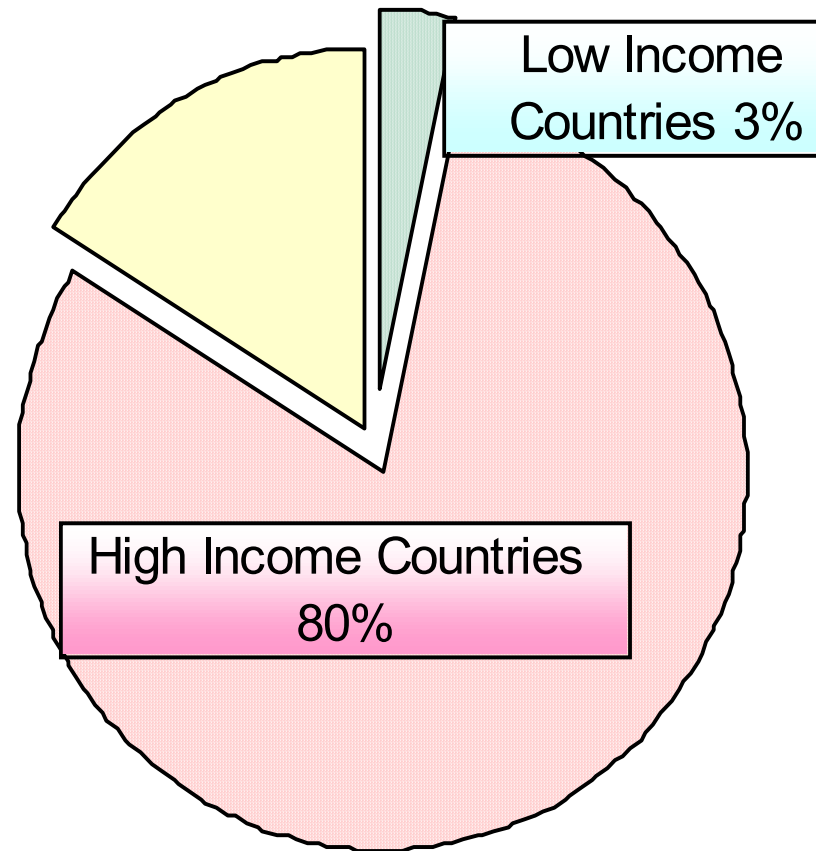
The benefits of development have not been evenly shared and that the gap between the rich and the poor is widening....

If globalization continues to be conducted in the way that it has been in the past, then it will not only fail in promoting development but it will also continue to create poverty and instability....

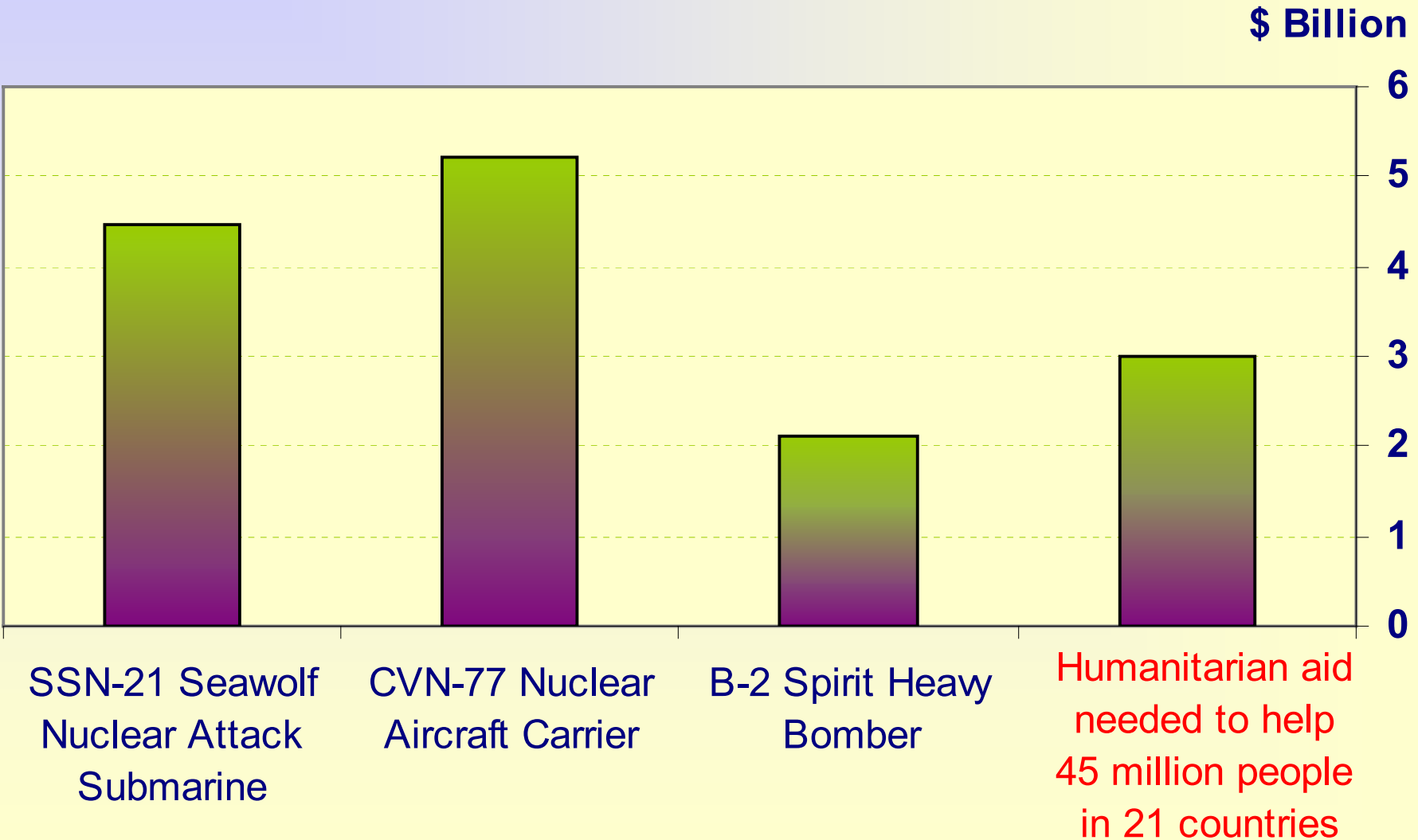
% of World Population



% of World Income



Sound Global Governance ?



National Governance

***Are there common features for
sound governance ??***

National Governance

World Bank

“ the manner in which power is exercised in the management of a country’s economic and social resources for development ” ...

National Governance

United Nations Development Program (UNDP)

“Governance is defined as the exercise of political, economic and administrative authority to manage a nation’s affairs. It is the complex mechanisms, processes, relationships and institutions through which citizens and groups articulate their interests, exercise their rights and obligations and mediate their differences”.

UNDP Characteristics of Good Governance

- Participatory
- Sustainable
- Legitimate and acceptable to the people
- Transparent
- Promotes equity and equality
- Able to develop the resources and methods of governance
- Promotes gender balance
- Tolerates and accepts diverse perspectives
- Able to mobilise resources for social purposes
- Strengthens indigenous mechanisms
- Operates by rule of law
- Efficient and effective in the use of resources
- Engenders and commands respect and trust
- Accountable
- Able to define and take ownership of national solutions
- Enabling and facilitative
- Regulatory rather than controlling
- Able to deal with temporal issues
- Service-oriented

Development & Political Systems

Experience does not establish any direct correlation between the political environment, on the one hand, and rapid economic growth and social development ..

... Successful development has taken place in countries with differing political systems.

Common Features:

- Stability in broad policy directions;
- Flexibility in responding to market signals;
- Discipline in pursuing long-term objectives.

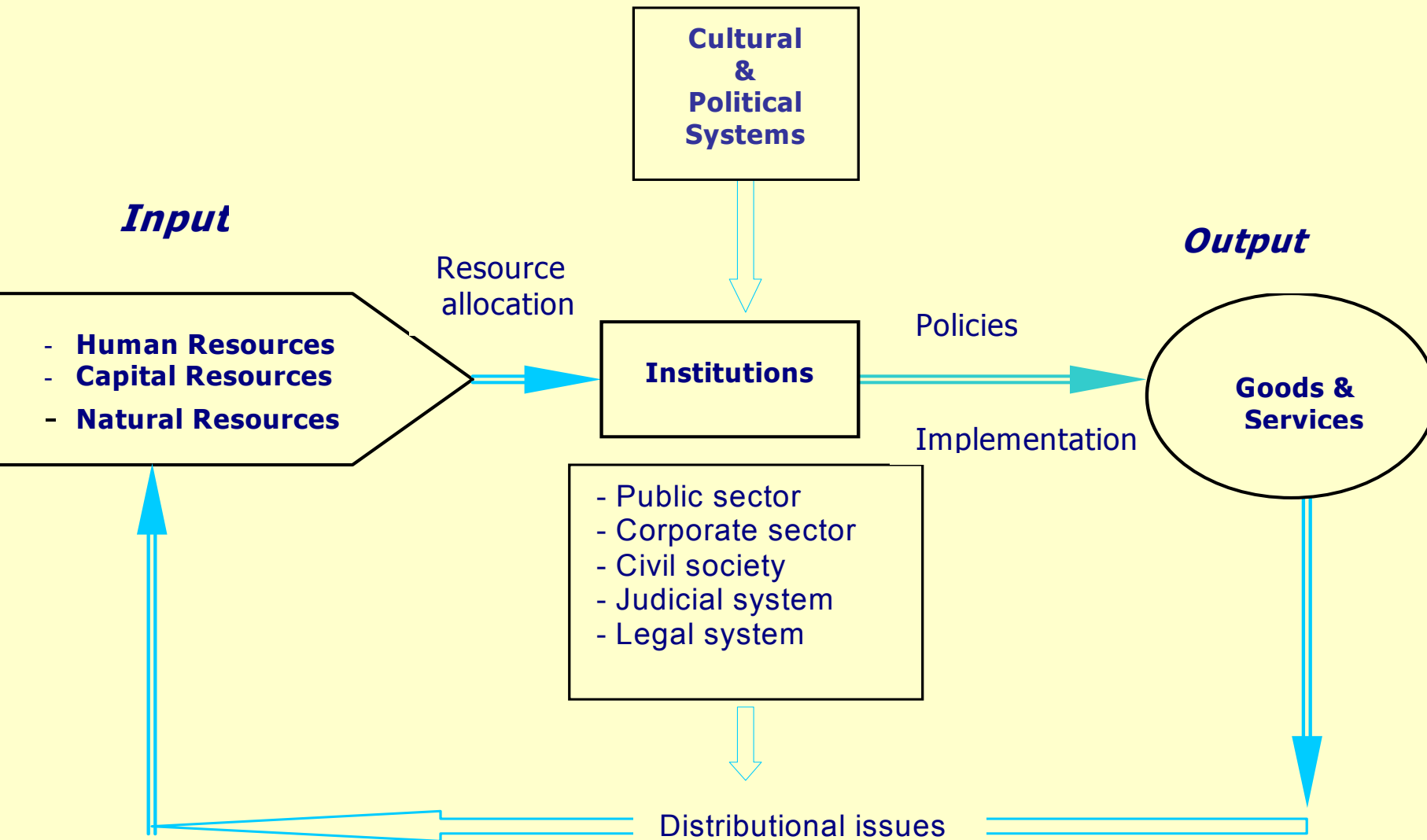
National Governance

Government vs. Market

Government: Provision of the enabling environment for markets

- Public Goods**
- Equity**

Governance Cycle



Corporate Governance

Corporate Governance

World Bank

“ Corporate governance refers to the framework of laws, regulatory institutions, and reporting requirements that condition the way the corporate sector is governed ”

Corporate Governance

Adrian Cadbury

“ The governance framework is there to encourage the efficient use of resources and equally to acquire accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations, and society ”

Corporate Governance

Iran Milstein

“ that blend of law, regulation, and appropriate voluntary private-sector practices which enable the corporation to attract financial and human capital, perform efficiently, and thereby perpetuate itself by generating long-term economic value for its shareholders, while respecting the interest of stakeholders and society as a whole”

Corporate Governance

OECD Principles of Corporate Governance

“ Corporate governance is the system by which business corporations are directed and controlled”

Corporate Governance

OECD Principles:

- I. The Rights of Shareholders.**
- II. The Equitable Treatment of Shareholders.**
- III. The Role of Stakeholders in Corporate Governance.**
- IV. Disclosure and Transparency.**
- V. The Responsibilities of the Board.**

Corporate Governance

Issues in CG:

Corporate Ownership Structure

Shareholders Rights

Investor Protection

Board Composition

Related Party Transactions

Disclosure and Transparency

Corporate Governance & Development



Characteristics of Good Governance

- **Participation.**
- **Equity.**
- **Transparency.**
- **Accountability.**
- **Rule of Law.**

Conclusion

It is not scarcity of resources that is plaguing the world;

it is rather the misuse of resources...

Hence,

The need for a better system based on sound global, national, & corporate governance....

Conclusion

A New Paradigm: Better Governance

... a genuine *partnership* needs to be forged in accordance with the spirit of the Earth Summit of 1992, the Johannesburg Summit of 2002, and the Monterrey Consensus of 2002.

Conclusion

Developed countries

... need to raise debt relief and ODA to adequate levels, eliminate agricultural subsidies and open up their markets to the exports of commodities of poor countries, and allowing more voice to the developing world...

Conclusion

Developing countries

... redress the serious imbalances in economic structures, which have resulted in as a consequence of poor economic policies, cumbersome regulatory environments, inadequate legal and judicial frameworks, corruption, and the lack of genuine participatory practices.

Thank you