DFID Evidence Product – LITERATURE REVIEW

Governance, institutions, growth and poverty reduction[1]: a literature review

Authors: William Evans, Clare Ferguson (DFID)

Additional contributions from: Stefan Dercon, Nick Lea, Cornelius Chikwama, Stuart Davies, Thomas McGregor, Brenda Murphy, John Primrose, Mark Robinson, Chiara Selvetti, Georgina Yates, Dominik Zaum, Stefan Kossoff (DFID).

Peer review & comment: The authors would like to thank the following for providing extensive commentary on earlier versions of this paper: Thomas Carothers, Timothy Besley, James A. Robinson, Mushtaq Khan, David Booth, Kunal Sen, Mick Moore, Samuel Hickey. All conclusions, errors and omissions in the final paper remain the sole responsibility of the named authors.

Date: 01 August 2013

[1] DFID's Research & Evidence Division produces, commissions or quality assures four types of evidence 'product'. These are: Rapid Reviews, Literature Reviews, Evidence Papers and Systematic Reviews. The current paper is a Literature Review, based initially on a Rapid Review, drafted by DFID's Policy Division. As a Literature Review, this paper makes no claim to have systematically reviewed the academic literature on this subject, though it has been subject to external peer review by eight academics. All conclusions, and indeed any omissions or errors, remain the responsibility of the named authors.

Table of contents

Governance, institutions, growth and poverty reduction: a literature review

Executive summary

1. This paper explores the linkages between governance, institutions, economic growth and poverty reduction, as presented in the academic literature.

Growth and poverty reduction

2. The research evidence shows that **poverty reduction is largely contingent upon the achievement of higher growth rates**. However, it also shows that **growth itself is not a sufficient condition for poverty reduction**: appropriate governance structures will be required to ensure that growth is pro-poor.

Trade, competition, conflict and growth

3. The evidence shows that **higher volumes of international trade, specifically exports, are strongly associated with higher levels of national growth**. There are 'adjustment costs' for national economies and labour markets associated with the reduction of tariffs and trade barriers, but the negative impacts of these can be limited in duration, assuming that labour and capital is reallocated rapidly and efficiently. **Higher levels of domestic trade** are also correlated with higher levels of growth.

4. **Increased levels of competition** in product markets and factor markets are generally conducive to **more rapid growth rates**. More efficient (competitive, mature) capital markets appear to have more modest impacts on economic growth in developing countries. This is true both for domestic financial liberalisation, and for the effects of foreign direct investment, and is likely to be a consequence of shortfalls in human capital stocks and low levels of technological advancement in these countries.

5. **Violent civil conflict, fragility and higher rates of crime are harmful to growth,** owing to their effects on domestic and international investor confidence. Low growth rates and fragility are both likely to be consequences of the weakness of political institutions. The apparent fragility of political institutions, may, in turn, be a symptom of fundamentally unresolved political and economic contestation between elites.

6. **Corruption is likely to have negative effects on investor confidence, and therefore has the potential to curb growth**. Corruption is typically a symptom of institutional weakness rather than a primary cause of underdevelopment.

7. The most appropriate **government policy** (as opposed to the most appropriate institutional set-up) to boost development is a subject on which the evidence is highly polarised, partly on ideological grounds. The most appropriate role for states to play in markets, or in providing the necessary foundations for markets to function not just efficiently, but fairly, requires further attention.

Economic institutions

8. There is a very substantial and credible research literature which explores the apparent importance of institutions (North's 'rules of the game'), and specifically 'economic institutions' for economic development. This theoretical literature makes a convincing case that institutions introduce predictability, a degree of certainty into otherwise highly unpredictable markets. Crucially, they provide potential investors with a degree of assurance that their investments will not be expropriated arbitrarily. They do so through property rights, and also through the rule of law which underpins property rights. Transparent, reasonably facilitative, and predictable regulatory environments in the commercial sector offer similar assurances to investors.

9. The strong theoretical underpinnings of this research have been followed by a large, and highly-contested body of empirical studies, seeking to demonstrate economic institutions at work. Using a variety of more or less robust econometric methods, a number of these studies have demonstrated this effect. However, the findings of a number of these studies are open to some question. **Overall, the case that economic institutions matter is persuasive. The ability of the research to isolate *specific* economic institutions that boost growth is more limited, and less persuasive**.

Political institutions

10. This paper finds strong evidence that democracy is highly valued around the world. **The evidence shows that democracies enjoy higher incomes, and that democracies are necessary for the *maintenance* of growth**. However, **there is no evidence to show that democracy is in itself a cause of higher incomes**. Nor does it show that higher incomes will automatically lead to democracy.

11. There does not appear to be any automatic link between a country's democratic status and its ability to reduce poverty or improve human development. Non-democratic states are capable of growth, poverty reduction, and securing gains in human development. Moreover, neither a country's democratic status, nor indeed the holding of regular elections are sufficient conditions to ensure that reasonable constraints are placed upon the actions of the executive. **Historically, transitions to democracy may entail violent conflict, and 'young' democracies are prone to relapses of violence**.

12. The evidence suggests that a broader interpretation of democracy ('deep' democracy) requires consideration of democracy beyond elections. As such, **the political institutions, processes and practices that really matter are more likely to be levels of political competition**, as characterised by stronger, issues-based political parties, and more competitive recruitment to these parties.

13. The role of civil society also speaks to the concept of 'deep' democracy. **The evidence suggests that higher rates of popular participation in service delivery programmes are likely to increase their benefits for the poor.** However, civil society is prone to capture and co-optation by already influential individuals who stand to benefit from particular outcomes. This has implications both for the poverty-reducing impacts of participation, and for the transformative transparency and accountability applications of civil society. The evidence provides some signs of encouragement that civil society, particularly where it is characterised by vigorous, and locally-grounded political activity, can have positive effects

on the accountability of the state. **However, the evidence also suggests that the scope for civil society to achieve political change is highly contingent on the degree to which the state is amenable to the role of civil society in local and national policy reform**: civil society appears not to have strong effects in semi-autocracies and quasi-democracies.

Institutions as the key to development?

14. A notable critique identifies flaws in the thesis that stronger economic and political institutions are likely to provide major developmental benefits.

15. First, there is a methodological critique of the econometric research upon which a significant body of 'institutionalist' research evidence has been based.

16. There is a significant body of evidence to suggest that institutions just aren't that important in explaining development trajectories, and that institutions are the outcome of development, rather than an input for it.

17. Then there is the position (rigorously, and convincingly argued in the literature) that institutions matter, but not in the ways that orthodox, conventional 'good governance' policy interpretations imagine. For example, institutions matter, but not in isolation. They must be considered as clusters. Moreover, contexts matter for institutions: different clusters will be required at different stages of a state's development, and not all clusters will be effective in different countries. Alternatively, there is the view that institutions matter, but that it is the state's ability to *transform* institutions which is more important than the actual existence or specific form of those institutions.

18. Other critiques are content to recognise the importance of institutions, but note that institutions must be populated by effective organisations, in the form of developmental leaders, or developmental elites. A narrow, parsimonious focus on institutions without due consideration of the organizations that form them, operate within them, and enforce them, is likely to lead to ineffective policy interventions. Some, sceptical critiques, note that whilst institutions and organisations are important, their development takes extended periods of time (decades rather than years) and is not amenable to external intervention.

19. An alternative reading of politics, economics and history to that espoused by 'good governance' interpretations of institutionalist literature has emerged around calls for 'best fit' or 'second best' institutions. This literature adopts a 'growth diagnostics' approach to change, and advocates for the identification of particular barriers to growth, and unorthodox institutional fixes to remedy them.

20. In summary, institutionalist interpretations of economic and state development remain prominent in the academic literature. The conceptual and theoretical evidence relating to such interpretations is large, credible, and persuasive. Empirically speaking, however, the evidence base is somewhat more problematic. A large body of high quality research shows that even if there is widespread agreement that institutions matter, that in itself is insufficient to enable the design of reforms likely to drive economic growth and reduce poverty. Yes, institutions matter, but different institutions matter in different temporal and geographical contexts. Further diagnostics work is required in order to understand the specific institutional constraints faced by developing countries, and in order to identify context-specific, appropriate fixes to overcome these constraints.

21. Moreover, exclusive focus on institutions draws attention away from the role of the state, and indeed that of donors, in investing in physical infrastructure, and human capital (health and education) to the extent that is necessary for economic development. Both are likely to be crucial for the effective operation of markets, and the gainful employment of those who trade in them.

Abridged summary of the evidence

22. The following is an abbreviated summary of the findings of this paper:

a. Poverty reduction is largely contingent upon the achievement of higher **economic growth rates**. However, growth on its own is not a sufficient condition for poverty reduction;

b. 'Free-er' **trade** pays growth dividends. Higher volumes of international trade, particularly exports, are strongly associated with higher levels of national economic growth. Higher levels of domestic trade are also correlated with higher levels of national economic growth;

c. Higher levels of **competition** in domestic **product markets** and **factor markets** drive higher growth rates. Liberalisation of **domestic** and **international capital markets** generally has more modest effects on growth;

d. Violent, **civil conflict** is deleterious to growth, but low growth rates and state fragility are *both* likely to be a consequence of *other* factors;

e. **Corruption** may be deleterious to growth, but is not always an obstacle to growth or consolidation of the state;

f. The optimal type and scale of **government intervention** (i.e. policy) to address market failures is distinct from the wider debate on the most appropriate institutional set-ups for development;

g. There is a strong theoretical basis for the assertion that **institutions** specifically economic institutions (such as property rights) matter for economic development. The theory has been substantiated by a persuasive, though not definitive empirical literature;

h. **Democracy** is highly valued around the world. Democracies are wealthier, more likely to sustain growth, and less likely to go to war with one another than non-democracies. However, the evidence does not demonstrate that democracy causes higher incomes or is a direct outcome of higher incomes;

i. There is no systematic link between a country's **democratic status** and its ability to reduce poverty or improve human development. Neither a country's democratic status, nor the holding of elections will necessarily place effective constraints upon the executive;

j. The emergence of, or **transition to democracy** typically entails violent contestation;

k. **Political competition**, as characterised by stronger, inclusive, issues-based political parties, staffed by competitively-recruited individuals (and including women) is a more effective predictor of executive constraint than a country's democratic status;

l. **Civil society** may have pro-poor benefits, both through the mechanisms of participation in public spending, and transparency and accountability. However, the degree to which civil society is effective is likely to depend upon the extent to which participation is politically motivated and organized (the more the better), and the context in which it operates: civil society is relatively ineffective at achieving political change in quasi-democratic or semi-authoritarian states;

m. **Exclusive focus on institutions may underplay wider political, economic and geographical factors that are key for development**. In addition, it is clear that different sets of institutions may matter for different countries at different stages of their development. Development practitioners are likely to benefit from consideration of *best fit* institutional remedies rather than *best practice* prescriptions.

Part I: Introduction

Background

23. For a number of years, a major strand in international development literature has stressed the importance of institutions (North's famous 'rules of the game') for poverty reduction. The absence of conflict, free and fair elections, protection of property rights, the establishment of the rule of law, free trade, the protection of property rights, and greater transparency and accountability in government, guided by a rich civil society are just some of the features frequently identified as being critical to growth and poverty reduction.

24. The reasoning that sits behind 'institutionalist' theories of development asserts that the rules and laws which constitute robust institutional frameworks introduce a degree of predictability into otherwise unpredictable market environments. They offer sufficient confidence to investors and traders (both rich and relatively poor) that they will be able to reap any profits from their investments. Moreover, a good deal of the institutionalist research tradition tends to argue that the institutions most likely to deliver the highest growth levels are those that are more open or inclusive: that's to say rules that are intended to serve the interests of the majority of a population, rather than merely those of elites.

25. This paper documents, reviews and synthesizes existing perspectives and evidence relating to the linkages between governance, institutions, growth and poverty reduction. The paper points out areas of greater or lesser contestation, with clear reference to the research evidence. It makes clear what the research does, and does not demonstrate with confidence. In so doing, it begins to try and identify those institutional features that are likely to be *essential* for development, rather than merely desirable.

26. The paper finds that institutionalist interpretations of development are by no means universally held and are not unequivocally supported by the research evidence. Alternative interpretations of economic and state development suggest that poor countries are poor because of endemic or structural problems such as climate, agricultural infertility, disease, poor infrastructure and low levels of education. The mechanism to release them from such 'poverty traps' is not institutional change (which will follow, as an outcome of, rather than an input for economic development), but substantial initial investments to mitigate for, or 'unblock' these endemic problems. Once these problems are tackled, poor countries stand a much greater chance of achieving development trajectories that will set them on a path of convergence with high income nations.[2]

27. This paper does not set out to compare and contrast institutionalist vs. 'poverty trap' schools of thought. It focuses much more on institutional explanations for underdevelopment than it does on the effects of climate, agriculture, disease, poor infrastructure or low education on growth. It seeks to establish the extent to which the institutionalist research tradition is credible. In short, what is the evidence that the rule of law, property rights, free and fair elections, independent judiciaries, free and fair trade, and effective public services really do drive growth (and poverty reduction), and what is the evidence that war and corruption are inimical to growth (and poverty reduction)?

[2] See, for example, Sachs, J.D. (2005). *The End of Poverty: Economic Possibilities for Our Time.* New York: Penguin Press. Analysed in: Banerjee, A. V. & Duflo, E. (2012 ed.). *Poor Economics. Barefoot Hedge-fund Managers, DIY Doctors and the Surprising Truth about Life on Less than $1 a Day*. Penguin Books: London. See p. 3.

28. The paper finds that when taken individually, almost many elements of the position that growth and poverty reduction are dependent upon governance and institutions is subject to vigorous debate, contestation or qualification in the academic research community. So, for example, whilst it is striking that richer nations invariably enjoy stronger institutional set ups, it is not clear that a deliberate focus on institutions and institutional reform (particularly as institutions are understood in today's developed world) will necessarily be a precursor to growth. Next, and empirically speaking, the academic research is somewhat unconvincing in disaggregating the effects (especially the magnitude of the effects) of different institutional norms (such as the rule of law and property rights) on economic development. It also shows that *effective* institutions may take very different forms in developing countries from those that are now upheld as *best practice* examples in the developed world.

29. Similarly, the research appears to suggest that whilst inclusive political institutions (such as democracy, including free and fair elections) are hallmarks of long-term stability and the maintenance of growth, it is not clear that such institutions are prerequisites for 'take-off' growth. Several successful economic growth stories have been achieved through only modestly inclusive economic institutions, and in the absence of inclusive political institutions. Moreover, even though the deleterious effects of violent civil conflict on growth are clear, conflict is often a response to institutional failings, so simply terminating conflict may leave fundamental weaknesses in institutions unresolved.

30. Overall, then, there are complex paradoxes that emerge from the research evidence. There is a good deal of consensus that 'institutions matter', but also vigorous debate about which types of institutions matter, what form they take, when they matter, and what donors can do to influence their reform. Further consideration of the findings of this paper, and what they mean for development policy and programming are likely to encourage the adoption of a 'diagnostics' approach to growth and institutional reform, an approach that focuses on particular institutional blockages to growth, and then accurately identifies 'substitutes' or 'fixes' that may serve similar functions to the formal, codified versions of institutions already present in richer economies.

Methodology: the limitations of a literature review

31. The current literature review considers and synthesises some of the available research evidence on governance, institutions, growth and poverty reduction. As a literature review, the current paper does not claim to have searched *systematically* for relevant literature.

32. The bulk of the evidence cited in the paper is empirical in nature, but some theoretical and conceptual studies are cited as appropriate. Whilst many of the cited studies will have been subject to peer review prior to their publication in journals, this paper has not involved the quality appraisal of the referenced literature.

Governance, institutions, growth and poverty reduction: a diagrammatic representation

33. Figure 1, below, attempts to place core aspects of this paper in diagrammatic format. It differentiates between 'impact'- and 'outcome'- type features of development (in the upper part of Fig 1.) and more foundational aspects (in the lower part). It is stressed here that the diagram merely offers one way in which these various concepts may be linked. In this sense, the diagram should be viewed as a purely presentational, and theoretical device. Much of

the rest of the paper explores the linkages between various concepts. In its current format, the diagram implies teleology and determinism (from bottom to top). In reality, research has demonstrated that developmental progress is rarely linear. One way to conceptualise this is to imagine the diagram as though it were a game of snakes & ladders, in which the ladders have been proposed, but the snakes are not made explicit. Moreover, the precise ordering of the ladders is contested in the literature: for example, the positioning of public services at the upper end of the diagram is somewhat at odds with those who would characterise health and education as critical inputs of development. This contestation is the subject of discussion in the paper that follows.

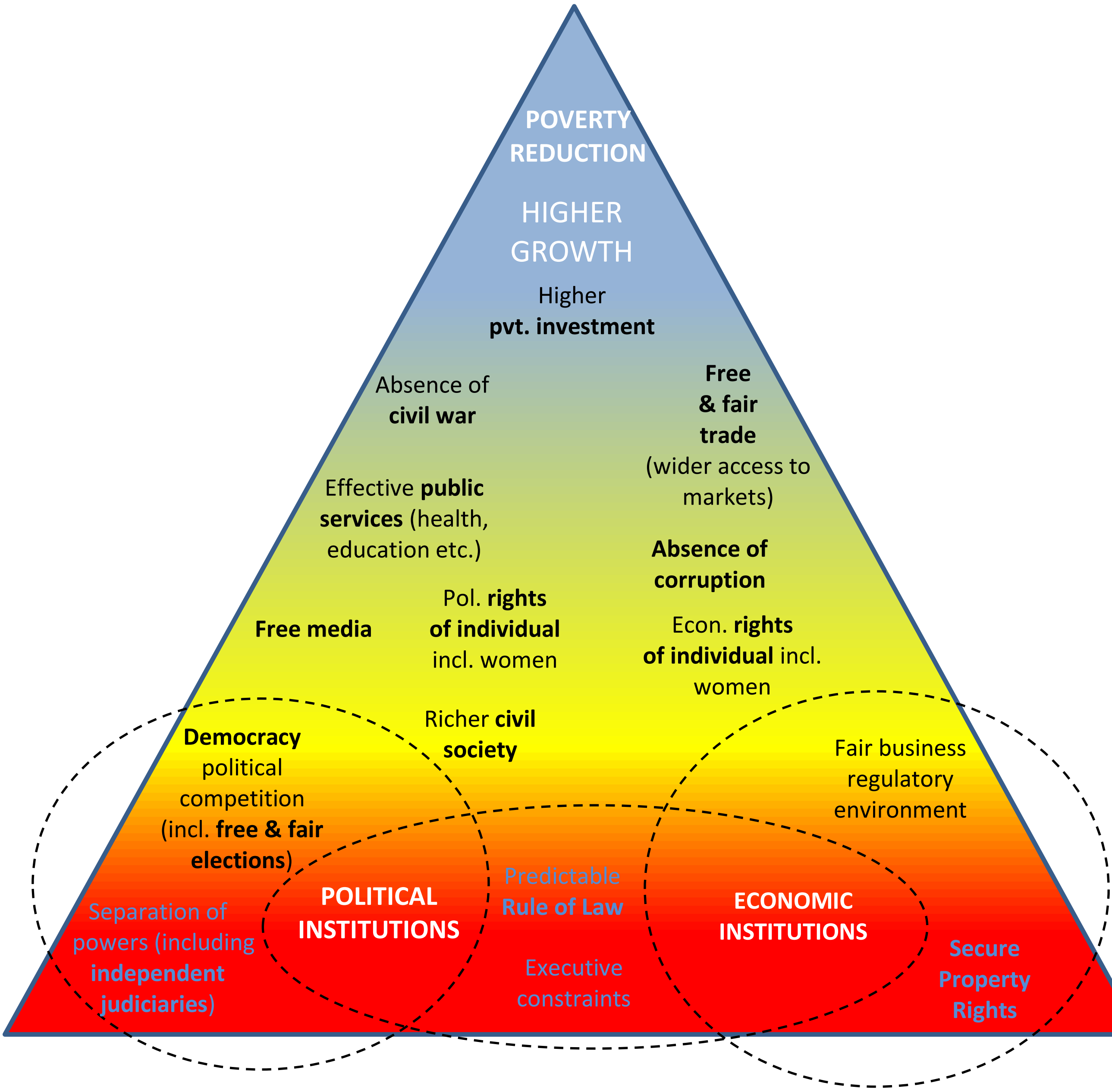

Figure 1: (Snakes and) Ladders: the role of governance and institutions in growth and poverty reduction.

Structure of the paper

34. This paper by using Figure 1 as a framing device. It effectively works from top to bottom of Figure 1, beginning with impact- (Part II) and outcome- (Part III) type features of this institutionalist interpretation of development. The bulk of the synthesis considers the concepts represented in the lower part of the figure. Part IV considers economic institutions. Part V considers political institutions. The profound challenges in characterising development paths in such straightforward, sequential form is acknowledged through much of the analysis that follows, and, in particular in Part VI. Part VII concludes.

Part II: Growth and poverty reduction: impacts of development

Growth & poverty reduction

35. The research evidence demonstrates a clear link between growth and poverty reduction. Using data from 47 countries, Ravallion[3] shows that when mean income is rising, median poverty rates are falling and *vice versa*. A World Bank study[4] of 14 countries shows that the pace of overall economic growth is the main determinant of poverty reduction rates, with a 1 per cent increase in GDP per capita reducing poverty levels by 1.7 per cent.[5] Kraay[6] shows that at least 80 per cent of the cross-country variation in long-run poverty reduction rates (by headcount) over the period 1980-2000 is attributable to growth in average incomes.

36. Moreover, progress towards those Millennium Development Goals (MDGs) which are not directly focussed on income is also dependent on growth. At household level, higher incomes make it easier to secure improvements in domestic welfare (in water, sanitation, hygiene, health and education, etc.). Economic growth also expands government budgetary resources, enabling additional investment in MDG-oriented programmes. Bourguignon and others[7] observe that any MDG strategy is reliant on overall economic growth as a fundamental driver.

Not by growth alone

37. Even so, much of the academic literature also stresses that whilst growth is important for driving down poverty, it is not sufficient. Addressing income inequality (besides growth itself) is also important.[8] High income inequality blunts the impact of growth on poverty reduction. In addition, high inequality can reduce growth itself.[9] The World Bank has highlighted how high inequality may constrain economic development, while the IMF finds a robust relationship between high inequality and truncated periods of economic growth.[10]

---

[3] Ravallion, M. (2001). "Growth, Inequality and Poverty: Looking Beyond Averages," *World Development*, *29*(11), 1803-1815.

[4] Of 14 countries, of which 11 experienced significant economic growth in the survey period.

[5] AFD, BMZ, DFID and World Bank (2005) *Pro-Poor Growth in the 1990s: Lessons and Insights from 14 Countries*. Washington, DC: World Bank on behalf of Operationalizing Pro-Poor Growth Research Program.

[6] Kraay (2006). "When is growth pro-poor? Evidence from a panel of countries," *Journal of Development Economics*, *80*(1), 198-227.

[7] Bourguignon and others (2008). "Millennium Development Goals at Midpoint: where do we stand and where do we need to go?" Background paper for *European Development Report 2009*.

[8] Kalwij, A. and Verschoor, A. (2007) "Not by Growth Alone: The Role of the Distribution of Income in Regional Diversity in Poverty Reduction." *European Economic Review 51*(4), 805–829; Ravallion, M. (2001). "Growth, Inequality and Poverty: Looking Beyond Averages," *World Development*, *29*(11), 1803-1815.

[9] Ravallion, M. (2007). 'Inequality is bad for the poor.' In: Jenkins, S.P. & Micklewright, J. (eds.) (2007). *Inequality and Poverty Re-examined*. Oxford: Oxford University Press.; Duflo, E. (2011). "Balancing growth with equity: the view from development." Jackson Hole Symposium Paper.

[10] Berg, A.G. & Ostry, J.D. (2011). 'Inequality and unsustainable growth: two sides of the same coin?' IMF Staff Discussion Note, April 2011.

38. The evidence also shows that growth is more closely correlated with income than it is with specific human development indicators: so whilst human development *does* improve with growth, the increments in improvement are not always proportional to rises in income levels.[11] That some countries achieve poverty reduction faster than others even when sustaining similar growth rates suggests that the relationship between growth and poverty reduction is contingent upon the nature of government interventions beyond growth promotion alone.[12]

Part II – summary

39. The evidence shows that a significant proportion of poverty reduction is dependent upon higher growth rates. However, the evidence raises two further issues. First, growth itself is not a sufficient condition for poverty reduction: appropriate governance structures will be required to ensure that growth is pro-poor. Second, accepting the very strong effects of growth on poverty reduction, this raises the question 'what then, is required for growth?'

Part III: development outcomes

40. Having established that growth, broadly, is good for poverty reduction, this paper next turns to the proximate determinants of growth. The following section considers the role of the following in contributing to growth: free and fair trade, open access to markets, the absence of war, the absence of corruption, the provision of public goods and services.

Free and fair trade, open access to markets

Definitions

41. In the following discussion, we refer to a number of discrete aspects of trade. We consider the impact of competition in markets (where trade takes place) on growth. We consider the impact of volumes of trade on growth. We also consider the impact of artificial distortions (in particular tariffs) on volumes of trade. At various places, the discussion considers those markets where goods are bought and sold (product markets), markets where the skills, services, and inputs that are required to produce goods are bought and sold (factor markets) or markets where the financial resources (i.e. credit) necessary to make goods are bought and sold (capital markets). Much of the literature is based on the critical premise that efficient markets (almost any type of market) allow greater fluidity of capital, facilitating its movement to goods, sectors and businesses where it will yield the greatest returns for the investor or purchaser. Key aspects of the evidence relating to each of these is discussed below.

Volume of trade on international markets

---

[11] Gross, M., Klasen, S., and Harttgen, K. (2005). *Measuring Pro-Poor Growth with Non-Income Indicators*, Ibero-America Institute for Economic Research Discussion Paper 132, Göttingen: Ibero-America Institute for Economic Research.

[12] Besley, T. and Cord, L. (eds.) (2006). *Delivering on the Promise of Pro-poor Growth: Insights and Lessons from Country Experiences*, Basingstoke: Palgrave Macmillan; Grimm, M., Klasen, S. and McKay, A. (2007). *Determinants of Pro-Poor Growth: Analytical Issues and Findings from Country Cases*, Basingstoke: Palgrave Macmillan.

42. There is a large body of credible studies demonstrating the positive relationship between higher levels of international trade (also termed 'market openness') and economic growth.[13] For example, Dollar & Kraay find that changes of growth rates are strongly, and positively correlated to higher volumes of trade.[14] In the 1990s, globalizing developing countries enjoyed growth rates that significantly outstripped both those of non-globalizing developing countries, and developed countries. Berg & Krueger show that increases in the share of trade as a proportion of GDP from 20-40 per cent over a decade raises real GDP per capita by 10 per cent.[15] Frankel & Romer find that a one percentage point increase in the ratio of trade to GDP increases income per capita by at least one-half percentage point.[16] The Growth Commission reports that "[h]igh speed growth relies on export growth and a rapid integration into the global economy."[17] The mechanism appears to be the accumulation of physical and human capital, and increasing outputs resulting therefrom. Frankel & Romer's work also suggests that within-country trade raises income: larger countries have higher incomes as a consequence of increased domestic trading opportunities. Increasing a country's size and area by one percentage point raises income by one tenth of a percentage point or more, via similar mechanisms to international trade.[18]

Effects of competition in product markets

43. The following section considers whether increased market competition improves the performance of markets, promotes innovation, boosts productivity and generates lower prices, in turn boosting industrial growth and generating jobs.

44. With regards domestic/national trade, there is a large body of empirical evidence demonstrating the positive effects of increased market competition on innovation, increased productivity and growth.[19] Just a few specific examples are provided here: Motta and others' non-systematic synthesis (of business regulatory reforms) finds that (i) simplifying business registration procedures, and reducing costs of business entry *does* lead to more firms entering the market; and, in turn, (ii) new firms *do* increase competition, and force incumbents to boost their efficiency, or exit the market (i.e. new firms have productivity and

[13] Dollar, D. & Kraay, A. (2002). "Trade, growth, and poverty." *Economic Journal 114* (493); Wacziarg, R. & Welch, K.H. (2003). "Trade liberalization and growth: new evidence." *NBER Working Paper 10152*, National Bureau of Economic Research, Cambridge, MA.; Engerman, S. Sokoloff, K. (2002). "Factor endowments, inequality, and paths of development among New World economies." *Economía 3* (1): 41-109; Rigobón, R. & Rodrik, D. (2005) "Rule of Law, Democracy, Openness and Income: Estimating the Interrelationships." *Economics of Transition 13*(3): 533-564.

[14] Dollar, D. & Kraay, A. (2002). "Trade, growth, and poverty." *Economic Journal 114* (493), pp. F-47.

[15] Berg, A. & Krueger, A. (2003). "Trade, Growth and Poverty: A Selective Survey." IMF Working Paper 03/30, 1-51.

[16] Frankel, J.A. & Romer, D. (1999). "Does Trade Cause Growth?" *The American Economic Review*, 89 (3), pp. 379-399. To be precise, Frankel & Romer observe that trade has "a quantitatively large and robust, though only moderately statistically significant, positive effect on income."

[17] The Commission on Growth & Development (2008). *The Growth Report. Strategies for Sustained Growth and Inclusive Development.* The World Bank on behalf of the Commission on Growth & Development.

[18] Frankel, J.A. & Romer, D. (1999). "Does Trade Cause Growth?" *The American Economic Review*, 89 (3), pp. 379-399.

[19] See Bucci, A. & Parello, C.P. (2009). "Horizontal innovation based growth and product market competition," *Economic Modelling, 26*(1), 213-221; Blundell, R.,Griffith, R. &Van Reenen, J. (1999). "Market Share, market value and innovation in a panel of British manufacturing firms," *Review of Economic Studies 66*(3), 529-554; Nickell, S.J. (1996). "Competition and corporate performance," *Journal of Political Economy 104*(4), 724-746; Geroski, P. (1994). *Market Structure, Corporate Performance and Innovative Activity*. Oxford: Oxford University Press.; Aghion, P., Dewatripont, M. and Rey, P. (1999). "Competition, financial discipline and growth." *Review of Economic Studies*, *66*(4), 825-852.

investment benefits).[20] Ellis & Singh's survey of multiple manufacturing sectors in Kenya, Zambia, Ghana, Vietnam and Bangladesh concludes that higher levels of domestic competition have positive effects on the performance of markets, boosting innovation, raising productivity and lowering prices. In addition, they conclude that increased market 'entry' does enable new competitors to launch *genuine* challenges to dominant market players.[21] Voight's cross-country regression analysis finds strong correlations between the implementation of competition laws and total factor productivity.[22]

45. With regards the opening of domestic markets to foreign competition, the evidence suggests that there *are* potential adjustment costs to bear, but also that these tend to be reversed in the medium-to-long term. A recent systematic review finds that in general, where tariffs on imports are reduced, net employment is likely to *decrease* slightly in the short-term, and tax revenues will also decline (again, at least in the short-run). In the medium-to-long term, where tariff reductions are translated into higher levels of trade as a proportion of GDP, this is likely to have a beneficial impact on employment. Overall, the evidence suggests that following import tariff reductions, labour is likely to be reallocated to sectors producing goods for export.[23]

Effects of competition in factor markets

46. Economic theory suggests that efficient factor markets promote economic growth by reallocating critical inputs for production from less to more productive sectors. 'Artificial' rigidities in labour markets, such as the minimum wage and social security policies, as well as policies relating to collective bargaining (typically trades unions) can introduce checks on growth.[24] They may also constrain growth by preventing the efficient re-allocation of labour from more to less productive sectors, especially at times of external shocks. Finally, labour regulations that redistribute economic rents away from capital to labour reduce the profitability of investment, leading to lower growth rates.[25] Using cross-national datasets, Calderon and others find that labour market rigidities are negatively correlated with long-run economic growth.[26] However, insufficient protection of labour is likely to provide an adverse socio-economic environment for growth.[27] With respect to land markets, Jin &

[20] Motta, M., Oviedo, A.M., & Santini, M. (2010). "An Open Door for Firms: the impact of business entry reforms." *Viewpoint*, Note No. 323.
[21] Ellis, K. & Singh, R. (2010). *Assessing the economic impact of competition.* Report prepared for DFID.
[22] Voight, S. (2009). "The Effects of Competition Policy on Development - Cross-Country Evidence Using Four New Indicators," *Journal of Development Studies* 45.
[23] Cirera, X., Willenbockel, D. & Lakshman, R. (2011). "What is the evidence of the impact of tariff reduction on employment and fiscal revenue in developing countries: a systematic review." Funded by DFID, produced with the Institute of Development Studies, 3ie, EPPI-Centre.
[24] World Bank (1990). *World Development Report: Poverty*. Washington, D.C.: World Bank.
[25] Calderon, C., Chang, A. and Leon, G. (2007). "Institutional enforcement, labour market rigidities and economic performance." *Emerging Markets Review 8*(1), 38-49.
[26] Ibid.
[27] See for example: Kluve, J. (2006). "The Effectiveness of European Active Labor Market Policy." Paper prepared for the European Commission, DG Employment, Social Affairs and Equal Opportunities. Kluve observes that labour market policy in the form of "… wage subsidies and 'services and sanctions' can be effective in increasing participants' employment probability." See also: Commission on Growth and Development (2010). *Post-Crisis Growth in Developing Countries: A Special Report of the Commission on Growth and Development on the Implications of the 2008 Financial Crisis*. Washington, D.C.: The World Bank. The report notes that "the best protections a government can provide are education, which makes it easier to pick up new skills, and a strong rate of job creation, which makes it easier to find employment." However, beyond that, it argues that governments should also establish social safety nets, which provide a source of income to people between jobs.

Deininger[28] find that they play a critical role in promoting more effective use of potentially idle land, in turn leading to significant productivity gains.

Effects of competition in capital markets: Financial liberalization

47. Next, we consider the theory that effective domestic financial markets mobilise capital in the form of savings and allocate it as credit to fund productive investment. How important are well-functioning financial markets for technological innovation and capital accumulation?

48. Empirically, a number of studies have shown that efficient financial markets lower the costs of commercial transactions and ensure that capital is allocated to projects yielding the highest returns.[29] Studying the impact of financial liberalisation on output growth, Bekaert and others[30] use data from 1980–97 to estimate that following the opening of equity markets, the growth of per capita outputs rises by an average of 1 per cent per year for the following five years. A systematic review of the evidence (a meta-analysis of *multiple* studies) on this subject shows that although, on average, there is a positive effect of financial liberalization on growth, the effect is only weak.[31]

Effects of competition in capital markets: Foreign Direct Investment (FDI)

49. Foreign Direct Investment raises the capital stocks/reserves of recipient economies. Even so, the evidence relating to the effects of higher levels of foreign direct investment on growth in developing countries is somewhat mixed. Prasad and others found that non-industrialized countries that have relied on foreign capital markets for growth have not grown any faster than those that have not[32] and Obstfield does not find a systematic link between openness to international finance and economic growth.[33]

50. In general, however, the literature is rather more positive, although a number of important qualifications are consistently observed. An OECD survey of the literature found that FDI typically has positive effects on factor productivity and income growth, above and beyond the benefits that would be accrued from domestic investments, but also identified the following caveats.[34] First, the ‘typical’ magnitude of the effects of FDI is difficult to estimate both in a single country, and comparing across countries. Second, FDI may ‘crowd out’ domestic investments (see in particular Borenzstein and others[35]). Third, FDI has a lesser effect in the least-developed countries because they are subject to the constraints of

[28] Jin, S. & Deininger, K. (2009). “Land rental markets in the process of rural structural transformation: productivity and equity impacts from China” *Journal of Comparative Economics, 37*(4), 629-646.

[29] Boyd, J.H. & Prescott, E. (1986). “Financial Intermediary Coalitions.” *Journal of Economic Theory*, *38*, 211-32; Greenwood, J. & Jovanovic, B. (1990). “Financial Development, Growth and Distribution of Income.” *Journal of Political Economy, 98*(5), 1076-1107; King, R. & Levine, R. (1993). “Finance, Entrepreneurship and Growth: Theory and Evidence.” *Journal of Monetary Economics*, *32,* 513-42.

[30] Bekaert, G., Harvey, C.R. & Lundblad, C. (2005) “Does financial liberalisation spur growth?” *Journal of Financial Economics, 77*(1), p. 3-55.

[31] Hermes, N., Bumann, S. and Lensink, R. (2011). “Financial Liberalization and Economic Growth: A Meta-Analysis.” *Meta-Analysis Economic Research-Net Colloquium*, Wolfson College, Cambridge, UK, September 2011.

[32] Prasad, E., Rajan, R.G. & Subramanian, A. (2007). “Foreign Capital and Economic Growth.” Brookings Papers on Economic Activity, Economic Studies Program, The Brookings Institution, vol. 38, 153-230.

[33] Obstfield, M. (2008). “International Finance and Growth in Developing Countries: What Have We Learned?” *IMF Staff Papers 56*, 63-111.

[34] OECD. (2002). *Foreign Direct Investment for Development: Maximising Benefits, Minimising Costs*. OECD.

[35] Borensztein, E., De Gregorio, J, & Lee, J.W. (1998). “How does foreign direct investment affect growth?” *Journal of International Economics, 45*, 115-135.

"threshold externalities": the levels of education, infrastructure, technology and health in the very lowest income countries are insufficient to optimise the potential benefits of FDI. Fourth, FDI is likely to have some positive, but indirect effects on human development: governments seeking higher rates of FDI may seek to seek to improve human development indicators to make their labour forces a more attractive investment. Fifth, FDI can have both competition-boosting, and competition-harming effects: low-income countries are particularly susceptible to the latter, through market concentration mechanisms. Lastly, FDI leads to additional gains in enterprise efficiency through restructuring, management and corporate governance changes that accompany investment of foreign capital.[36]

51. For its part, the Commission for Growth and Development concludes that while FDI represents only a small proportion of total investment in low income countries, its importance to growth in these countries is multiplied as a result of the knowledge transfer that accompanies capital investment.[37] Li and Liu reinforce the point that the effects of FDI vary significantly according to national context are likely to be contingent upon existing levels of human capital (educational and skills levels). They also find a significant *negative* impact of FDI on economic growth where there is a significant technology gap between investing and recipient economies.[38] Alfaro and others show that economies with under-developed financial markets will secure lower growth dividends from international capital.[39]

52. Lastly, this section presents the results of a systematic review by Bruno & Campos who agree that the academic literature generally finds a 'multiplier' effect of human capital and technological advancement on FDI. However, paradoxically, their study also demonstrates that the greatest effects of FDI have in fact been found in very low-income countries (i.e. where we would expect it to have the least effect, given the very modest levels of human capital and technological development found in these countries).[40]

53. Overall, it is safest to observe the significant growth *potential* of FDI, whilst noting that the mechanisms by which benefits are accrued are complex, and country-specific.

Absence of civil war, better security

54. The absence of war, and greater levels of personal security have obvious intrinsic benefits. Besides these, a significant body of research evidence demonstrates that as measured by income, civil conflict is bad for growth economic growth, and consequently for poverty reduction.

Impacts on national economic growth

55. The 2011 World Development Report[41] presents a number of striking findings with regards the effects of war on growth and poverty reduction. Compounded over time, the

[36] OECD. (2002). *Foreign Direct Investment for Development: Maximising Benefits, Minimising Costs*. OECD.
[37] Commission on Growth and Development (2008). *The Growth Report: Strategies for Sustained Growth and Inclusive Development*. Washington, D.C.: The World Bank.
[38] Li, X. & Liu, X. (2005). "Foreign Direct Investment and Economic Growth: An Increasing Endogenous Relationship." *World Development 33*(3), 393-407.
[39] Alfaro, L., Chanda, A., Kalemli-Ozcan, S., & Sayek, S. (2010) "Does Foreign Direct Investment Promote Growth? Exploring the Role of Financial Markets on Linkages." *Journal of Development Economics 91* (2).
[40] Bruno, R.L. & Campos, N.F. (2011). "Foreign Direct Investment and economic performance: a systematic review of the evidence uncovers a new paradox." Report for DFID's Systematic Reviews Programme.
[41] World Bank (2011). *World Development Report 2011: Conflict, Security & Development*. Washington, D.C.: World Bank. See p. 62.

costs of civil conflict can accumulate to the equivalent of 30 years of GDP growth, and countries in protracted crisis can fall more than 20 percentage points behind in overcoming poverty."[42] Several researchers have shown that annual average national growth rates will be reduced by approximately 2.0-2.2 per cent as a result of civil war.[43] Restrepo estimates the 'brake' effect of civil conflict on GDP at a 2.17 per cent reduction in growth.[44] Trade levels may fall between 12 and 25 percentage points in the first year of an 'average' civil war,[45] based on the assumption that the 'average' civil conflict lasts a decade.[46] Moreover, it is estimated that restoring an economy's original growth trajectory following a civil war takes an average of 14 years of peace.[47] Civil wars reduce a country's average rating on the International Country Risk Guide by 7.7 points (on a 100-point scale), making them unattractive investment prospects.[48]

The impact of crime and violence on doing business

56. States affected by civil conflict are also more likely to experience higher levels of (violent) crime. Collier & Hoeffler observe that in the five years following a civil war, homicide rates are 25 per cent greater than normal.[49] In general, crime affects the poor disproportionately.[50] Crime and violence are also serious obstacles to sustainable economic development.[51] Research shows that crime and violence lower investment and employment growth, owing to the 'signalling' effects they have on potential investors.[52] Business executives identify the costs of crime and violence as the second most important impediment to business competitiveness in their countries.[53] Eventually, the costs of crime can reach a significant share of national income.[54] Citizen fears for their personal safety may

[42] See World Bank (2011). *World Development Report 2011: Conflict, Security and Development*. Washington, D.C.: World Bank. Box 1.3, p. 65, of WDR 2011 presents a range of economic and costs data drawn from a number of sources, including Collier, P. & Hoeffler, A. (2004). "Greed and Grievance in Civil War." Oxford Economic Papers 56(4), 563-95. See p. 65 of WDR 2011 for full list of references.
[43] Collier, P. (1999). 'On the Economic Consequences of Civil War.' *Oxford Economic Papers, 51*, 168–83; Hoeffler, A. & Reynal-Querol, M. (2003). *Measuring the Costs of Conflict*. Washington, DC: World Bank.
[44] Restrepo, J., Ferguson, B., Zúñiga, J.M. & Villamarin, V. (2008). *Estimating Lost Product Due to Violent Deaths in 2004*. Unpublished background paper for the Small Arms Survey. Geneva/Bogota: Small Arms Survey/CERAC.
[45] See: Martin, P., Mayer, T. and Mathias, T. (2008) "Make Trade Not War?" *Review of Economic Studies 75*(3), 865-900; Martin, P. Mayer, T. and Mathias, T. (2008). "Civil Wars and International Trade," *Journal of the European Economic Association, 6*(3), 541-550.
[46] Hoeffler, A., Von Billerbeck, S. & Ijaz, S.S. (2010) "Post-conflict recovery and peacebuilding." World Development Report 2011 Background Paper.
[47] Hoeffler, A., Von Billerbeck, S. & Ijaz, S.S. (2010) "Post-conflict recovery and peacebuilding." World Development Report 2011 Background Paper.
[48] Hoeffler, A., Von Billerbeck, S. & Ijaz, S.S. (2010) "Post-conflict recovery and peacebuilding." World Development Report 2011 Background Paper.
[49] Collier, P. & Hoeffler, A. (2004). "Murder by Numbers: Socio-Economic Determinants of Homicide and Civil War." Working Paper No. 2004-10. Oxford: Centre for the Study of African Economies, University of Oxford.
[50] Louw, A. & Shaw, M. (1997). "Stolen Opportunities: The Impact of Crime on South Africa's Poor. Part 2: State Responses." *Institute for Security Studies Monograph Series, 14*.
[51] Shelley, L. (2002). "Crime as the Defining Problem: Voices of Another Criminology." *International Annals of Criminology, 39*(1), 73-88.
[52] World Bank (2005). *World Development Report 2005: A Better Investment Climate for Everyone*. Washington, D.C.: World Bank.
[53] World Economic Forum (2003). *The Global Competitiveness Report*. Geneva: World Economic Forum.
[54] For example, in Colombia, women who experience severe domestic violence earn 70 per cent less in monthly income than do non-abused women. Translating this into macroeconomic outcomes, they estimate that violence against women led to a loss in productivity equivalent to 2.43 per cent of GDP annually. See Skaperdas, S., Soares, R., Willman, A. and Millar, S.C. (2009). *The Costs of Violence*. World Bank Report. Washington, D.C: World Bank.

impede workers' mobility, generating adverse impacts on labour markets, and raising the costs of doing business.

The impact of violence on human development

57. In addition, the 2011 World Development Report[55] observes the effects of violent civil conflict on poverty reduction (as opposed to growth alone). It notes that not a single conflict-affected country has achieved any of the Millennium Development Goals. It also uses World Bank data, and a range of academic studies, to show that poverty rates are 21 per cent higher in countries affected by repeated cycles of violence. People living in countries affected by violent conflict are twice as likely to be undernourished, and 50 per cent more likely to be impoverished than the 'average' non conflict-affected state.[56]

War as unsettled political contestation

58. The research evidence may be presented in such a way as to imply that that war is 'development in reverse.' But such a characterisation is rejected in a recent body of political economy and historical analysis, based on comparison of a number of fragile states.[57] Putzel & Di John observe that *endemic* violence is likely to generate profound uncertainty that inhibits investment and growth, but also note that in some cases, "developmental processes may be unleashed by violent challenges to existing state authorities."[58]

59. Critical in this recent analysis is the concept that formal institutions (North's 'rules of the game', which form the basis of much of the analysis in Parts IV and V of the current study) are merely one *outcome* resulting from the *political settlement* (effectively the distribution of economic and political power, typically across elites, during a particular period in a state's history) upon which all states are based. Putzel & Di John argue that political settlements emerge from processes of conflict and bargaining between elites (political and economic), from processes of contention and bargaining between elites and non-elites (rich and poor, capital and labour) and from inter-group contention and bargaining (gender groups, other identity groups). Their analysis stresses the point that formal institutions "reflect and embody power relationships and distributional advantages." Political settlements, then, are the foundation of formal institutions, and not vice versa. Moreover, Putzel and di John argue that formally-designed institutions which are out of step with the dominant political settlement are likely to induce violent conflict.

60. Viewed in this way, violent conflict may be better understood as the symptom of an unresolved political contestation (where war becomes, as in von Clausewitz' famous characterisation, "the continuation of politics by other means.") So, instead of thinking about the 'absence of war' as a precondition for economic growth, it may be more accurate to consider the establishment of the political settlement as the foundation of state development.

61. Moreover, there is a convincing body of historical evidence that identifies a number of positive impacts on state capacity resulting from *inter*-state conflict: to mobilize defence forces, states have to raise funds through levying taxes. As a result, they develop strong

[55] World Bank (2011). *World Development Report 2011: Conflict, Security & Development*. Washington, D.C.: World Bank. See p. 62.
[56] See: World Bank (2010). *World Development Report 2011: Conflict, Security & Development*. Washington, D.C.: The World Bank. See in particular fig. 1.6, p. 62. Calculations based on World Bank data and background studies.
[57] Putzel, J. & Di John, J. (2012). *Meeting the Challenges of Crisis States*. Crisis States Research Centre Report. London School of Economics.
[58] Ibid.

organizational capacities that can become 'pro-developmental' during peacetime, besides their value in organizing for war.[59]

The absence of corruption[60]

62. The evidence regarding the impact of corruption on growth is mixed. Mauro finds corruption to have negative macro-economic and welfare impacts,[61] whilst the adverse effects of corruption on business investment and capital accumulation have also been observed.[62] Micro-economic data reveal statistically significant correlations between corruption and adverse impacts on businesses and individuals. Moreover, there are a significant number of cases where the illicit outflow of resources from developing countries significantly exceeds inward flows of donor assistance.

63. There are, nevertheless, some significant uncertainties in the research evidence, particularly concerning the direction of causality between lower corruption rates and higher income levels.[63] Moreover, some countries, notably in East Asia, have achieved high rates of growth in spite of high levels of corruption.[64] In addition, some country- and firm-level evidence challenges the Mauro narrative of a uniformly negative impact of corruption on growth.[65] Furthermore, very little of the existing evidence on the wider social impact of corruption comes from conflict-affected countries, where qualitative evidence suggests that corruption can, in certain circumstances, be integral to political stability and the reduction of violent conflict.[66]

Policies for growth: public goods, public services

64. The focus of this paper is on institutions rather than policies for growth and poverty reduction. Nevertheless, the following section considers the importance of one key public good, namely education, on economic growth and poverty reduction.

---

[59] See for example: Cramer, C. (2006). *Civil War is Not a Stupid Thing*. London: Hurst & Company and Tilly, C. (1992). *Coercion, Capital and European States, AD 990-1992*. Oxford: Blackwell.

[60] The topic of corruption is subject to a separate Evidence Paper by DFID's Research & Evidence Division (forthcoming, 2013).

[61] Mauro, P. (1995). "Corruption and Growth." *The Quarterly Journal of Economics, 110*(3), 681-712; Abed, G.T. and Davoodi, H.R. (2000). "Corruption, Structural Reforms, and Economic Performance in the Transition Economies." IMF Working Paper 00/132.

[62] Lambsdorff, J. (1999). "Corruption in empirical research – a review." Transparency International Working Paper; Lambsdorff, J., Taube, M. & Schramm, M. (2005). *The New Institutional Economics of Corruption*. Psychology Press; Habib, M. & Zurawicki, L. (2004). 'Corruption and foreign direct investment.' In Transparency International (eds.). *Global Corruption Report 2004* (pp. 313-315). Sterling, VA: Pluto Press; World Bank (2007). *World Development Report 2007: Development and the Next Generation*. Washington, D.C., World Bank.

[63] Lambsdorff, J., Taube, M. & Schramm, M. (2005). *The New Institutional Economics of Corruption*. Psychology Press.

[64] Khan, M.H. (2003). 'State Failure in Developing Countries and Institutional Reform Strategies.' In Tungodden, B., Stern, N. and Kolstad, I. (eds.), *Toward Pro-Poor Policies. Aid, Institutions and Globalization. Annual World Bank Conference on Development Economics, Europe* (pp. 165-195). Oxford and Washington, D.C.: Oxford University Press and World Bank.

[65] Hodge, A., Shankar, S., Rao, D. S. P. and Duhs, A. (2011). "Exploring the Links Between Corruption and Growth." *Review of Development Economics, 15,* 474–490.

[66] Reno, William (2011), Anti-corruption efforts in Liberia: Are they aimed at the right targets?', in C. Cheng and D. Zaum (eds.), *Corruption and Post-Conflict Peacebuilding: Selling the Peace?* Abingdon: Routledge, 127-43; Mukhopadhyay, Dipali (2009), Disguised Warlordism and combatanthood in Balkh: the persistence of informal power in the formal Afghan state', *Conflict, Security, and Development* 9/4, 536-63. For a conceptual discussion of this issue see de Waal, Alex (2009), 'Missions without end? Peacekeeping in the African political marketplace', *International Affairs*, Vol.85/1: 99-113; North, D., John Joseph Wallis, and Barry Weingast (2009), *Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History*, Cambridge: Cambridge University Press.

Governments and growth

65. The most appropriate government policies for economic growth are evidently a matter of huge, often ideologically-driven debate both in policy and research environments. Neoclassical approaches see the optimal government role as being limited to investment or provision where markets have failed, failing, or are unable to provide macroeconomic stability.[67] This approach shaped the 'Washington Consensus', the prevalent donor development policy framework for much of the 1980s and 1990s.[68] Structural economics views, by contrast, view the state as being a critical means of accelerating the pace of economic development in the face of a market "encompassed by insurmountable defects."[69] This view advocates policies that protect and promote the growth of domestic industries as a strategy for development. Leaving aside East Asia for now, across Latin America, Africa and South Asia, the results of such policies have generally been viewed as disappointing with many government interventions to support industrialisation failing, and many developing country governments having backed unviable industries.[70]

66. On the other hand, the experiences of China and South Korea in particular have led to a reanalysis of "structural economics" approaches which advocate for higher levels of state intervention.[71] These approaches to growth and development argue for the use of industrial policy to focus on sectors where a country has comparative advantages. They argue that it should be supplemented by the provision of infrastructure. Infrastructure is characterised in 'hard' or 'tangible' terms (transport and communication facilities) and in 'softer' forms (institutions, regulations, value systems, etc.) and well-functioning markets. Further, new structural economics approaches argue that governments have a role in supporting firms by helping them explore where the national economy's comparative advantages lie. Governments may do this by compensating pioneering firms which incur costs as they scope out new sectors. Government interests are served by this strategy because pioneering firms will 'crowd in' other entrepreneurs.[72] As such, governments have a key facilitating role in the industrialisation and diversification process of the economy,[73] with the market providing a mechanism for allocating resources at any given stage of development. Effectively, this approach advocates for government intervention in industrialisation (a theme inherent in traditional structural economics) whilst recognising the critical role of markets (more typically associated with neoclassical economics traditions).

---

[67] See paragraph 52.

[68] Williamson, J. . 'What Washington Means by Policy Reform'. In: Williamson, J. (ed) (1990). *Latin American Adjustment: How Much Has Happened?* Washington D.C.: Institute of Economics.

[69] Rosenstein-Rodan, P. (1943). "Problems of Industrialization of Eastern and South Eastern Europe." *Economic Journal, 111*(210–11), 202–11. See also: Nurkse, R. (1953). *Problems of Capital Formation in Underdeveloped Countries*. New York: Oxford University Press; Hirschman, A.O. (1958). *The Strategy of Economic Development*. New Haven, CT: Yale University Press.

[70] Lin, J.Y. (2009). *Economic Development and Transition: Thought, Strategy, and Viability*. Cambridge: Cambridge University Press; Lin, J.Y., and Li, F. (2009). "Development Strategy, Viability, and Economic Distortions in Developing Countries." Policy Research Working Paper 4906. Washington, D.C.: The World Bank.

[71] Lin, J. Y. (2011). "New Structural Economics: A Framework for Rethinking Development." *The World Bank Research Observer 26*(1), 193-221.

[72] Rodrik, D. 2004. "Industrial Policy for the Twenty-First Century." Center for Economic Policy Research, Discussion Paper DP4767. Available at: http://www.cepr.org/pubs/new-dps/dplist.asp?dpno=4767; Lin, J.Y., & C. Monga. (2011). "DPR Debate: Growth Identification and Facilitation: The Role of the State in the Dynamics of Structural Change." *Development Policy Review 29*(3), 259–310; Harrison, A., & Rodriguez-Clare, A. (2010). "Trade, Foreign Investment, and Industrial Policy for Developing Countries." In: D. Rodrik (ed.), *Handbook of Economic Growth, Vol. 5*. Amsterdam: North-Holland, p. 4039–213.

[73] Harrison, A., & Rodriguez-Clare, A. (2010). "Trade, Foreign Investment, and Industrial Policy for Developing Countries." In: D. Rodrik (ed.), *Handbook of Economic Growth, Vol. 5*. Amsterdam: North-Holland, p. 4039–213..

Education and growth

67. Broad and fair access to education has a positive effect on economic growth and distribution of income.[74] Broad-based education policies, for example, have long been recognized as an important factor in the economic growth rates of the East Asian 'tigers'.[75] A recent systematic review finds evidence of the positive impact of education and skills on national economic growth. It finds that depending upon the proxies used to measure education and skills, the impact on economic growth ranges from 0.4 per cent to 24 per cent per unit of education or skills investment. Those studies that use the proportion of the population having achieved a set level of education typically find the greatest effect on growth, whilst those studies that use average years of schooling typically find the smallest effect on growth.[76]

68. Moreover, countries are rarely wealthy if they have poor gender equality in education. According to Ward and others, economic growth in sub-Saharan Africa, the Middle East and North Africa (MENA), and Latin America would have been appreciably higher (in the period since 1960) had those regions matched the levels of gender equality in education in East Asia and the Pacific.[77]

Part III – summary

69. The preceding survey of the evidence demonstrates that higher volumes of international trade, particularly exports, are strongly associated with higher levels of growth. There are 'adjustment costs' associated with the reduction of tariffs and trade barriers, but effective reallocation of labour and capital can help ensure that these are relatively short-term. Higher levels of domestic trade are also correlated with higher levels of growth. Higher levels of competition in product markets and factor markets are generally conducive to more rapid growth rates. More efficient (competitive, mature) capital markets appear to have more modest impacts on economic growth in developing countries. This is true both for domestic financial liberalization, and for the effects of foreign direct investment, and is likely to be an effect of shortfalls in human capital stocks and low levels of technological advancement in these countries.

70. Violent civil conflict (fragility) and higher rates of crime are deleterious to growth, owing to their effects on domestic and international investor confidence. Low growth rates and fragility are both likely to be consequences of a third, independent factor. Subsequent analysis will suggest that this is the weakness of political institutions.

71. Corruption is likely to have negative effects on investor confidence, and therefore has the potential to be deleterious to growth. Even so, corruption typically tends to be a symptom of institutional weakness, rather than a cause of it.

72. The research relating to the role of government policy is highly polarised, largely on ideological grounds. The most appropriate role for states to play in markets, or in providing

---

[74] Lopez, J.H. (2011) *Pro-poor growth: a review of what we know (and what we don't).* Draft paper. The World Bank (PRMPR).

[75] Page, J. (1994). "The East Asian Miracle: Four Lessons for Development Policy." *NBER Macroeconomics Annual, vol 9.* (pp 219-282). Eds Stanley Fischer and Julio Rotemberg. MIT Press.

[76] Hawkes, D. & Ugur, M. (2012). "Evidence on the relationship between education, skills and economic growth in low-income countries: a systematic review." London: EPPI-Centre, Social Science Research Unit, Institute of Education, University of London.

[77] Ward, J., Lee, B., Baptist, S., Jackson, H. (2010). "Evidence for Action – Gender Equality and economic growth*."* Chatham House and Vivid Economics.

the necessary foundations for markets to function not just efficiently, but fairly, requires further attention. This is beyond the scope of the current paper, which focuses on precursors to policy formulation, namely governance arrangements and institutional frameworks.

*****

Part IV – developmental foundations: economic institutions

73. So far, this review of the evidence has considered the evidence relating to the 'outcomes' and 'impacts' of development. Next, it turns to the foundations of development. The internal logic of the following sections of this paper borrows from two recent publications (Acemoglu & Robinson[78], Besley & Persson[79]) which demonstrate the mutually reinforcing effects of political and economic institutions. In particular, it draws on Acemoglu & Robinson's analysis, which identifies the positive, and sustainable developmental effects of inclusive political institutions and inclusive economic institutions. The following analysis points out some of the observed weaknesses in this characterisation, whilst recognising its power as a cohesive narrative.

Defining institutions

Rules of the game

74. This literature review adopts Douglass North's definition of institutions as "humanly devised constraints [structuring] human interaction." Famously, North describes institutions as both the formal and informal "rules of the game", where 'the game' is, effectively, the structure and operation of society, including the political and economic forces within it. Moreover, North makes a distinction between institutions and organisations (which are political, economic and social bodies, populated by individuals). He observes that "if institutions are the rules of the game, organisations and their entrepreneurs are the players."[80] North theorises that institutions are critical in reducing the uncertainties and the unpredictability that are inherently associated with any form of economic exchange: as such, they are critical in enabling individuals to capture gains from trade.[81] North's work inspired the production of a considerable body of empirical research exploring how different institutional mechanisms may shape governance regimes and affect economic development. In policy circles, many of North's works, and those that followed, helped form what became known as the 'good governance' agenda, where 'governance' and 'governance regimes' refer to combinations of institutions.

75. This section begins with a description of some major works demonstrating linkages between 'institutions' and 'governance' (variously defined) and several measures of economic development. It continues with a survey of research which has sought to focus less on 'clusters' of institutions, and more on specific institutions, namely (a) the rule of law; (b) property rights; and (c) business regulatory institutions.

---

[78] Acemoglu, D. & Robinson, J. (2012). Why Nations Fail. Profile Books: London.
[79] Besley, T. & Persson, T. (2011). Pillars of Prosperity. Princeton University Press: Oxford.
[80] Douglass C. North, Nobel Prize Lecture, December 9, 1993. Available at: http://www.nobelprize.org/nobel_prizes/economics/laureates/1993/north-lecture.html. Accessed on 8 April 2012.
[81] North, D. (1990). *Institutions, Institutional Change, and Economic Performance*. Cambridge University Press: Cambridge.

Economic institutions and economic development: some key works

Sons of Barro

76. Following from the work of Barro[82], a large number of quantitative research designs, using a variety of statistical regression analysis methods, have been applied to governance data gathered from multiple countries. These so-called 'cross-country studies' tend to find a correlation between effective governance, broadly defined, or particular components of governance, and development outcomes such as growth and poverty reduction. Some go further, and claim to have identified causal linkages. These studies are specified accordingly.

77. Barro[83] finds that political instability is inversely correlated with investment and growth, and suggests that the mechanism at work is the negative effect of political instability (coups, revolutions, assassinations) on property rights.

78. De Long & Shleifer[84] explore the impacts on growth rates of different institutional regimes, and find that historically, whilst strong systems of princely rule were associated with slow city growth and low levels of urban commerce, states adopting more inclusive political and economic institutions experience faster urban economic growth rates (principally owing to the effects of lower and less punitive tax rates).

79. Knack and Keefer use a more comprehensive set of institutional indicators (directly reflective of property rights in particular) and observe that the protection of property rights is "crucial to economic growth".[85]

80. Barro elaborates his earlier analysis and finds that the growth rate of real GDP per capita improves as governments adhere more closely to the rule of law [as measured by international country risk guide ratings], though his analysis does not demonstrate the direction of causality.[86]

81. Hall & Jones find that variations in physical and human capital only partly explain cross-country differences in output per worker: they attribute the differential (they claim causality) to "institutions and government policies" which they call "social infrastructure."[87]

---

[82] Barro, R.J. "Economic Growth in a Cross Section of Countries." *The Quarterly Journal of Economics*, Vol. 106, No. 2. (May, 1991), pp. 407-443.

[83] Barro, R.J. "Economic Growth in a Cross Section of Countries." *The Quarterly Journal of Economics*, Vol. 106, No. 2. (May, 1991), pp. 407-443.

[84] De Long, B. & Shleifer A., (1993). "Princes and Merchants: City Growth Before the Industrial Revolution." *Journal of Law and Economics*, *36*(5), 671-702.

[85] Knack, S. & Keefer, P. (1995). "Institutions and Economic Performance: Cross-Country Tests Using Alternative Institutional Indicators." *Economics & Politics*, *7*(3), 207-227. Knack & Keefer's conclusion implies that they are claiming causation, but it is not clear that their analysis goes beyond the demonstration of correlation.

[86] Barro, R. J. (1997). *Determinants of Economic Growth: A Cross-Country Empirical Study.* Cambridge, MA: The MIT Press. Barro also finds that more schooling, better health, lower fertility rates, lower government consumption relative to GDP, improvements in the terms of trade and lower inflation all go hand-in-hand with faster rates of economic growth, though his work does not address directions of causality.

[87] Hall, R.E. & Jones, C.I. (1999). "Why do some countries produce so much more output per worker than others?" *The Quarterly Journal of Economics* Vol. 114, No. 1 (Feb., 1999), pp. 83-116. Their 'social infrastructure' measure which is based on International Country Risk Guide data (which combines indicators of (i) law & order, (ii) bureaucratic quality, (iii) levels of corruption, (iv) risks of expropriation, (v) government repudiation of contracts), and country openness to international trade.

82. Roll & Talbott[88] find eighty per cent of the international variation in gross national income can be attributed not to culture, geography, history or religion, but to mutable (changeable) factors such as macroeconomic, structural and political conditions. Specifically, they find that property rights are strongly correlated with prosperity, and that black market activity is strongly and negatively correlated with the same.[89] Techniques are employed to claim causality.[90]

83. Acemoglu and others use an innovative instrumental variable to demonstrate a causal link between institutions (characterised in particular by strong property rights)[91] and income levels. On the basis of their analysis, they estimate a large effect of institutions on per capita incomes, and conclude that institutional effects are largely responsible for the incomes of African countries.[92]

84. Rodrik, Subramanian and Trebbi[93] draw on Acemoglu & others[94] and Frankel & Romer[95] to show that good institutions are a better predictor of growth progress than either trade or geography, and conduct analysis in order to claim causality.

85. Kaufmann & Kraay also claim to demonstrate a strong causal link between good governance and higher income levels, and a weak negative causal effect of per capita income levels to improved governance.[96]

The critique (part I)

86. The overall critique of 'institutional' explanations for economic growth is explored in Part VI, below. Here we simply note some of the research that takes issue with one or more aspects of the proposition outlined above. Much of it is focussed on the degree to which this literature is able to demonstrate with confidence that better governance affects growth (and that the reverse is not true). Albouy[97] critiques the seminal work of Acemoglu and others

[88] Roll, R. and Talbott, J.R. (2003). "Political Freedom, Economic Liberty and Prosperity." *Journal of Democracy 14*(3), 75-89.

[89] They also observe that political rights, press freedom and government expenditures are also positively correlated with national income levels, whilst regulation, inflation and trade barriers are negatively correlated with levels of economic development. Civil liberties, including predictable application of the rule of law, are also correlated with higher levels of economic development.

[90] Roll, R. and Talbott, J.R. (2003). "Political Freedom, Economic Liberty and Prosperity." *Journal of Democracy 14*(3), 75-89.

[91] They use an index of 'protection from expropriation' (a proxy for property rights) from Political Risk Services as their principal institutional variable. Acemoglu and others concede in their concluding remarks that their institutional variable is better considered as representing a 'cluster of institutions' rather than any single institution. Indeed, they write that "[i]nstitutional features, such as expropriation risk, property rights enforcement, or rule of law, should probably be interpreted as an equilibrium outcome, related to some more fundamental 'institutions,' e.g., presidential versus parliamentary system, which can be changed directly."

[92] Acemoglu, D., Johnson, S. & Robinson, J.A. (2001). "The colonial origins of comparative development." *American Economic Review*, *91*, 1369-1401.

[93] Rodrik, D., Subramanian, A. & Trebbi, F. (2004). "Institutions Rule: The Primacy of Institutions Over Geography and Integration in Economic Development." *Journal of Economic Growth, 9*(2), 131-165.. See also: Hausmann, R., Rodrik, D. & Pritchett, L. (2005). "Growth Accelerations." *Journal of Economic Growth*, *10*(4), 303-329.

[94] Acemoglu, D., Johnson, S. & Robinson, J.A. (2001). "The colonial origins of comparative development." *American Economic Review*, *91*, 1369-1401.

[95] Frankel, J.A. & Romer, D. (1999). "Does Trade Cause Growth?" *The American Economic Review*, 89 (3), pp. 379-399.

[96] See table 1 in Kaufmann, D. and Kraay, A. (2002). "Growth without Governance." World Bank Policy Research Working Paper No. 2928. Washington, D.C.: World Bank.

[97] Albouy, David 2006, "The Colonial Origins of Comparative Development: An Investigation of the Settler Mortality Data," University of California – Berkeley, May.

(2001) on the basis that the measure used (settler mortality rates) as an instrument for expropriation risk is a poor one, undermining their analysis. Glaeser and others[98] directly dispute the causal link between enhanced governance and growth and claim that income levels explain institutions, and not vice-versa. Resnick & Birner adopt a similar position.[99] Khan finds that once you adjust for levels of economic development, there is no statistically significant difference in the values of 'good governance' indicators when fast-growing and slow-growing groups of countries are compared.[100]

87. Other studies consider how specific aspects of governance, such rule of law, corruption levels and government regulation on trade are particularly important for economic growth.[101] This review now considers some of the *specific* institutions associated with growth.

Economic institutions and economic development: the rule of law, legal structures and legal bodies[102]

88. A number of studies explore the specific effects of the rule of law, and various dimensions of this concept, on economic development. Because of its effects on security of property and person, and, by consequence, its positive effects on investor confidence, there are strong theoretical grounds to expect it to drive growth.

89. Kauffmann and others report that a one point increase on the World Governance Indicators 6-point rule of law index is correlated with a 2.5-to-4-fold improvement in per capita incomes and infant mortality, and a 15-25 per cent increase in literacy rates.[103]

90. Laeven and others find that where those organisations responsible for enforcing contract institutions are more efficient, the cost of credit to borrowers is reduced.[104]

91. Feld and Voigt[105] find that genuinely independent (as opposed to just *technically* independent) judiciaries are robustly correlated with growth.

[98] Glaeser, E.L., La Porta, R. Lopez-de-Silanes, F. & Shleifer, A. (2004). "Do Institutions Cause Growth?," *Journal of Economic Growth*, *9*(3), 271-303.
[99] Resnick, D. & Birner, R. (2006). "Does Good Governance Contribute to Pro-Poor Growth? A Review of the Evidence from Cross Country Studies." DGSD Discussion Paper, 30. Washington, D.C.: International Food Policy Institute. See also: Andrews, M. (2008). "The Good Governance Agenda: Beyond Indicators without Theory." *Oxford Development Studies, 36*(4), 379-407.
[100] Khan, M. (2004) 'What is a "Good Investment Climate"?' In: Kochendörfer-Lucius, G and Pleskovic, B, (eds.), *Investment Climate, Growth, and Poverty.* World Bank (USA), pp. 77-83.; Khan, M. (2007) 'Governance, Economic Growth and Development since the 1960s.' In: Ocampo, José Antonio and Jomo, Kwame S. and Vos, Rob, (eds.), *Growth Divergences: Explaining Differences in Economic Performance.*
[101] See the following reviews of the literature: Williams, G. and others (2011). "Politics and Growth." *Development Policy Review*, *27*(1); International Monetary Fund (2003). *World Economic Outlook*. Washington, D,C.: International Monetary Fund; Keefer, P. (2004). "A Review of the Political Economy of Governance: From Property Rights to Voice." World Bank Policy Research Working Paper No. 3315. Washington, D.C.: World Bank.
[102] The role of the rule of law in development is subject to review under a separate DFID Literature Review initiative (forthcoming, February 2013).
[103] Kaufmann, D., Kraay, A. and Zoido-Lobaton, P. (1999). "Governance Matters." World Bank Policy Research Working Paper Series 2196.
[104] See, for example, Beck, T., Demirguc-Kunt, A. & Levine, R. (2004). "Law and Firms' Access to Finance." National Bureau of Economic Research Working Papers, 10687; Laeven, L. & Majnoni, G. (2005) "Does judicial efficiency lower the cost of credit?" *Journal of Banking & Finance, 29*(7), 1791-1812.
[105] Hayo, B. & Voigt, S. (2007). "Explaining de facto judicial independence." *International Review of Law and Economics*, *27*(3), 269-290.

92. Blume and Voigt's statistical analysis finds strong correlations between basic human rights and the accumulation of physical capital; between property rights and growth, the accumulation of physical capital and total factor productivity; and between civil & emancipatory (i.e. voting) rights and total factor productivity.[106]

93. Beck finds that legal infrastructure is correlated with several performance variations across countries, including financial systems, entrepreneurship dynamics, firms' growth prospects and investment decision-making, as well as the way that firms are structured and governed at a corporate level.[107]

The critique (part II)

94. This strand of institutionalist research is also open to debate, however. Again, much of the evidence on the importance of the legal infrastructure for growth is based on econometric studies. Like much of the research explored in the preceding paragraphs, these studies use proxies for the quality of (legal) institutions, in this case, surveys of businesses or cross-country ratings by international experts, and employ statistical methods to test the level of association and direction of causation.[108] Notwithstanding the advanced statistical tests used, this body of research is, again, vulnerable to criticisms of misinterpreting the direction of causality; using unreliable proxies to stand for the quality of justice institutions and producing findings that contradict historical evidence from experiences in Western and East Asia.[109] Trubek & Galanter,[110] Messick[111] and Rodrik[112] challenge the proposition that the relationship between law and economic development displays the kind of empirical regularity that can be captured through statistical analysis. Woo-Cummings finds no support from the East Asian experience for the proposition that economic growth depends upon any specific set of legal rules or institutions.[113]

[106] Blume, L. & Voigt, S. (2007). "The economic effects of human rights." *Kyklos* 60(4), 509-538.
[107] See, for example: Beck, T. (2010). "Legal Institutions and Economic Development." CentER Discussion Paper Series 2010-94; Beck, T. and Levine, R. (2005). 'Legal Institutions and Financial Development.' In C. Ménard and M. Shirley (eds.), *Handbook of New Institutional Economics* (pp. 251-278). Dordrecht: Springer.
[108] Cox, M. (2008). "Security and justice: measuring the development returns – A review of knowledge." Agulhas Applied Knowledge. Paper commissioned by DFID to review the state of knowledge on the role of security and justice in the development process.
[109] Cox, M. (2008). "Security and justice: measuring the development returns – A review of knowledge." Agulhas Applied Knowledge. Paper commissioned by DFID to review the state of knowledge on the role of security and justice in the development process.
[110] Trubek, D. and Galanter, M. (1974). "Scholars in Self-Estrangement : Some Reflections on the Crisis in Law and Development Studies in the United States," *Wisconsin Law Review*, 1974, 1062-1102; Davis, K. & & Trebilcock, M. (1999) *What role do legal institutions play in development?* Toronto: University of Toronto.
111 Messick, R., —Judicial Reform and Economic Development: A Survey of the Issues , The World Bank Research Observer, vol. 14, no. 1, February 1999, 117-36, p. 123.
[112] Rodrik, Dani, —Introduction: what do we learn from country narratives in Dani Rodrik (ed.), In Search of Prosperity: Analytic Narratives on Economic Growth (Princeton: Princeton UP, 2003), pp. 9-10
[113] Woo-Cummings, Meredith. The rule of law, legal traditions, and economic growth in East Asia , UNU Research Paper No. 2006/53, May 2006.

Economic institutions and economic development: property rights[114]

Introduction

95. There are very strong theoretical grounds for assuming that more secure property rights should encourage investment, higher levels of innovation and productivity, and thereafter, growth (both at a local and national scale). There is also a strong theoretical argument for property rights being able to facilitate the use of property as collateral for credit.[115]

Long-run national growth

96. At a macro-level, Acemoglu & Johnson identify a statistically significant correlation between property rights and long-run economic growth, investments and financial development.[116]

Tenure security, land markets, investment, and productivity

97. At a micro- level, a significant body of evidence explores the effects of increased levels of tenure security on investment, innovation, productivity and growth. Country specific evidence drawn from impact evaluations (e.g. from Nicaragua[117] and Ethiopia[118]) demonstrates that increased availability of registered land titles increases the propensity of households to undertake productivity-enhancing investments, and also boosts land values. Goldstein and Udry[119] show a significant and positive statistical correlation between agricultural productivity and tenure security. Using Chinese household level data, Jin & Deininger[120] find that land markets play a critical role in promoting more effective use of potentially idle land, in turn leading to significant productivity gains.

98. However, tenure security is likely to have different impacts on different types of investments. Fenske's systematic review finds that the correlation between tenure security and investment is more robust for some investments (for example, fallowing and tree planting) than it is for others (purchase of manure or chemical fertilisers, indeed hiring of labour).[121]

Property rights and collateral

---

[114] Note that property rights are subject to further exploration in two DFID evidence products (a Rapid Review, forthcoming, November 2012, and a Literature Review, forthcoming April 2013).

[115] Besley, T. (1995). "Property Rights and Investment Incentives: Theory and Evidence from Ghana." *Journal of Political Economy, 103*(5), 903-947.

[116] Acemoglu, D. & Johnson, S. (2005). "Unbundling Institutions." *Journal of Political Economy, 113*(5), 949-995.

[117] Deininger, K., E. Zegarra, and I. Lavadenz. (2003). "Determinants and Impacts of Rural Land Market Activity: Evidence from Nicaragua." *World Development 31*(8), 1385–404; Deininger, K. & Chamorro, J.S. (2004). "Investment and Income Effects of Land Regularization: The Case of Nicaragua." *Agricultural Economics, 30*(2), 101-116.

[118] Holden, Deininger, Ghebru (2008). "The Impacts of Low-Cost Land Certification on Investment and Productivity," *American Journal of Agricultural Economics 91*(2), 359-373.

[119] Goldstein, M. & Udry, C. (2008). "The Profits of Power: Land Rights and Agricultural Investment in Ghana." *Journal of Political Economy*, *116*(6), 981-1022.

[120] Jin, S &Deininger, K. (2009). "Land rental markets in the process of rural structural transformation: productivity and equity impacts from China" *Journal of Comparative Economics, 37*(4), 629-646.

[121] Fenske, J. (2011). "Land tenure and investment incentives: Evidence from West Africa." *Journal of Development Economics 95*(2), 137-156.

99. The evidence of the effects of property rights as a means to use registered assets as collateral and gain increased access to credit is mixed. Evidence from an impact evaluation study conducted on a nationwide titling programme in Peru[122] shows that titling led to a limited reduction of credit rationing.[123] But the same analysis found that formal property ownership had no effect on approval rates for private sector loans.

100. Besley and others[124] explore the relationship through econometric modelling and empirical analysis (applied to quantitative data from Sri Lanka and Ghana). They find that the effects of property rights on access to capital will vary according to the wealth group (low, medium, high) to which the potential borrower belongs, with the most modest benefits accruing to the least wealthy. They also find that more robust property rights are more likely to serve as a lever for collateral where competition in the credit market (i.e. amongst lenders) is greater. Their analysis provides cautious support for the proposition that where property rights improve, interest rates on loans fall, and borrower profits rise.

101. However, their analysis also suggests that the improvements in borrower productivity and profits owe more to increased effort (of the borrower) than to the effects of borrowed capital. In short, property rights may matter, but perhaps not through the 'property as collateral for capital' mechanism.

102. Moreover, a recent IMF paper offers no evidence that stronger property rights will themselves affect levels of competition in credit markets.[125]

The critique (part III)

103. Several of the qualifications and caveats relating to the evidence on property rights and economic development are highlighted above. Again, some relate to the limitations of econometrics methodologies: Haggard & Tiede question Acemoglu and others' ability to adequately isolate the effects of property rights from other elements of institutions.[126]

104. In addition, some commentators observe wide variations in the ability of developing countries to protect property rights consistently and universally, even where these have been set out formally. Property rights are important, but establishing and enforcing them is a state capability problem.[127] Others note that that the definition of *formal* property rights is less important than the existence and enforcement of *informal* property rights. Rodrik notes that formal property rights regimes (e.g. in Russia) do not necessarily deliver increased

[122] Field, E. & Torero, M. (2006):"Do property titles increase credit access among the urban poor? Evidence from a nationwide Titling Programme," *Land Policy 31*(1993), 1-28.
[123] Credit rationing being where access to loans is restricted owing to lenders' reluctance to offer credit to borrowers, even at higher investment rates.
[124] Besley, T., Burchardi, K., & Ghatak, M. (2012). "Incentives and the De Soto Effect." *The Quarterly Journal of Economics 127* (1): 237-282.
[125] Singh, R.J., and Huang, Y. (2011). "Financial deepening, property rights and poverty: Evidence from Sub-Saharan Africa." IMF working paper WP/11/196.
[126] Haggard, S. & Tiede, L. (2011). "The Rule of Law and Economic Growth: Where are We?" *World Development, 39*(5), 673-685.
[127] Khan, M. (2006). *Governance and Development*. In 'Workshop on Governance and Development', organized by the World Bank and DFID, 11-12 November, Dhaka, Bangladesh. (Unpublished); see also Everest-Phillips, M. (2008). "The Myth of Secure Property Rights: Good Economics as Bad History and its Impact on International Development." SPIRU Working Paper 23, Overseas Development Institute; Wallace, J. & Williamson, I. (2006). "Building Land Markets." *Land Use Policy, 23*(2), 123-135.

investor confidence, whilst in China, private investors have sufficient confidence in the security of their property even in the absence of formal property rights.[128]

Economic institutions and economic development: business regulatory burdens and investment climates

105. The following section considers the role of institutions at firm level, and their effects on investment.

106. Eifert uses a 5-year panel of data (from the World Bank's 'Doing Business Project') and finds that in countries which are relatively poor, and relatively well-governed, a reduction by 10 days in business registration procedures is associated with a 0.27 per cent increase in investment rates. In addition, in countries implementing regulatory reform in any given year, growth rates increase by 0.2 per cent (in relatively well-governed countries) and by 0.4 per cent (in relatively poor countries).[129] Evidence from studies of commercial enterprise in India[130] shows that local governance is correlated with investment and productivity growth, with net fixed investment being four times higher for firms in 'good' business governance environments as compared to firms trading in comparatively poor environments.

107. Surveying a wide set of investment climate variables, Djankov and others[131] find that improved business regulatory configurations across seven areas (starting a business, hiring and firing workers, registering property, getting bank credit, protecting equity investors, enforcing contracts in the courts and closing a business) are strongly correlated with growth. They find that improving from the worst to the best quartile of the business regulatory environment is correlated with a 2.3 per cent increase in average annual growth. Elsewhere, Djankov and others[132] reveal via an analysis of cross-national datasets that countries levying higher registration costs for businesses tend to suffer higher levels of corruption, and host larger informal economies.[133] Jalilian and others find that effective regulatory regimes are strongly correlated with economic growth on the basis of their analysis of World Governance Indicators.[134]

---

[128] Rodrik, D. (2004). "Getting Institutions Right." Unpublished. Available at: http://rjverbrugge.net/development/RodrikInstitutions.pdf . Accessed on 6 April 2012. See also: Keefer, P. (2006). 'Governance and economic growth in China and India.' Chapter 7, in Winters, L.A. & Shahid Yusuf (2006) (eds.) *Dancing with Giants: China, India and the Global Economy*. The World Bank and the Institute of Policy Studies: Washington, D.C.

[129] Eifert, B. (2009). "Do Regulatory Reforms Stimulate Investment and Growth? – Evidence from Panel Data 2003-2007."Center for Global Development, Working Paper No. 159.

[130] Dollar, D., Iarossi, G. and Mengistae, T. (2002). "Investment Climate and Economic Performance: Some Firm Level Evidence from India." Working Paper 143, Stanford University Centre for Research on Economic Development and Policy Reform.

[131] Djankov, S. McLiesh, C. & Ramalho, R. M. (2006). "Regulation and growth."*Economics Letters, 92*(3), 395-401.

[132] Djankov, S., La Porta, R., Lopez-de-Silanes, F., & Shleifer, A. (2002). "The Regulation of Entry." *The Quarterly Journal of Economics* (2002) 117 (1): 1-37.

[133] See also: Djankov, S. (2009). "The Regulation of Entry." *World Bank Research Observer, 24* (2).

[134] Jalilian, H., Kirkpatrick, C. & Parker, D. "The Impact of Regulation on Economic Growth in Developing Countries: A Cross-Country Analysis." Bradford Centre for International Development. They survey WGI 'regulatory quality' and 'government effectiveness' indicators across 117 countries.

108.In a similar vein, Klapper and others' study of data from the World Bank Group Entrepreneurship Survey finds a very strong correlation between improved business environments and levels of entrepreneurship.[135]

Part IV – summary

109.Part VI (below) provides an extensive critique of, and alternative reading of, the importance of economic institutions in development. As such, the following summary is an 'interim' summary, and should be read with reference to parts VI and VII.

110.There is a very substantial and credible research literature which explores the apparent importance of institutions (North's 'rules of the game'), and specifically 'economic institutions' on economic development. This theoretical literature makes a convincing case that institutions introduce predictability and a degree of certainty into otherwise highly unpredictable markets. Crucially, they provide potential investors with a degree of assurance that their investments will not be expropriated arbitrarily. They do so through property rights, and also through the rule of law which underpins property rights. Transparent, reasonably facilitative, and predictable regulatory environments in the commercial sector offer similar assurances to investors.

111.The strong theoretical underpinnings of this research have been followed by a large, and highly-contested body of empirical studies, seeking to demonstrate economic institutions at work. Using a variety of more or less robust econometric methods, a number of these studies have demonstrated this effect. However, on the basis of construct and measurement validity grounds, the findings of a number of these studies have been rendered open to question. Overall, we find the case that (economic) 'institutions matter' is persuasive (though see also Part VI). The ability of the research to isolate *specific* developmental institutions is more limited, and less persuasive.

Part V: development foundations: political institutions

Introduction

112.The discussion so far has focussed principally on economic institutions, specifically what are typically referred to as 'good governance' institutions. But economic institutions are themselves generated by political processes, and are subject to change via political institutions. The centrality of politics, political processes, and the elites at the heart of political processes is common to many new institutionalist views of development, even if it was somewhat lost in the 'good governance' policy prescriptions of the 1990s.[136] The

[135] Klapper, L. F., Lewin, A. & Quesada Delgado, J. M. (2009). "The Impact of the Business Environment on the Business Creation Process. World Bank Policy Research Working Paper No. 4937.

[136] See in particular, Acemoglu, D. & Robinson, J. (2012). *Why Nations Fail*. Profile Books; North, D., Wallis, J.J., Webb, S.B., Weingast. B. (2007). 'Limited Access Orders in the Developing World: A New Approach to the Problems of Development.' World Bank Policy Research Working Paper #4359. Besley, T. & Persson, T. (2011). *Pillars of Prosperity: The Political Economics of Development Clusters*. Princeton University Press; Khan, M. (2011). "Political Settlements and the Governance of Growth-Enhancing Institutions." Working Paper: http://eprints.soas.ac.uk/9968/; Khan, M.H. (2004). "State Failure in Developing Countries and Institutional Reform Strategies", in Tungodden, B., Stern, N. and Kolstad, I. (eds.), *Toward Pro-Poor Policies. Aid, Institutions and Globalization. Annual World Bank Conference on Development Economics, Europe (2003)*. Oxford University Press and World Bank, pp. 165-195.

following sections consider the evidence relating to those political institutions and civil society dimensions of economic transition typically positioned at the core of development processes.

113.Acemoglu & Robinson's review of historical evidence suggests that over the long term, economic growth is not sustainable without inclusive political institutions (institutions that are open to non-elites, or emerging elites, and, in the long term, some form of democracy). They argue that centralized authoritarian regimes may provide the stability needed for investment, but are also likely to establish extractive economic institutions that serve their own interests at the expense of non-elites. Such autocratic regimes fail to provide the enabling environment for the innovation that is necessary to sustain economic growth. This failure may fuel the demands of populations for political rights and produce mass unrest which, in turn, undermines stability. They suggest then, that while authoritarian regimes, such as China, may achieve high economic growth rates, they are unlikely to be able to translate these into sustained prosperity without political reform.[137]

Democracy and development

Forms & functions

114.Definitions of democracy vary considerably. Some principally emphasise the *form* of democratic practices and institutions, stressing formal systems of representation and basic civil liberties (elections, universal adult suffrage, freedom of information, freedom of association). The importance of inclusive, participatory and competitive political processes and politics (beyond elections) is also a focus of attention.

115.Alternative definitions of democracy place a greater emphasis on the role of transparency and its capacity make organizations more accountable. Here, *vertical* accountability is accountability of state to society, *horizontal* accountability is accountability of executive, legislature and judiciary to one another, before the law, and *social* accountability is the accountability of non-state service providers and organisations to the people they serve.[138]

Intrinsic value

116.There is considerable evidence for the intrinsic, or non-quantifiable, value of democracy and popular empowerment. In the past decade, single and multi-country surveys (of both individuals and households) have yielded data demonstrating how people experience and value governance and institutional quality (for example, Afrobarometer, Latinobarometro and Gallup International's *Voice of the People*). Afrobarometer opinion survey data show

[136] North, D., Wallis, J.J., Webb, S.B., Weingast. B. (2007). 'Limited Access Orders in the Developing World: A New Approach to the Problems of Development.' World Bank Policy Research Working Paper #4359.

[137] Acemoglu, D., Robinson, J.A., (2012) *Why Nations Fail. The Origins of Power, Prosperity and Poverty.* Profile Books. Suffolk. Collier, P. (2012) *Why Nations Fail by Daron Acemoglu and James Robinson – review.* The Observer, Sunday 11 March 2012. Collier, P. (2012) *Why Nations Fail by Daron Acemoglu and James Robinson – review.* The Observer, Sunday 11 March 2012.

[138] Rocha Menochal, A. (2007) "Analysing the relationship between democracy and development: defining basic concepts and assessing key linkages." Background note (1) prepared for Wilton Park Conference on democracy and Development, 23-25 October 2007. ODI.

that popular demand exceeds perceived supply of democratic institutions.[139] The World Bank's *Voices of the Poor* survey demonstrated unambiguously the very high value that people place on their personal safety and security. A global survey found that a perceived lack of 'voice' in policy formulation is a source of frustration for many of the world's poor, even in those countries which hold elections on a regular basis. This demonstrates that demand for democracy goes beyond demand for elections.[140] There is now growing evidence that the 'democracy deficit', where supply for democracy fails to meet popular demand, was responsible for uprisings in the Middle East and North Africa in 2011.[141]

Instrumental value: democracy and economic growth

117.The most recent quantitative studies that seek to explore the instrumental, growth-enhancing effects of democracy include Persson & Tabellani's study of 150 countries over 150 years. This places particular emphasis on the concept of 'democratic capital', which they see as being determined by a state's history of democratic practices, and the level of democracy exercised by its neighbours. On this basis, they find that over the long-run, the difference between lowest to highest levels of domestic democratic capital is worth a national income boost of 75%.[142] To be more specific, they find that higher incomes make democracies more stable (but see also Acemoglu and others[143]). Paradoxically, they find that higher incomes do *not* make autocracies more precarious (i.e. more likely to adopt democracy). In addition, they find that higher levels of instability in democracy hurts growth. These findings are not inconsistent with those of Berg and Ostry (who observe that the avoidance of sudden collapses in economic growth rates is positively correlated to the presence of democratic political institutions in a given country).[144]

118.It is clear that sustainable democracies are more often found in high income countries. It also appears that democracy and growth reinforce one another, with democracy reinforcing growth once higher levels of democratic capital have been achieved. This is still a long way short of claiming that a transition to democracy will facilitate initial growth acceleration.

Instrumental value: democracy and human development

119.Halperin provides evidence that citizens of democracies live longer, are healthier, and lead more productive lives than people living in autocracies. Sen's claim that democracies don't suffer famines is well-known.[145]

---

[139] Bratton, M. (2010). "Anchoring the "D" Word in Africa." Afrobarometer Working Paper No.122. See also: Bratton, M., Mattes, R. and E. Gyimah-Boadi (2005). *Public Opinion, Democracy, and Market Reform in Africa*. Cambridge: Cambridge University Press.

[140] Sprogard, R. and James, M. (2000). "Governance and Democracy: The People's View. A Global Opinion Poll." Presented at the U.N. University's Millennium Conference, Tokyo, January 19-21.

[141] See, for example, OECD (2011). *Perspectives on Global Development 2012: Social Cohesion in a Shifting World*.

[142] Persson, T. & Tabellini, G. (2009). "Democratic Capital: The Nexus of Political and Economic Change," *American Economic Journal: Macroeconomics, American Economic Association, 1*(2): 88-126.

[143] But see also Acemoglu and others (2007) finding that democracies that are poorer are not more likely to experience coups. Acemoglu, D., Johnson, S., Robinson, J.A. & Yared, Pierre (2009). "Reevaluating the modernization hypothesis," *Journal of Monetary Economics, 56*(8), 1043-1058.

[144]Berg, A, Ostry, J. & Zettelmeyer, J. (2012). "What makes growth sustained?" *Journal of Development Economics*, 98 (2), pp. 149-166.

[145] Halperin, M., Siegle, J., and Weinstein, M., (2010) (rev. ed.). *The Democracy Advantage: How Democracies Promote Prosperity and Peace*. Oxford: Routledge; Sen, A. (1999). *Development as Freedom*. Oxford: Oxford University Press.

120.On the other hand, Moore & Putzel[146] find that there is no systematic or deterministic relationship between democracy and poverty reduction. Adopting a critical review of the record of democracies in poverty reduction, Ross[147] finds that although democracies tend to spend more money on human development, they are no more likely to reduce child and infant mortality than are non-democracies.

121.There are various prominent examples of non-democratic, or relatively undemocratic, regimes making significant economic growth gains in comparatively short time periods (China being the obvious example), of non-democratic regimes that have brought hundreds of millions out of absolute poverty, and indeed of states where democratic reforms have not nurtured development. Recent qualitative research in Africa suggests that democracy has *not* led to economic transformation, and has not delivered policies for the public good because politics remains fragmented along ethnic and regional lines. It remains dominated by elite coalitions that allocate private benefits to key constituencies and supporters, rather than promoting policies for the public good.[148]

122.Emerging research from the Africa Power & Politics Programme also suggests that in some cases, 'neo-patrimonial' political systems, which operate on a top-down, authoritarian basis, are capable of delivering positive development outcomes such as reduced maternal mortality.[149]

Instrumental value: democracy, 'good governance', and political accountability

123.The value of democracy (particularly when it is equated with one of its principal features, universal suffrage and elections) for political accountability is also uncertain. Diamond observes that electoral processes do not themselves guarantee improved governance, reduced corruption or better development outcomes.[150] Khan's historical analysis suggests that "all the evidence of democratization in developing countries shows that competition, transparency and electoral contests do very little to undermine the dominance of patron-client politics."[151]

The emergence of democracy

124.The following paragraphs consider the potential determinants of democracy. There is an extensive literature relating to Lipset's "modernization hypothesis"[152] which suggests that levels of urbanization and educational attainment are critical to economic growth, and in turn for institutional change. A number of studies find a positive effect of increased

[146] Moore, M. & Putzel, J. (1999). 'Politics and Poverty: a background paper for the World Development Report 2000/2001.'
[147] Ross, M. (2006). "Is Democracy Good for the Poor?" *American Journal of Political Science, 50*(4), 860-874.
[148] Joint Statement by Five Research Programmes on the Political Economy of African Development (2012).
[149] Booth, D. (2011). "Towards a Theory of Local Governance and Public Goods Provision*."* Working with the Grain? Rethinking African Governance. IDS Bulletin Volume 42, Number 2 March 2011, pp 11-21. See also: DFID (2010). "The politics of Poverty: Elites, Citizens and States. Findings from ten years of DFID-funded research on Governance and Fragile States 2001-2010". DFID. London.
[150] Diamond, L. (2004). "Moving On Up Out of Poverty: What Does Democracy Have to Do With It?" Stanford University Center on Democracy, Development & the Rule of Law Working Paper.
[151] Khan, M.H. (2003). 'State Failure in Developing Countries and Institutional Reform Strategies.' In Tungodden, B., Stern, N. and Kolstad, I. (eds.), *Toward Pro-Poor Policies. Aid, Institutions and Globalization. Annual World Bank Conference on Development Economics, Europe* (pp. 165-195). Oxford and Washington, D.C.: Oxford University Press and World Bank. See p. 174.
[152] Lipset, S. M (1959)."Some Social Requisites of Democracy: Economic Development and Political Legitimacy." *American Political Science Review*, *53*, 69-105.

education on economic growth.[153] Moreover, Glaeser (and others) find that democracies with more highly educated populations are more persistent (i.e. sustainable) than those with where the population is less educated. Moreover, he finds that dictatorships presiding over more highly educated populations are more likely to democratize than those with less-well educated populations. They argue that the correlation can be explained by the effects of schooling on people's ability to interact with others, and engage in civic participation (like voting and organizing). For Glaeser, higher levels of education are therefore likely to increase the likelihood of democratic revolutions and reduce the likelihood of successful anti-democratic coups.[154] The "modernization hypothesis" is important because it draws the focus away from institutions as a critical input for development, and instead views institutions as the outcome of economic growth and development.

125.With regards the impact of national wealth and democracy, Khan's observation that historically, rises in per capita income typically precede transitions to democracy[155] is instructive. However, the mechanism is not deterministic. Acemoglu and others' analysis rejects the notion that income levels alone are sufficient to precipitate movements away from autocracy, towards democracy[156] (see also Persson & Tabellani[157]).

Democracy and violent conflict

126.Democracies, once established, are very unlikely to go to war with one another and are less likely to experience civil war.[158] However, transitions to democracy are typically problematic, and rarely occur without large-scale violence.[159] Popular political demands may challenge authoritarian rule as, for example, in the Third Wave of democratization of the 1980s and the uprisings of the Arab Spring. Goldstone and others' analysis of 130 political crises occurring over 48 years concludes that weak partial democracies, weak full democracies, and autocracies with limited levels of political competition are at greatest risk of instability. Meanwhile Snyder refers to statistical studies to show that the chance of war in the 'average' state in any given decade is one in six, but is one in four for states in the

---

[153] Hawkes, D. & Ugur, M. (2012). "Evidence on the relationship between education, skills and economic growth in low-income countries: a systematic review." London: EPPI-Centre, Social Science Research Unit, Institute of Education, University of London.

[154] Glaeser, E.L., Ponzetto, G., Shleifer, A., (2006) "Why Does Democracy need education?" NBER Working Paper 12128. National Bureau of Economic Research.

[155] Khan, M.H. (2003). 'State Failure in Developing Countries and Institutional Reform Strategies.' In Tungodden, B., Stern, N. and Kolstad, I. (eds.), *Toward Pro-Poor Policies. Aid, Institutions and Globalization. Annual World Bank Conference on Development Economics, Europe* (pp. 165-195). Oxford and Washington, D.C.: Oxford University Press and World Bank. See p. 174.

[156] Acemoglu, D., Johnson, S., Robinson, J.A. & Yared, Pierre (2009). "Reevaluating the modernization hypothesis," *Journal of Monetary Economics, Elsevier, 56*(8), 1043-1058.

[157] Persson, T. & Tabellini, G. (2009). "Democratic Capital: The Nexus of Political and Economic Change," *American Economic Journal: Macroeconomics, American Economic Association, 1*(2): 88-126.

[158] See for example: Goldstone, J.A., Gurr, T.R., Marshall, M.G., Ulfelder, J. (2004), "It's all about State Structure: New Findings on Revolutionary Origins from Global Data". *Homo Oeconomicus* 21 (3): 429-455; and Snyder, J. (2000) *From Voting to Violence: Democratization and Nationalist Conflict*. WW Norton. For a fuller discussion of the evidence, see: See also Evans, W. (2012). '"Building Peaceful States & Societies – DFID Practice Paper": A Literature Review', available at: http://www.dfid.gov.uk/R4D/Output/189011/Default.aspx. See also: World Bank (2011). *World Development Report 2011: Conflict Security and Development*. Washington, D.C.: World Bank.

[159] Paul Collier's review of Acemoglu and Robinson summarises their argument of the historical evidence: "…it is only in the interest of the elite to cede power to inclusive institutions if confronted by something even worse, namely the prospect of revolution." Collier, P. (2012) *Why Nations Fail by Daron Acemoglu and James Robinson – review.* The Observer, Sunday 11 March 2012.

decade following their transition to democracy.[160] The difficulties of 'consolidating' new democracies has led to questions about the importance for democracy of political institutions and processes beyond formal representative institutions and basic political rights.

Democracy beyond elections: political competition

127.The nature of the relationships between democracy, growth and poverty reduction is complex, with the benefits of this type of political institution somewhat ambiguous.

Deep democracy

128. One particular challenge is identifying which aspects of democracy really matter. Moore & Putzel observe that there are "wide variations in the substantive content of formal, electoral democracy."[161] Rather than narrow definitions of democracy, which privilege the role of elections, they stress the importance of "well institutionalised programmatic democratic political parties."[162]

129.Adopting a somewhat more comprehensive definition of democracy is helpful. Where political institutions and accountability mechanisms beyond elections are considered the effects of more open political institutions is more encouraging. Saha's survey of 32 sub-Saharan African countries explores levels of legislative competition, and their effects on income, education and health outcomes. He finds that greater levels of political competition in the national legislatures (and where there is not one dominant party) has a positive effect on poverty reduction.[163]

130.Besley and others also find a positive relationship between political competition (beyond mere statutory democracy) and economic growth.[164] Whilst they take care not to infer external validity (i.e. applying to multiple contexts) from their analysis, they find evidence that a lack of political competition in U.S. states is associated with anti-growth policies, notably higher taxes and lower state capital spending (specifically, spending on infrastructure). They also find a strong relationship (they use techniques to demonstrate causation) between low political competition in states (as measured by the relative dominance of one political party over another) and low income growth. Moreover, their analysis highlights the fact that whether or not a nation state is democratic (the United States was a democracy throughout their period of analysis) may not reflect true levels of competitiveness in politics.

131.A body of robust evidence from local government in India indicates that the process of building more *inclusive* democracies may have a positive impact on development outcomes. Gender quotas have led to increased numbers of women representatives, increased

---

[160] Goldstone, J.A., Gurr, T.R., Marshall, M.G., Ulfelder, J. (2004), "It's all about State Structure: New Findings on Revolutionary Origins from Global Data". *Homo Oeconomicus* 21 (3): 429-455; and Snyder, J. (2000) *From Voting to Violence: Democratization and Nationalist Conflict*. WW Norton.

[161] Moore, M. & Putzel, J. (1999). 'Politics and Poverty: a background paper for the World Development Report 2000/2001.'

[162] Moore & Putzel argue that these are particularly effective when they are combined with greater space for civil society organisations. In particular, they emphasise the criticality of boosting the 'political capabilities' of the poor.

[163] Saha JC. (2011). "Legislative democracy, economic growth and multi-dimensional poverty in sub-Sahara Africa." *Journal of International Development* 23(3): 443–460.

[164] Besley, T., Persson, T. & Sturm, D. (2010). "Political Competition, Policy and Growth: Theory and Evidence from the United States." *Review of Economic Studies, 77*: 1329-1352.

participation of women in decision-making processes, changes in political outcomes, including increased allocations to water and infrastructure (themselves associated with better human development outcomes and higher economic growth), and changes in social norms. In particular, the evidence points to a link between increased numbers of women representatives and decreases in demands for bribes (i.e. reduction in patron-client relations and corruption).[165] Analysis of cross-country data sets also finds a correlation between the increased number of women representatives in national parliaments and reductions in corruption.[166]

Democracy beyond elections: richer civil society

132.The current review draws upon a definition of civil society offered by Hyden and others: "Civil society sits between the family and the state. It is made up of associational life that reflects the extent to which citizens share their personal grievances and demands with others. It is the arena where private becomes public; the social becomes political. In the political process… it is where values are formed and expressed. It is also where interests are articulated in public… [N]ot everything that happens in civil society creates responses by state institutions. Nor do we rule out the possibility that policies may be initiated within the latter rather than civil society. The extent to which civil society is an integral part of policy-making, however is an important factor in national development. How it relates to state institutions matters."[167]

133.The following sections of this paper study the potential role of civil society in (a) poverty reduction and human development; (b) transparency, accountability and political change. There is some inevitable duplication in the discussion of the two themes.

Poverty reduction & human development effects

134.There is convincing evidence that increased community participation in public spending projects maximises their success. In a quasi-experimental study of 121 rural water systems in 49 countries, Narayan[168] finds that the proportion of water systems in good condition, overall economic benefits, percentages of the target population reached, and environmental benefits all rose with popular participation in projects. Isham and others[169] conduct additional econometric tests on Narayan's data to confirm a 'strong association between project performance and beneficiary participation.'

[165] Chattopadhyay, R. & Duflo, E. (2004). "Women as Policy Makers: Evidence from a Randomized Policy Experiment in India *Econometrica,* 72(5), 1409-1443; Pande, R., Beaman, L., Duflo, E. & Topalova, P. 'Political Reservation and Substantive Representation: Evidence from Indian Village Councils.' In: *India Policy Forum, 2010*, Ed. Suman Bery, Barry Bosworth and Arvind Panagariya, Brookings Institution Press and The National Council of Applied Economic Research: Washington, DC and New Delhi, forthcoming, Vol. 7.; Deininger, K., Nagarajan, H.K., & Paul, S. (2012). "Can Political Reservations Empower Women and Affect Economic Outcomes: Evidence from Rural India." NCAER Working Papers on Decentralisation and Rural Governance in India, No. 4.
[166] Ward, J., Lee, B., Baptist, S. & Jackson, H. (2010). 'Evidence for Action: Gender Equality and Economic Growth.' Vivid Economics and Chatham House. Report funded by DFID.
[167] Hyden, G., Court, J. & Mease, K. (2003). "Civil Society and Governance in 16 Developing Countries." World Governance Survey Discussion Paper 4. London: ODI.
[168] Narayan, D. (1995). "The Contribution of People's Participation: Evidence from 121 Rural Water Supply Projects." ESD Occasional Paper Series 1. World Bank, Environmentally Sustainable Development Department, Washington, D.C.
[169] Isham, J. and others. (1995). "Does participation improve performance? Establishing causality with subjective data." World Bank Economic Review, 9(2), 175-200.

135. In addition, the nature of 'social institutions' (the norms and shared perceptions that shape human interaction) amongst communities also appears to have important effects on the nature of civil society and, in turn, on human development. The World Bank's work on indices of social indicators finds multiple linkages between stronger social institutions and broader aspects of human development. For example, interpersonal trust and norms of non-discrimination against ethnic, religious and caste minorities are found to be proximate determinants of economic growth.[170] The *absence* of norms of non-discrimination, on the other hand, is associated with social conflict and horizontal inequalities which, in some cases, may contribute to violence.

136.Social institutions have particularly important effects on gender equality and related development outcomes. For example, norms meaning that girls and women are expected to provide unpaid labour in the household, avoid travelling alone and stay out of public spheres negatively impact upon female school attendance, engagement in the workforce, access to services, or participation in political processes. There is a growing body of evidence linking gender equality with higher growth and better human development outcomes.[171] Ward and others estimate that in the absence of gender discriminatory social institutions, household income in Africa could increase by up to 25 per cent.[172] Rao & Mansuri's assessment is that participation does improve service delivery, notably in the health and education sectors. However, in their analysis, it does not appear to have a significant impact on income poverty.[173]

137.A significant body of literature on social capital looks at the links between civic associations and the production of positive social norms. This body of literature argues that countries and regions with greater associational life tend to generate trust and inter-group cohesion and in turn have better service delivery, financial accountability and adherence to democratic norms.[174] Critiques of this literature include those showing that civic associations, and donor attempts to engage them in development processes, can simply reinforce negative social norms, particularly norms constraining the rights of girls and women.[175]

Transparency, accountability and political change

138.The very mixed impact of democratization on poverty reduction (see above) in the developing world over the last fifty years has raised questions about the ability of formal systems of representative democracy (in particular, elections) to make governments accountable to citizens, and increase their focus on service delivery. In turn, this has led to a

---

170 Foa, R. (2008). *Social Institutions and Human Development*. Social Development Working Papers, 006 (July 2008).

171 See, for example, Jones and others (2010). 'Stemming Girls Chronic Poverty.' Chronic Poverty Research Centre. Report funded by DFID; World Bank (2011). *World Development Report 2012: Gender Equality and Development*. Washington, D.C.: The World Bank.

172 Ward, J., Lee, B., Baptist, S. & Jackson, H. (2010). 'Evidence for Action: Gender Equality and Economic Growth.' Vivid Economics and Chatham House. Report funded by DFID.

173 Mansuri, G. & Rao, V. Localizing Development: Does Participation Work? World Bank Policy Research Report. Draft November 1st 2011.

174 See Putnam, R. (1993). Making Democracy Work: Civic Traditions in Modern Italy. Princeton University Press; Coffé, H. & Geys, B. (2005). "Institutional Performance And Social Capital: An Application To The Local Government Level." *Journal of Urban Affairs, 27*(5).

175 See, for example Molyneux, M. (2002). "Gender and the Silences of Social Capital: Lessons from Latin America." Development and Change 33 (2): 167-188; McGee, R., and Gaventa, J. (2010). "Review of Impact & Effectiveness of Transparency and Accountability Initiatives: Synthesis Report". Paper prepared for the Transparency & Accountability Initiative Workshop, October 14-15, 2010. Institute of Development Studies.

greater focus on more direct mechanisms for popular and associational accountability[176] (sometimes referred to as 'short-route' accountability[177]). The general picture appears to demonstrate the significant potential of 'short route' accountability, albeit with some notable qualifications.

139.Increased access to information through transparency measures is often assumed to be a catalyst for civil society demands for greater accountability and increased participation in political processes.[178] In a review of the impact of transparency and accountability initiatives on service delivery, Joshi concludes that information and transparency are a necessary but not sufficient condition for desired outcomes to be realised.[179]

140.A number of studies based on experimental research designs are beginning to build up a relatively robust evidence base relating to the accountability and empowerment effects of increased community participation in development processes. Pandey and others[180] find community-based information campaigns in three Indian states had a positive impact on teacher presence and effort in schools; Barr and others find positive effects of participatory community based monitoring on pupil test scores as well as teacher absenteeism[181]; Khemani[182] finds that the use of citizen report cards had positive effects on health service delivery in Uganda, though not on education delivery in Uttar Pradesh. Olken[183] finds that intensifying government audit practices reduced missing expenditures in public projects in Indonesia, but, conversely that greater public attendance at project meetings had no significant effect on corrupt practices. In Brazil, Ferraz & Finan[184] find evidence that publicly disseminating information relating to politicians' corrupt practices (as identified through audits conducted on their expenditure of federal funds) had a significant, and negative impact on their re-election prospects, suggesting that better-informed electorates hold public officials to account at the ballot box. Collier & Vicente[185] found that an information and anti-intimidation campaign in Nigeria reduced electoral violence, increased voter turnout, and reduced votes for political leaders most closely associated with pre-election violence.

---

[176] Goetz, A.M. & Jenkins, R. (2005). Reinventing Accountability. Making Democracy Work for Human Development. Palgrave Macmillan.
[177] World Bank (2004). WDR. Making Services Work for Poor People.
[178] See for example Ringold, D., (2011). Draft. Citizens and Service delivery: Assessing the use of social accountability approaches in the human development sectors. World Bank.
[179] Joshi, A. (2010). Review of Impact and Effectiveness of Transparency and Accountability Initiatives. Annex 1 Service Delivery. Institute of Development Studies.
[180] Pandey, P., Goyal, S. and Sundararaman, V. (2009). "Community Participation in Public Schools: Impact of Information Campaigns in three Indian states." *Education Economics, 17*(3).
[181]Barr, A.; Mugisha, F.; Serneels, P.; Zeitlin, A. "Information and collective action in the community monitoring of schools: Field and lab experimental evidence from Uganda." Unpublished, Centre for the Study of African Economies, Oxford University.
[182] Khemani, S. (2008). "Does Community Monitoring Improve Public Services? Diverging evidence from Uganda and India." Research Brief, September 16, 2008. Human Development and Public Services Research, World Bank, Washington, D.C. This paper reviews the findings of two randomized controlled trials. See: Bjorkmann, M. & Svensson, J. (2007). "Power to the People: Evidence from a Randomized Field Experiment of a Community-based Monitoring Project in Uganda." Centre for Economic Policy Research, London; Bannerjee, A., Duflo, E., Glennerster, R., Banerji, R. & Khemani, S. (2010). "Pitfalls of Participatory Programs: Evidence from a Randomized Evaluation of Education in India." *American Economic Journal: Economic Policy, 2*(1), 1-30.
[183] Olken, B. "Monitoring Corruption: Evidence from a Field Experiment in Indonesia." *Journal of Political Economy, 115*(2).
[184] Ferraz, C. & F. Finan. (2008). "Exposing corrupt politicians: the effects of Brazil's publicly released audits on electoral outcomes." Quarterly Journal of Economics, May 2008.
[185] Collier, P. and Vicente, P.C. (2008). "Votes and violence: evidence from a field experiment in Nigeria." Households in Conflict Network, Working Papers Series.

141.Alternative research designs are also revealing generally positive effects of community participation on accountability and service delivery. McGee & Gaventa's[186] review of donor evaluations observes the positive impact of citizen report cards on local service delivery, of participatory budgeting on public services and more efficient public expenditure, and of freedom of information requests affecting the responsiveness of public officials.[187] Their analysis suggests that citizen mobilisation or engagement has in some cases led to national level policy changes and has made concrete contributions to improved development outcomes and service delivery in the areas of health, food & livelihoods, the provision of water and housing and education. On a similarly positive note, Gaventa & Barrett's meta-analysis of 100 research case studies considers some 830 outcomes of citizen engagement and participation interventions.[188] They find that more than seven in ten citizen engagement initiatives impacted positively on helping establish more responsive states.

142.However, McGee & Gaventa also note that there is little evidence of transparency and accountability initiatives having positive effects in non-democratic settings. Where regimes do not permit freedom of association, or free media, citizen-led transparency and accountability initiatives do not have the same prospects for success. Gaventa & Barrett also concede that there are a non-negligible proportion of cases where greater citizen engagement and efforts to claim rights has resulted in either states' blanket refusal to accede to popular demands, or indeed state-backed reprisals against claimants.

143.Further caution is urged by Rao and Mansuri[189] who find that participatory processes are prone to capture by local elites, with the participants in civic activities tending to be richer, better educated, of higher social status, male, and more politically connected than non-participants. Whilst democratic decentralization somewhat reduces the scope for capture, the degree to which this is the case depends on extent to which higher levels of government provide oversight and ensure downward accountability of local government. Rocha Menocal and Sharma's[190] evaluation of 90 donor-led citizens' voice and accountability programmes notes some positive effects of such programmes, but concludes that overall, donor expectations of citizens' voice and accountability initiatives on poverty reduction and the achievement of the Millennium Development Goals have typically been unreasonably high.

[186] See: McGee, R., and Gaventa, J. (2010). "Review of Impact & Effectiveness of Transparency and Accountability Initiatives: Synthesis Report". Paper prepared for the Transparency & Accountability Initiative Workshop, October 14-15, 2010. Institute of Development Studies. See also: McGee, R. & Gaventa, J. (2011). "Shifting Power? Assessing the Impact of Transparency and Accountability Initiatives." IDS Working Paper 383. Brighton: IDS.

[187] Note the following caveats: the impact on service delivery and budgetary management is larger than it is for freedom of information initiatives. Impact assessments of TAIs remain few. Outputs are easier to assess than outcomes and impacts. Their findings may not be externally generalizable.

[188] Gaventa, J. & Barrett, G. (2010) "So What Difference Does it Make? Mapping the Outcomes of Citizen Engagement". Citizenship, Participation and Accountability Development Research Centre. Working Paper, 2010 (No.347). Institute of Development Studies.

[189] Mansuri, G. & Rao, V. Localizing Development: Does Participation Work? World Bank Policy Research Report. Draft November 1st 2011.

[190] Rocha Menocal, A. and Sharma, B. (2008). *Joint Evaluation of Citizen's Voice and Accountability: Synthesis Report*. London: DFID. This review was based on a literature review of 90 donor interventions, an evaluation framework piloted in two countries and a further five country case studies. The pilot and country case studies were based on a limited number of interventions and do not offer an exhaustive assessment of the subject.

The particular role of ICTs in empowerment and accountability

144.The assumption that information acts as a powerful catalyst for change has fuelled donor support for the use of Information and Communication Technologies (ICTs), such as the use of mobile phones and the internet for submitting complaints, collecting data on teacher absenteeism and collecting feedback on the allocation of budgets.[191] Evidence of impact, however, remains limited.

145.ICTs are also seen to have broader impacts on, for example, social and political mobilization in authoritarian regimes.[192] Acemoglu and Robinson note the importance of control over media and information for maintaining authoritarian regimes, but argue that a free media and new communication technologies can only help at the margins. Their help will translate into meaningful change only when a broad segment of society mobilizes and organizes to effect political change.[193]

Explaining the variation in effectiveness of civil society empowerment and accountability initiatives

146.The mixed effects of civil society initiatives on making states more accountable may be explained both by differences in the nature of civil society initiatives, and in the nature of the states that they are seeking to shape.

147.Rao and Mansuri[194] distinguish between 'induced' participation (i.e. where it is encouraged by external agents) and 'organic' participation (where it is the initiative of local actors). They find that there is little evidence of the effect of induced participation on long-lasting community cohesion. They also find that when it comes to expressing disapproval of unpopular policy choices or excessive rent-seeking by traditional or political elites, it is formal (usually electoral) processes that are seen as the more effective mechanism by the poor. They observe that organic participation is characterised by higher levels of overtly political self-organization, which may account for its greater effectiveness.

148.Gaventa & Barrett[195] find that civil society organisations that are most successful are the ones that include an element of social *and* political mobilization and originate in locally generated concerns. Meanwhile Hickey & Mohan argue that many civil society accountability initiatives deliver limited returns precisely because they are grounded in *non*-political aspects of civil society, thus constraining their ability to engage with and challenge the state.[196] A particular challenge to political organization in developing countries is the fact that political preferences are determined rather less by 'class identities' (which are conducive to mass mobilization) and rather more by parochial motivators, like patronage

---

[191] Ringold, D., (2011). Draft. Citizens and Service delivery: Assessing the use of social accountability approaches in the human development sectors. World Bank.

[192] See for example, Shrazi, F. (2012). Information and communication technology and women's empowerment in Iran. Institute for Innovation and Technology Management, Ryerson University, Toronto.

[193] Acemoglu, D., Robinson, J.A., (2012) *Why Nations Fail. The Origins of Power, Prosperity and Poverty.* Profile Books. Suffolk.

[194] Mansuri, G. & Rao, V. Localizing Development: Does Participation Work? World Bank Policy Research Report. Draft November 1st 2011.

[195] Gaventa, J. & Barrett, G. (2010) "So What Difference Does it Make? Mapping the Outcomes of Citizen Engagement". Citizenship, Participation and Accountability Development Research Centre. Working Paper, 2010 (No.347). Institute of Development Studies.

[196] Hickey, S. and Mohan, G. (2008): "The politics of establishing pro-poor accountability: what can poverty reduction strategies achieve?" review of International political Economy 15: 2 May 2008: 234 -258

ties, or ethnic, regional and linguistic identities.[197] Moreover, political organization is particularly challenging in rural areas.

149.In addition, some civil society movements are rendered relatively impotent simply owing to the fragmented nature of the state. Moore & Putzel[198] find that large-scale, cross-national political mobilization of the poor is more likely where the state is cohesive, and exercises authority nationally: this gives pro-poor political movements a focus for their efforts to influence and shape policy.

150.As a result of this observation, Joshi & Moore argue that the most important contribution of external agencies (i.e. national government and NGOs) in supporting mobilisation of the poor is the creation of institutional frameworks which are likely to promote collective action.[199]

Part V – summary

151.This section of the paper has focussed on political institutions. It finds that democracy is highly valued around the world. The evidence shows that democracies enjoy higher incomes. However, the evidence does not show that democracy is a cause of higher incomes. Nor does it show that higher incomes will automatically lead to democracy. There is some more convincing evidence that democracies are necessary for the *maintenance* of growth.

152.There does not appear to be any systematic link between a country's democratic status and its ability to reduce poverty or improve human development. Non-democratic states are capable of growth, poverty reduction, and securing gains in human development. Moreover, neither a country's democratic status, nor indeed the holding of regular elections, are sufficient conditions to ensure that reasonable constraints are placed upon the actions of the executive. Historically, transitions to democracy entail violent conflict, and 'young' democracies are prone to relapses of violence.

153.The evidence suggests that a broader interpretation of democracy (we refer here to 'deep' democracy) encourages consideration of democracy beyond mere elections. In this sense, the political institutions, processes and practices that really matter are more likely to be levels of political competition, as characterised by stronger, issues-based political parties, and more competitive recruitment to these parties.

154.The role of civil society also speaks to the concept of 'deep democracy.' The evidence suggests that higher rates of popular participation in service delivery programmes is likely to increase their benefits for the poor. However, civil society is prone to capture. This has implications both for the poverty-reducing impacts of participation, and for the transformative transparency and accountability functions of civil society. The evidence provides some signs of encouragement that civil society, particularly where it is characterised by vigorous, and locally-grounded political activity, can have positive effects on the accountability of the state. However, the evidence also suggests that the scope for civil society to achieve political change is highly contingent on the degree to which the state

[197] Moore, M. & Putzel, J. (1999). 'Politics and Poverty: a background paper for the World Development Report 2000/2001.'
[198] Moore, M. & Putzel, J. (1999). 'Politics and Poverty: a background paper for the World Development Report 2000/2001.'
[199] Joshi, A. & Moore, M. 'Mobilising the Poor Effectively: Rights and Institutions.' In: Booth, A. & Mosley, P. (eds.) (2002). *The New Poverty Strategies: What have they achieved? What have we learned?*

is amenable to the role of civil society in local and national policy: civil society appears not to have strong effects in semi-autocracies and quasi-democracies.

Part VI: alternative explanations of development

155.Although the 'institutions as key' thesis is powerful, it is far from being universally accepted, particularly where it is interpreted as a 'good governance' solution for growth and poverty reduction. The following sections elaborate on, and summarise, the important critiques that have been levelled against the 'institutional, good governance' interpretation of economic development. They are particularly important given the emphasis often placed on economic institutions like property rights and the rule of law, and on political institutions like democracy. Critiques come in a number of strands, discussed in turn, below.

What if the 'institutionalist' research is unreliable?

156.As indicated above, there are significant methodological weaknesses in the quantitative, econometrics-type research on which institutionalist interpretations of economic development are based.[200] There are two major strands of this critique. The first is that the indicators that are chosen to represent what are termed institutions or 'good governance' are actually not sound representations of the factors that are really at play. The indicators that researchers use to explore the impact of property rights or rule of law are invalid measures: they do not measure what they claim to measure, thus rendering the research invalid.[201] This validity issue is particularly problematic in the literature on institutions where

[200] Albouy, David 2006, "The Colonial Origins of Comparative Development: An Investigation of the Settler Mortality Data," University of California – Berkeley, May.; Glaeser, E.L., La Porta, R. Lopez-de-Silanes, F. & Shleifer, A. (2004). "Do Institutions Cause Growth?," *Journal of Economic Growth*, *9*(3), 271-303; Resnick, D. & Birner, R. (2006). "Does Good Governance Contribute to Pro-Poor Growth? A Review of the Evidence from Cross Country Studies." DGSD Discussion Paper, 30. Washington, D.C.: International Food Policy Institute. See also: Andrews, M. (2008). "The Good Governance Agenda: Beyond Indicators without Theory." *Oxford Development Studies, 36*(4), 379-407; Cox, M. (2008). "Security and justice: measuring the development returns – A review of knowledge." Agulhas Applied Knowledge. Paper commissioned by DFID to review the state of knowledge on the role of security and justice in the development process; Trubek, D. and Galanter, M. (1974). "Scholars in Self-Estrangement : Some Reflections on the Crisis in Law and Development Studies in the United States," *Wisconsin Law Review*, 1974, 1062-1102; Davis, K. & & Trebilcock, M. (1999) *What role do legal institutions play in development?* Toronto: University of Toronto. Messick, R. (1999) "Judicial Reform and Economic Development: A Survey of the Issues." *The World Bank Research Observer*, *14* (1), February 1999, 117-36, p. 123. Rodrik, D., "Introduction: what do we learn from country narratives." In: Rodrik, D. (ed.), (2003) *In Search of Prosperity: Analytic Narratives on Economic Growth* (Princeton: Princeton UP, 2003), pp. 9-10; Woo-Cummings, M. "The rule of law, legal traditions, and economic growth in East Asia." UNU Research Paper No. 2006/53, May 2006; Haggard, S. & Tiede, L. (2011). "The Rule of Law and Economic Growth: Where are We?" *World Development, 39*(5), 673-685; Khan, M. (2006). *Governance and Development*. In 'Workshop on Governance and Development', organized by the World Bank and DFID, 11-12 November, Dhaka, Bangladesh. (Unpublished); Everest-Phillips, M. (2008). "The Myth of Secure Property Rights: Good Economics as Bad History and its Impact on International Development." SPIRU Working Paper 23, Overseas Development Institute; Wallace, J. & Williamson, I. (2006). "Building Land Markets." *Land Use Policy, 23*(2), 123-135. Rodrik, D. (2004). "Getting Institutions Right." Unpublished. Available at: http://rjverbrugge.net/development/RodrikInstitutions.pdf . Accessed on 6 April 2012. See also: Keefer, P. (2006). 'Governance and economic growth in China and India.' Chapter 7, in Winters, L.A. & Shahid Yusuf (2006) (eds.) *Dancing with Giants: China, India and the Global Economy*. The World Bank and the Institute of Policy Studies: Washington, D.C.

[201] Andrews, Matt (2008) 'The Good Governance Agenda: Beyond Indicators without Theory', *Oxford Development Studies* 36(4)**:** 379-407; Rodrik, D. (2005). "Why We Learn Nothing from Regressing Economic Growth on Policies;" Kurtz, Marcus J., and Andrew Schrank. (2007). "Growth and Governance: Models, Measures, and Mechanisms." *The Journal of Politics 69* (2), pp. 538-554; See for example Arndt, C. and C. Oman (2006). 'Uses and Abuses of Governance Indicators'. OECD Development Centre Study. Paris: OECD; Thomas, M A (2010)

it is particularly difficult to isolate one institutional factor from another.[202] The second strand of the critique is that a large number of the statistical studies produced merely correlate governance or institutional measures with income measures: that simply tells us that 'where "x" institutional factor is strong, income is higher'. It doesn't enable causal inference, which would allow the conclusion that "x" institutional factor was *causing* growth or higher incomes. In addition, even those studies which do intelligently use techniques to achieve such causal inference (e.g. instrumental variables) are vulnerable to the critique that the instruments they select are weak.[203] The difficulties of demonstrating causality are hard to eradicate, in part owing to the limitations of research methodology.

Maybe institutions don't matter after all

157.Next, and partly related to the previous critique, is the position that perhaps institutions just don't matter after all. Instead, it might be that a series of more or less mutable factors (geography, existing human capital endowments, leadership commitment etc.) are much more important (see for example the work of Jeffrey Sachs[204], Jared Diamond[205]). Adopting this view, the 'solution' is not so much to focus on 'institutions' (which will emerge in the end as a result of the structural changes to society that accompany capitalist growth and society) but just to focus on ways to rectify or compensate for current inequalities in those initial, constraining factors.

Institutions matter… but not quite in the ways we imagine

Clusters & combinations; complementarities & indivisibilities

158.It may be that institutions matter, but not in isolation. The observable effects of institutional improvements on economic growth may appear limited owing to so-called indivisibilities and complementarities: this is to say that some institutions will only have development impacts when they are fully functional: mere improvements in an institutional measure won't be sufficient (indivisibilities). Moreover, the benefits of institutional change may only be realised once multiple institutional reforms are complete, and work with one another (complementarities).[206]

Different contexts will require different clusters and combinations of 'institutions'

159.An elaboration and variation of the above is that in different settings (time & place) it will be rather *different combinations* of institutions that will be required to overcome critical

---

'What do the Worldwide Governance Indicators Measure?' European Journal of Development Research, 22 (1): 31-54; Knack, Stephen (2006) 'Measuring Corruption in Eastern Europe and Central Asia: A Critique of the Cross-country Indicators' World Bank Policy Research Working Paper.

[202] Haggard, S. & Tiede, L. (2011). "The Rule of Law and Economic Growth: Where are We?" *World Development, 39*(5), 673-685; Cox, M. (2008). "Security and justice: measuring the development returns – A review of knowledge." Agulhas Applied Knowledge. Paper commissioned by DFID to review the state of knowledge on the role of security and justice in the development process.

[203] Albouy, David 2006, "The Colonial Origins of Comparative Development: An Investigation of the Settler Mortality Data," University of California – Berkeley, May.

[204] Sachs, J. (2005). *The End of Poverty: How we can make it happen in our lifetime*. Penguin.

[205] Diamond, J. (2011). *Collapse: How Societies Choose to Fail or Survive*. Penguin.

[206] Besley, T. & Persson, T. (2011). *Pillars of Prosperity: The Political Economics of Development Clusters*. Princeton University Press; Acemoglu, D. & Robinson J. (2012). *Why Nations Fail*. Profile Books.

barriers to economic development and political change.[207] A variety of studies make related points (see Noman & Stiglitz[208], Khan[209], Rodrik[210], Levy & Fukuyama[211], Kohli[212] Booth[213] and Kelsall[214]). In a similar vein, Sen draws an important distinction between the *different* sets of institutions which may be required for growth *acceleration*, and those that may be more conducive to growth *maintenance*.[215] Failure to recognize the potential diversity of institutions required for development leaves advocates of standard good governance remedies vulnerable to criticism of "one size-ism".

Governance… but not necessarily 'good governance' as we know it

160.Similarly, it might be the case that governance matters, but not necessarily the 'good governance' (characterised by fair or inclusive institutions) that is typically espoused. Instead, what may be more important is the transformative, developmental nature of the state.[216] Indeed, there are a number of examples of states East Asia and Africa where rapid economic growth has occurred within a conventionally *weak* governance environment.[217] In this sense, governance is important, but it isn't an orthodox governance arrangement as observed in institutionalist literature.

---

[207] Besley, T. & Persson, T. (2011). *Pillars of Prosperity: The Political Economics of Development Clusters*. Princeton University Press. Khan, M. (2011). "Political Settlements and the Governance of Growth-Enhancing Institutions." Working Paper: http://eprints.soas.ac.uk/9968/.

[208] Noman, A. & Stiglitz, J. (2012). "Strategies for African development." In *Good growth and governance in Africa. Rethinking development strategies*, edited by Akbar Noman, Kwesi Botchwey, Howard Stein and Joseph Stiglitz, pp. 3-50. Oxford: Oxford University Press.

[209] Khan, M.H. (2003). 'State Failure in Developing Countries and Institutional Reform Strategies.' In Tungodden, B., Stern, N. and Kolstad, I. (eds.), *Toward Pro-Poor Policies. Aid, Institutions and Globalization. Annual World Bank Conference on Development Economics, Europe* (pp. 165-195). Oxford and Washington, D.C.: Oxford University Press and World Bank

[210] Rodrik, D. (2008). "Second-Best Institutions." *American Economic Review, American Economic Association*, Vol. 98(2), pp. 100-104.

[211] Levy, B. & Fukuyama, F. (2010). "Development Strategies - Integrating Governance and Growth." Policy Research Working Paper WPS5196. The World Bank..

[212] Kohli, R. (2004). "Capital Account Liberalisation: Empirical Evidence and Policy Issues (I + II)." *International Finance* Papers 0405008, 0405009. EconWPA.

[213] Booth, David (2012a). 'Africa's Economic Transformation: Policy and Governance.' Policy Brief 02. London: Developmental Regimes in Africa; Booth, David and Frederick Golooba-Mutebi (2012) 'Developmental Patrimonialism? The Case of Rwanda', *African Affairs* 111(444); Kelsall, T. (2011). "Rethinking the relationship between neo-patrimonialism and economic development in Africa." *IDS Bulletin 42* (2), pp. 76-87; Tracking Development (2012). "The Political Economy of Development in Africa: a joint statement from five research programmes." Paper presented at the Political Economy of Development in Africa, Copenhagen.

[214] Kelsall, T. (2011). "Rethinking the relationship between neo-patrimonialism and economic development in Africa." *IDS Bulletin 42* (2), pp. 76-87; Tracking Development (2012). "The Political Economy of Development in Africa: a joint statement from five research programmes." Paper presented at the Political Economy of Development in Africa, Copenhagen.

[215] Sen, K. (2012). "The Political Dynamics of Economic Growth." Effective States and Inclusive Development, Working Paper 05.

[216] Chang, H-J. (2002) *Kicking Away the Ladder: Development Strategy in Historical Perspective*. London: Anthem Press; Everest-Phillips, M. (2008). "The Myth of Secure Property Rights: Good Economics as Bad History and its Impact on International Development." SPIRU Working Paper 23, Overseas Development. Khan, M. (2009). "Governance Capabilities and the Property Rights Transition in Developing Countries." DFID Working Paper: http://eprints.soas.ac.uk/9966/. See also the emerging work of the Africa Power and Politics Programme at the Overseas Development Institute.

[217] Khan, M. (2009). "Governance Capabilities and the Property Rights Transition in Developing Countries." DFID Working Paper: http://eprints.soas.ac.uk/9966/. See also the emerging work of the Africa Power and Politics Programme at the Overseas Development Institute.

The risks of "isomorphic mimicry" (or "sheep in wolves' clothing")

161.Failure to recognise each of the previous points is likely to lead to the endorsement of institutional reforms that mimic the form of the desired institutions, but display none of the functionality.[218] For example, with respect to constitutional frameworks, the focus on institutional reform might imply that the separation of powers (executive, legislature and judiciary) is a necessary pre-condition of development. But what if a judiciary becomes *too* independent (of executive and legislature), and serves only its own interests, becoming unresponsive, and failing to provide predictable, consistent outcomes in questions of law and justice?[219] This might actually be less developmental than a judiciary controlled by an executive that was itself committed to sending strong signals to investors via the courts and their judgements.

162.The case of property rights offers another example. Some analysis suggests that not all types of property rights will support growth. Instead, transitions towards the establishment of growth-enhancing property rights will require states to engage in transformative interventions in property rights: that means annulling some, and strengthening others. The state's ability to do this is dependent upon its governance capabilities.[220] Property rights in China aren't institutionalised in a way that typical 'good governance' prescriptions would recognise: but this hasn't prevented private investors and party officials making investment decisions, and otherwise behaving (by and large) as though they property was protected from expropriation.[221]

163.Leftwich & Sen[222] approach this issue by stressing the importance of *organizations* (North's "players"), as well as institutions in poverty reduction, and find evidence that institutions are mere empty boxes without effective, well-coordinated organizations to interact with them.[223] This resonates with Leftwich's point that "institutions will only work

---

[218] Pritchett, L., Woolcock, M. & Andrews, M. (2010) 'Capability Traps? The Mechanisms of Persistent Implementation Failure.' Working Paper 234. Washington, DC: Center for Global Development; Evans, P. (2004). "Development as Institutional Change: The Pitfalls of Monocropping and the Potentials of Deliberation." *Studies in Comparative International Development*, *38*(4), 30-52; Rodrik, D. (2003). "Growth Strategies." CEPR Discussion Papers 4100. C.E.P.R. Discussion Papers; Rodrik, D. (2006) "Goodbye Washington Consensus, Hello Washington Confusion?" *Journal of Economic Literature, XLIV*, 973–987.; Moore, M. and Schmitz, H. (2007). "Can We Capture the Spirit of Capitalism? The Investment Climate Debate." Draft Paper. Brighton: Institute of Development Studies.

[219] Prado, M.M. (2010). "The paradox of rule of law reforms: How early reforms can create obstacles to future ones." *University of Toronto Law Journal*, *60*(2), 555-578; Santiso, C. (2003): "Economic reform and judicial governance in Brazil: balancing independence with accountability." *Democratization, 10*(4), 161-180.

[220] Khan, M. (2009). "Governance Capabilities and the Property Rights Transition in Developing Countries." DFID Working Paper: http://eprints.soas.ac.uk/9966/

[221] Keefer, P. (2006). 'Governance and economic growth in China and India.' Chapter 7, in Winters, L.A. & Shahid Yusuf (2006) (eds.) *Dancing with Giants: China, India and the Global Economy*. The World Bank and the Institute of Policy Studies: Washington, D.C. Note that Keefer also finds that the security of property rights and the credibility of governments have the best documented/strongest influence on economic development (as opposed to bureaucratic or state capacity and corruption, the effects of which are less clear). See Keefer, P. (2004) "A Review of the Political Economy of Governance: From Property Rights to Voice." World Bank Policy Research Working Paper 3315.

[222] Leftwich, A., Sen, K. (2011) "'Don't mourn, organize.' Institutions and Organizations in the politics and economics of growth and poverty reduction." *Journal of International Development, 23* (3), 319-337; Leftwich, A. (2010).

[223] Bwalya SM, Phiri E, Mpembamoto K. (2011). "How interest groups lobby to influence budget outcomes in Zambia." *Journal of International Development 23*(3): 420–442; Escobal J., Ponce C. (2011). "Access to public infrastructure, institutional thickness and pro-poor growth in Rural Peru." *Journal of International Development 23*(3): 358–379.

effectively where they are perceived to be both procedurally and substantively legitimate."[224]

Even if institutions make for development… elites make institutions… and change takes time

164.In addition to the previous points, it is crucial to recognise that even working on the assumption that institutions are important for development, they cannot easily be established. For example, the establishment of stronger rule of law (to select one institution) appears to take a long time. Even the fastest-transforming countries have taken between 15 and 30 years to raise their institutional and organisational performance from that of a fragile state, like Haiti, to that of a functioning, institutionalised state, like Ghana. In the 20th century, the fastest performers took 41 years to achieve rule of law transformations.[225] Pritchett makes a similar point regarding the extremely long-term nature of institutional change.[226]

165.Moreover, to focus too hard on institutions risks ignoring the human agency[227] in their formation. A common feature in both the political settlements academic literature[228] and North's concept of limited and open access orders[229] is the notion that elites are absolutely crucial for the formation and maintenance of institutions, something which seems to have been lost in the 'good governance' interpretation of new institutionalism. Putzel & Di John's positioning of the political settlement (initially, and in some cases, little more than a bargain between elites) at the heart of development processes, with formal institutions following later, may be more representative of the reality of development.[230]

166.Further, it ought not to be assumed that political elites will necessarily create better institutions in a conventional sense. Khan[231] and North[232] observe that it is entirely possible that powerful elites, sitting at the heart of the political settlement, will design and enforce

[224] Leftwich, A. (2010). "Beyond Institutions: rethinking the role of leaders, elites and coalitions in the institutional formation of developmental states and strategies. *Forum for Development Studies, 37* (1), pp. 93-111.
[225] World Bank (2011). *World Development Report 2011: Conflict, Security & Development*. Washington, D.C.: World Bank.
[226] Pritchett, L., Woolcock, M. & Andrews, M. (2010) 'Capability Traps? The Mechanisms of Persistent Implementation Failure.' Working Paper 234. Washington, DC: Center for Global Development.
[227] Leftwich, A. (2010). "Beyond Institutions: rethinking the role of leaders, elites and coalitions in the institutional formation of developmental states and strategies. *Forum for Development Studies, 37* (1), pp. 93-111.
[228] Khan, M.H. (2003). 'State Failure in Developing Countries and Institutional Reform Strategies.' In Tungodden, B., Stern, N. and Kolstad, I. (eds.), *Toward Pro-Poor Policies. Aid, Institutions and Globalization. Annual World Bank Conference on Development Economics, Europe* (pp. 165-195). Oxford and Washington, D.C.: Oxford University Press and World Bank; Barnes, C. (2009). "Renegotiating the political settlement in war-to-peace transitions." Paper commissioned by the UK Department for International Development. 20 March 2009. London: Conciliation Resources; see also Evans, W. (2012). '"Building Peaceful States & Societies – DFID Practice Paper": A Literature Review', available at: http://www.dfid.gov.uk/R4D/Output/189011/Default.aspx. This reviews the evidence of the role of political settlements in development, including the work of Di John, Khan, Leftwich, Lindemann, Putzel, and North, Wallis & Weingast.
[229] North, D., Wallis, J.J., Webb, S.B., Weingast. B. (2007). 'Limited Access Orders in the Developing World: A New Approach to the Problems of Development.' World Bank Policy Research Working Paper #4359.
[230] Putzel, J. & Di John, J. (2012). *Meeting the Challenges of Crisis States*. Crisis States Research Centre Report. London School of Economics.
[231] Khan, M.H. (2004). "State Failure in Developing Countries and Institutional Reform Strategies", in Tungodden, B., Stern, N. and Kolstad, I. (eds.), *Toward Pro-Poor Policies. Aid, Institutions and Globalization. Annual World Bank Conference on Development Economics, Europe (2003)*. Oxford University Press and World Bank, pp. 165-195.
[232] North, D., Wallis, J.J., Webb, S.B., Weingast. B. (2007). 'Limited Access Orders in the Developing World: A New Approach to the Problems of Development.' World Bank Policy Research Working Paper #4359.

institutions (formal or informal) that are favourable to their own prosperity, but not necessarily conducive to a more inclusive growth strategy (Acemoglu & Robinson refer to such institutions as 'extractive institutions.')

Best fit or 'second best' rather than 'best practice'

167.Partly in response to these various critiques of the 'good governance' agenda, and the institutional focus that underpins it, a significant body of research now advocates for 'second best'[233] or 'best fit' rather than 'best practice' approaches to governance and institutional reform. Grindle[234] calls for 'good enough' governance solutions. Such approaches take into full account both the growth trajectory of the country and the underlying political context.[235] Fukuyama & Levy's 'growth diagnostics' approach is comparable, and notes that some successful development trajectories can be achieved through the adoption of 'just enough governance' approaches, where discrete institutional barriers are addressed as they are identified as growth blockers. This is rather different to approaches which seek to achieve wholesale, simultaneous institutional change.[236]

Part VI: summary

168.Part VI has surveyed the wider critique of the 'good governance' agenda, a critique which identifies flaws in the thesis that stronger economic and political institutions are likely to provide major developmental benefits. A number of different strands of a larger critique have been outlined. First, there is a methodological critique of the econometric research upon which a significant body of 'institutionalist' research evidence has been based. Next, in a theme only cursorily explored here, there is a significant body of evidence to suggest that institutions just aren't that important in explaining development trajectories. Next is the position (rigorously, and convincingly argued in the literature) that institutions matter, but not in the ways that orthodox, conventional 'good governance' policy interpretations imagine. For example, institutions matter, but not in isolation. They must be considered as clusters. Next, contexts matter for institutions: different clusters will be required at different stages of a state's development. Alternatively, governance matters, but this is contingent upon state capacity, specifically the state's ability to transform particular institutions (for developmental purposes) at particular points in time.

169.Other critiques are content to recognise the importance of institutions, but note that institutions must be populated by effective organisations, in the form of developmental leaders, or developmental elites. A narrow, parsimonious focus on institutions without due consideration of the organizations and individuals that form them, operate within them, and enforce them, is likely to lead to ineffective policy interventions. Some, sceptical critiques, note that whilst institutions and organisations are important, their development takes extended periods of time (decades rather than years) and is not amenable to external intervention.

---

[233] Rodrik, D. (2008). "Second-Best Institutions." *American Economic Review, American Economic Association*, Vol. 98(2), pp. 100-104.; Leeson, P. and Williamson, C. (2009) "Anarchy and Development: An Application of the Theory of Second Best." *Law and Development Review 2*(1), 49–69.

[234] Grindle, M. (2004). "Good Enough Governance: Poverty Reduction and Reform in Developing Countries." *Governance*, *17*(4), 525-48; Grindle, M. (2007). "Good-Enough Governance Revisited." *Development Policy Review*, *25*(5), 553-574, reprinted in *Development Policy Review, 29*(1), 2010.

[235] Grindle, M. (2010). "Good Enough Governance Revisited." *Development Policy Review*, *29*(1), 119-221.

[236] Levy, B. & Fukuyama, F. (2010). "Development Strategies - Integrating Governance and Growth." Policy Research Working Paper WPS5196. The World Bank.

170.An alternative reading of politics, economics and history to that espoused by 'good governance' interpretations of institutionalist literature has emerged around calls for 'best fit' or 'second best' institutions. This literature adopts a 'growth diagnostics' approach to change, and advocates for the identification of particular barriers to growth, and unorthodox institutional fixes to remedy them.

Part VII: conclusions

171.This paper concludes with an abbreviated summary of the previous sections:

a. Poverty reduction is dependent on **economic growth**, but growth alone is insufficient to reduce poverty;

b. **Trade liberalisation** leads to faster growth. National economic growth is driven by increased levels of domestic and international trade;

c. Higher levels of **competition** in domestic **product markets** and **factor markets** drive higher growth rates. Liberalisation of **domestic** and **international capital markets** generally has more modest effects on growth;

d. Violent, **civil conflict** is deleterious to growth;

e. **Corruption** may hamper growth, and is typically a consequence of weak political institutions;

f. There is a strong (though not definitive) empirical basis for the assertion that **economic institutions** (such as property rights) are crucial for economic development;

g. **Democracy** is highly valued around the world. Democracies are wealthier, more likely to sustain growth, and less likely to go to war with one another than non-democracies. However, the evidence does not demonstrate that democracy causes higher incomes or is a direct outcome of higher incomes;

h. **Transitions to democracy** typically entails violent contestation;

i. **Political competition**, as characterised by stronger, inclusive, issues-based political parties, staffed by competitively-recruited individuals (and including women) is more important in controlling executive power than the mere holding of elections;

j. **Civil society** may benefit the poor, through participation, transparency and accountability. However, the degree to which civil society is effective is likely to depend upon the extent to which participation is politically motivated and organized and the amenability of the state to change;

k. **Exclusive focus on institutions may underplay wider political, economic and geographical factors that are key for development**. In addition, it is clear that different sets of institutions may matter for different countries at different stages of their development. Development practitioners are likely to benefit from consideration of *best fit* institutional remedies rather than *best practice* prescriptions.

Bibliography

Abed, G.T. and Davoodi, H.R. (2000). “Corruption, Structural Reforms, and Economic Performance in the Transition Economies.” IMF Working Paper 00/132.

Acemoglu, D., Johnson, S. & Robinson, J.A. (2001). “The colonial origins of comparative development.” *American Economic Review*, *91*, 1369-1401.

Acemoglu, D. & Johnson, S. (2005). “Unbundling Institutions.” *Journal of Political Economy, 113*(5), 949-995.

Acemoglu, D., Johnson, S., Robinson, J.A. & Yared, Pierre (2009). "Reevaluating the modernization hypothesis," *Journal of Monetary Economics, Elsevier, 56*(8), 1043-1058.

AFD, BMZ, DFID and World Bank (2005) *Pro-Poor Growth in the 1990s: Lessons and Insights from 14 Countries*. Washington, DC: World Bank on behalf of Operationalizing Pro-Poor Growth Research Program.

Aghion, P., Dewatripont, M. and Rey, P. (1999). “Competition, financial discipline and growth.” *Review of Economic Studies*, *66*(4), 825-852.

Alfaro, L., Chanda, A., Kalemli-Ozcan, S., & Sayek, S. (2003) “FDI Spillovers, Financial Markets and Economic Development.” IMF Working Paper 03/186.

Amoako, K.Y. (2011) 'Transforming Africa - Start Now, We Can't Wait', African Business 45(377): 24
27.

Andrews, M. (2008). “The Good Governance Agenda: Beyond Indicators without Theory.” *Oxford Development Studies, 36*(4), 379-407.

Arndt, C. and C. Oman (2006). ‘Uses and Abuses of Governance Indicators’. OECD Development Centre Study. Paris: OECD.

Bannerjee, A., Duflo, E., Glennerster, R., Banerji, R. & Khemani, S. (2010). “Pitfalls of Participatory Programs: Evidence from a Randomized Evaluation of Education in India.” *American Economic Journal: Economic Policy, 2*(1), 1-30.

Banerjee, A. V. & Duflo, E. (2012 ed.). *Poor Economics. Barefoot Hedge-fund Managers, DIY Doctors and the Surprising Truth about Life on Less than $1 a Day*. Penguin Books: London.

Barnes, C. (2009). "Renegotiating the political settlement in war-to-peace transitions." Paper commissioned by the UK Department for International Development. 20 March 2009. London: Conciliation Resources.

Barro, R. (1991) “Economic Growth in a Cross Section of Countries.” *The Quarterly Journal of Economics*, *106*(2), 407-443.

Beck, T. (2010). “Legal Institutions and Economic Development.” CentER Discussion Paper Series 2010-94; Beck, T. and Levine, R. (2005). ‘Legal Institutions and Financial Development.’ In C. Ménard and M. Shirley (eds.), *Handbook of New Institutional Economics* (pp. 251-278). Dordrecht: Springer.

Beck, T., Demirguc-Kunt, A. & Levine, R. (2004). “Law and Firms’ Access to Finance.” National Bureau of Economic Research Working Papers, 10687

Bekaert, G., Harvey, C.R. & Lundblad, C. (2005) “Does financial liberalisation spur growth?” *Journal of Financial Economics, 77*(1), p. 3-55.

Berg, A.G. & Ostry, J.D. (2011). ‘Inequality and unsustainable growth: two sides of the same coin?’ IMF Staff Discussion Note, April 2011.

Berg, A, Ostry, J. & Zettelmeyer, J. (2012). “What makes growth sustained?” *Journal of Development Economics*, 98 (2), pp. 149-166.

Berg, A. & Krueger, A. (2003). “Trade, Growth and Poverty: A Selective Survey.” IMF Working Paper 03/30, 1-51.

Besley, T. (1995). "Property Rights and Investment Incentives: Theory and Evidence from Ghana." *Journal of Political Economy, 103*(5), 903-947.

Besley, T., Burchardi, K., & Ghatak, M. (2012). "Incentives and the De Soto Effect." *The Quarterly Journal of Economics 127* (1): 237-282.

Besley, T. & Cord, L. (eds.) (2006). *Delivering on the Promise of Pro-poor Growth: Insights and Lessons from Country Experiences*, Basingstoke: Palgrave Macmillan.

Besley, T. & Ghatak, M. (2008). "Creating Collateral: The de Soto Effect and the Political Economy of Legal Reform." Working Paper, London School of Economics.

Besley, T., Persson, T. & Sturm, D. (2010). "Political Competition, Policy and Growth: Theory and Evidence from the United States." *Review of Economic Studies, 77*: 1329-1352.

Besley, T., Burchardi, K., & Ghatak, M. (2012). "Incentives and the De Soto Effect." *The Quarterly Journal of Economics 127* (1): 237-282.

Besley, T. & Persson, T. (2012) *Pillars of Prosperity*. Princeton University Press.

Bjorkmann, M. & Svensson, J. (2007). "Power to the People: Evidence from a Randomized Field Experiment of a Community-based Monitoring Project in Uganda." Centre for Economic Policy Research, London.

Bloom, D., D. Canning and J. Sevilla (2004), "The Effect of Health on Economic Growth: A Production Function Approach", *World Development*, Vol. 32(1), pp. 1–13, 2004.

Blundell, R.,Griffith, R. & Van Reenen, J. (1999). "Market Share, market value and innovation in a panel of British manufacturing firms," *Review of Economic Studies 66*(3), 529-554.

Booth, D. (2012a). 'Africa's Economic Transformation: Policy and Governance.' Policy Brief 02. London: Developmental Regimes in Africa.

Booth, D. (2012b). "Working with the Grain and Swimming Against the Tide: Barriers to Uptake of research Findings on Governance and Public Services in Low-Income Africa." *Public Management Review 14* (2): 163-180.

Booth, D. & Golooba-Mutebi, F. (2012b) 'Developmental Patrimonialism? The Case of Rwanda', *African Affairs* 111(444).

Borensztein, E., De Gregorio, J, & Lee, J.W. (1998). "How does foreign direct investment affect growth?" *Journal of International Economics, 45*, 115-135.

Bourguignon and others (2008). "Millennium Development Goals at Midpoint: where do we stand and where do we need to go?" Background paper for *European Development Report 2009*.

Boyd, J.H. & Prescott, E. (1986). "Financial Intermediary Coalitions." *Journal of Economic Theory*, *38*, 211-32.

Bratton, M. (2010). "Anchoring the "D" Word in Africa." Afrobarometer Working Paper No.122.

Bratton, M., Mattes, R. and E. Gyimah-Boadi (2005). *Public Opinion, Democracy, and Market Reform in Africa*. Cambridge: Cambridge University Press.

Brautigam, D. (2004). "The People's Budget? Politics, Participation and Pro-poor Policy." *Development Policy Review*, 2004, 22 (6): 653-668.

Brett, E.A. (2003). "Participation and accountability in development management." *Journal of Development Studies, 40* (2).

Bruno, R.L. & Campos, N.F. (2011). "Foreign Direct Investment and economic performance: a systematic review of the evidence uncovers a new paradox." Report for DFID's Systematic Reviews Programme.

Bucci, A. & Parello, C.P. (2009). "Horizontal innovation based growth and product market competition," *Economic Modelling, 26*(1), 213-221.

Bwalya SM, Phiri E, Mpembamoto K. (2011). "How interest groups lobby to influence budget outcomes in Zambia." *Journal of International Development 23*(3): 420–442.

Cirera, X., Willenbockel, D. & Lakshman, R. (2011). "What is the evidence of the impact of tariff reduction on employment and fiscal revenue in developing countries: a systematic review." Funded by DFID, produced with the Institute of Development Studies, 3ie, EPPI-Centre.

Citizenship DRC (2011). *Blurring the Boundaries: Citizen Action Across States and Societies*. Brighton, UK: Citizenship, Participation and Accountability Development Research Centre.

Clemens, M. & Pritchett, L. (2008). "Income per natural: measuring development as if people mattered more than places." Working Papers 143, Centre for Global Development.

Coffé, H. & Geys, B. (2005). "Institutional Performance And Social Capital: An Application To The Local Government Level." *Journal of Urban Affairs, 27*(5).

Commission on Growth and Development (2008). *The Growth Report: Strategies for Sustained Growth and Inclusive Development*. Washington, D.C.: The World Bank.

Corbridge, S., Williams, G. and others (2005) *Seeing the State: Governance and Governmentality in India*. Cambridge: Cambridge University Press.

Cox, M. (2008). "Security and justice: measuring the development returns – A review of knowledge." Agulhas Applied Knowledge. Paper commissioned by DFID to review the state of knowledge on the role of security and justice in the development process.

Calderon, C., Chang, A. and Leon, G. (2007). "Institutional enforcement, labour market rigidities and economic performance." *Emerging Markets Review 8*(1), 38-49.

Chang, H-J. (2002) *Kicking Away the Ladder: Development Strategy in Historical Perspective*. London: Anthem Press.

Chattopadhyay, R. & Duflo, E. (2004). "Women as Policy Makers: Evidence from a Randomized Policy Experiment in India *Econometrica,* 72(5), 1409-1443.

Collier, P. (1999). 'On the Economic Consequences of Civil War.' *Oxford Economic Papers, 51*, 168–83

Collier, P. & Hoeffler, A. (2004). "Greed and Grievance in Civil War." Oxford Economic Papers 56(4), 563-95. See p. 65 of WDR 2011 for full list of references.

Collier, P. & Hoeffler, A. (2004). "Murder by Numbers: Socio-Economic Determinants of Homicide and Civil War." Working Paper No. 2004-10. Oxford: Centre for the Study of African Economies, University of Oxford.

Collier, P. and Vicente, P.C. (2008). "Votes and violence: evidence from a field experiment in Nigeria." Households in Conflict Network, Working Paper.

Commission on Growth and Development (2010). *Post-Crisis Growth in Developing Countries: A Special Report of the Commission on Growth and Development on the Implications of the 2008 Financial Crisis*. Washington, D.C.: The World Bank.

Cramer, C. (2006). *Civil War is Not a Stupid Thing*. London: Hurst & Company and Tilly, C. (1992). *Coercion, Capital and European States, AD 990-1992*. Oxford: Blackwell.

Czeglédi, P. "Individual rights as a factor of economic convergence." (2010). *Acta Oeconomica*, *60*(4), 375-403.

Davis, K. & & Trebilcock, M. (1999) *What role do legal institutions play in development?* Toronto: University of Toronto.

Deininger, K. & Chamorro, J.S. (2004). "Investment and Income Effects of Land Regularization: The Case of Nicaragua." *Agricultural Economics, 30*(2), 101-116.

Deininger, K., Nagarajan, H.K., & Paul, S. (2012). “Can Political Reservations Empower Women and Affect Economic Outcomes: Evidence from Rural India.” NCAER Working Papers on Decentralisation and Rural Governance in India, No. 4.

Deininger, K., E. Zegarra, and I. Lavadenz. (2003). “Determinants and Impacts of Rural Land Market Activity: Evidence from Nicaragua.” *World Development 31*(8), 1385–404.

De Waal, Alex (2009), ‘Missions without end? Peacekeeping in the African political marketplace’, *International Affairs*, Vol.85/1: 99-113.

De Long, B. & Shleifer A., (1993). "Princes and Merchants: City Growth Before the Industrial Revolution." *Journal of Law and Economics*, *36*(5), 671-702.

Djankov, S. (2009). “The Regulation of Entry.” *World Bank Research Observer, 24* (2).

Djankov, S., La Porta, R., Lopez-de-Silanes, F., & Shleifer, A. (2002). “The Regulation of Entry.” *The Quarterly Journal of Economics* (2002) 117 (1): 1-37.

Djankov, S. McLiesh, C. & Ramalho, R. M. (2006). “Regulation and growth.”*Economics Letters, 92*(3), 395-401.
Everest-Phillips, M. (2008). “The Myth of Secure Property Rights: Good Economics as Bad History and its Impact on International Development.” SPIRU Working Paper 23, Overseas Development Institute.

Dollar, D., Iarossi, G. and Mengistae, T. (2002). “Investment Climate and Economic Performance: Some Firm Level Evidence from India.” Working Paper 143, Stanford University Centre for Research on Economic Development and Policy Reform.

Dollar, D. & Kraay, A. (2004). “Trade, Growth and Poverty.” *The Economic Journal 114*(493), 22-49.

Duflo, E. (2011). “Balancing growth with equity: the view from development.” Jackson Hole Symposium Paper.

Easterly, W. & Levine, R. (2002). "Tropics, Germs, and Crops: How Endowments Influence Economic Development." NBER Working Papers 9106, National Bureau of Economic Research.

ECA and AU (2011) *Economic Report on Africa 2011: Governing Development in Africa -- The Role of the State in Economic Transformation.* Addis Ababa: UN.

Escobal J., Ponce C. (2011). “Access to public infrastructure, institutional thickness and pro-poor growth in Rural Peru.” *Journal of International Development 23*(3): 358–379.

Evans, P. (2004). “Development as Institutional Change: The Pitfalls of Monocropping and the Potentials of Deliberation.” *Studies in Comparative International Development*, *38*(4), 30-52.

Evans, W. (2012). ‘“Building Peaceful States & Societies – DFID Practice Paper”: A Literature Review’, available at: http://www.dfid.gov.uk/R4D/Output/189011/Default.aspx.

Everest-Phillips, M. (2008). “The Myth of Secure Property Rights: Good Economics as Bad History and its Impact on International Development.” SPIRU Working Paper 23, Overseas Development Institute.

Fenske, J. (2011). “Land tenure and investment incentives: Evidence from West Africa.” *Journal of Development Economics 95*(2)*,* 137-156.

Ferraz, C. & F. Finan. (2008). “Exposing corrupt politicians: the effects of Brazil’s publicly released audits on electoral outcomes.” Quarterly Journal of Economics, May 2008.

Field, E. Torero, M. (2006).“Do property titles increase credit access among the urban poor? Evidence from a nationwide Titling Programme,” *Land Policy 31*(1993), 1-28.

Foa, R. (2008). *Social Institutions and Human Development*. Social Development Working Papers, 006 (July 2008).

Gaventa, J. & Barrett, G. (2010) “So What Difference Does it Make? Mapping the Outcomes of Citizen Engagement". Citizenship, Participation and Accountability Development Research Centre. Working Paper, 2010 (No.347). Institute of Development Studies.

Gelb, A., Eifert, B. & Ramachandran, V. "Costs, Competitiveness and Reforms: Is Africa Different? Evidence from the Investment Climate Data." *Journal of Development Perspectives, 2*(1).

Geroski, P. (1994). *Market Structure, Corporate Performance and Innovative Activity*. Oxford: Oxford University Press.

Gibson, C. C., Andersson, K., Ostrom, E. and Shivakumar, S. (2005). *The Samaritan's Dilemma: The Political Economy of Development Aid.* Oxford: Oxford University Press.

Glaeser, E.L., La Porta, R. Lopez-de-Silanes, F. & Shleifer, A. (2004). "Do Institutions Cause Growth?," *Journal of Economic Growth*, *9*(3), 271-303.

Glaeser, E.L., Ponzetto, G.A.M., Schleifer, A. (2007). "Why does democracy need education?" *Journal of Economic Growth, 12*, pp. 77-99.

Goldstein, M. & Udry, C. (2008). "The Profits of Power: Land Rights and Agricultural Investment in Ghana." *Journal of Political Economy*, *116*(6), 981-1022.

Goldstone, J.A., Gurr, T.R., Marshall, M.G., Ulfelder, J. (2004), "It's all about State Structure: New Findings on Revolutionary Origins from Global Data". *Homo Oeconomicus* 21 (3): 429-455

Greenwood, J. & Jovanovic, B. (1990). "Financial Development, Growth and Distribution of Income." *Journal of Political Economy, 98*(5), 1076-1107.

Grimm, M., Klasen, S. and McKay, A. (2007). *Determinants of Pro-Poor Growth: Analytical Issues and Findings from Country Cases*, Basingstoke: Palgrave Macmillan.

Grindle, M. (2004). "Good Enough Governance: Poverty Reduction and Reform in Developing Countries." *Governance*, *17*(4), 525-48.

Grindle, M. (2010). "Good Enough Governance Revisited." *Development Policy Review*, *29*(1), 119-221.

Gross, M., Klasen, S., and Harttgen, K. (2005). *Measuring Pro-Poor Growth with Non-Income Indicators*, Ibero-America Institute for Economic Research Discussion Paper 132, Göttingen: Ibero-America Institute for Economic Research.

Grossman, G. M. & Helpman, E. (1990). "Trade, Innovation and Growth." *The American Economic Review, 80*(2), 86-91.

Habib, M. & Zurawicki, L. (2004). 'Corruption and foreign direct investment.' In Transparency International (eds.). *Global Corruption Report 2004* (pp. 313-315). Sterling, VA: Pluto Press.

Haggard, S. & Tiede, L. (2011). "The Rule of Law and Economic Growth: Where are We?" *World Development, 39*(5), 673-685.

Hall, R.E. & Jones, C.I. (1999). "Why do some countries produce so much more output per worker than others?" *The Quarterly Journal of Economics* Vol. 114, No. 1 (Feb., 1999), pp. 83-116.

Halperin, M., Siegle, J., and Weinstein, M., (2010) (rev. ed.). *The Democracy Advantage: How Democracies Promote Prosperity and Peace*. Oxford: Routledge.

Harrison, A., & Rodriguez-Clare, A. (2010). "Trade, Foreign Investment, and Industrial Policy for Developing Countries." In: D. Rodrik (ed.), *Handbook of Economic Growth, Vol. 5*. Amsterdam: North-Holland, p. 4039–213.
Hausmann, R., Rodrik, D. & Pritchett, L. (2005). "Growth Accelerations." *Journal of Economic Growth*, *10*(4), 303-329.

Hawkes, D. & Ugur, M. (2012). "Evidence on the relationship between education, skills and economic growth in low-income countries: a systematic review." London: EPPI-Centre, Social Science Research Unit, Institute of Education, University of London.

Hayo, B. & Voigt, S. (2007). "Explaining de facto judicial independence." *International Review of Law and Economics*, *27*(3), 269-290.

Heller, P. (2001). “Moving the State. The Politics of Democratic Decentralization in Kerala, South Africa, and Porto Alegre.” *Politics & Society, 29* (1), pp. 131-163.

Hermes, N., Bumann, S. and Lensink, R. (2011). “Financial Liberalization and Economic Growth: A Meta-Analysis.” *Meta-Analysis Economic Research-Net Colloquium*, Wolfson College, Cambridge, UK, September 2011.

Hickey, S. and Mohan, G. (2008). “Poverty reduction strategies, participation and the politics of accountability.” *Review of International Political Economy, 15* (2), pp. 234—258.

Hickey, S. (2010). “The Government of Chronic Poverty: from the politics of exclusion to the politics of citizenship?” Chronic Poverty Research Centre: Working Paper Series, no. 151.

Hickey, S. and Mohan, G. (2008): “The politics of establishing pro-poor accountability:What can poverty reduction strategies achieve?” review of International political Economy 15: 2 May 2008: 234 -258

Hidalgo, C.A., Hausmann R. (2009). "The Building Block of Economic Complexity." *PNAS 106* (26): 10570–10575.

Hirschman, A.O. (1958). *The Strategy of Economic Development*. New Haven, CT: Yale University Press.

Hodge, A., Shankar, S., Rao, D. S. P. and Duhs, A. (2011). “Exploring the Links Between Corruption and Growth.” *Review of Development Economics, 15,* 474–490.

Hoeffler, A. & Reynal-Querol, M. (2003). *Measuring the Costs of Conflict*. Washington, DC: World Bank.

Hoeffler, A., Von Billerbeck, S. & Ijaz, S.S. (2010) “Post-conflict recovery and peacebuilding.” World Development Report 2011 Background Paper.

Holden, Deininger, Ghebru (2008). “The Impacts of Low-Cost Land Certification on Investment and Productivity,” *American Journal of Agricultural Economics 91*(2), 359-373.

Houtzager, P. P. (2003). 'Introduction: From Polycentrism to the Polity'. In: Houtzager, P. P. and Moore, M., (eds.) 'Changing Paths: International Development and the New Politics of Inclusion', University of Michigan Press, Ann Arbor, MI, pp 1-31.

Hyden, G., Court, J. & Mease, K. (2003). “Civil Society and Governance in 16 Developing Countries.” World Governance Survey Discussion Paper 4. London: ODI.

Improving Institutions for Pro-Poor Growth Research Programme (IPPG) (2010) *Beyond Institutions: Institutions and organizations in the politics and economics of growth and poverty reduction – a thematic synthesis of research evidence*.

Isham, J. and others. (1995). “Does participation improve performance? Establishing causality with subjective data.” World Bank Economic Review, 9(2), 175-200.

Jalilian, H., Kirkpatrick, C. & Parker, D. “The Impact of Regulation on Economic Growth in Developing Countries: A Cross-Country Analysis.” Bradford Centre for International Development. They survey WGI ‘regulatory quality’ and ‘government effectiveness’ indicators across 117 countries.

Jallab, Mustapha Sadni, Monnet Benoît Patrick Gbakou, René Sandretto (2008). “Foreign Direct Investment, Macroeconomic Instability and Economic Growth in MENA Countries.” Working Paper, GATE Groupe d’Analyse et de Théorie Économique.

Jin, S & Deininger, K. (2009). “Land rental markets in the process of rural structural transformation: productivity and equity impacts from China” *Journal of Comparative Economics, 37*(4), 629-646.

Jones and others (2010). ‘Stemming Girls’ Chronic Poverty.’ Chronic Poverty Research Centre. Report funded by DFID; World Bank (2011). *World Development Report 2012: Gender Equality and Development*. Washington, D.C.: The World Bank.

Joshi, A., (2008), “Producing Social Accountability? The Impact of Service Delivery Reforms.” *IDS Bulletin, 38* (6), pp. 10-17.

Joshi, A. (2010). Review of Impact and Effectiveness of Transparency and Accountability Initiatives. Annex 1 Service Delivery. Institute of Development Studies.

Joshi, A. & Moore, M. 'Mobilising the Poor Effectively: Rights and Institutions.' In: Booth, A. & Mosley, P. (eds.) (2002). *The New Poverty Strategies: What have they achieved? What have we learned?*

Kalwij, A. and Verschoor, A. (2007) "Not by Growth Alone: The Role of the Distribution of Income in Regional Diversity in Poverty Reduction." *European Economic Review 51*(4), 805–829.

Kandil, M. (2004). "Exchange rate fluctuations and economic activity in developing countries: theory and evidence." *Journal of Economic Development 29*(1), 85-108.

Kaplan, S. (2008). *Fixing Fragile States: A New Paradigm for Development*. Westport, CT: Praeger.

Kaufmann, D. (2004). "Governance Redux: The Empirical Challenge," *Law and Economics* (Economics Working Paper Archive report no. 0405001)

Kaufmann, D. and Kraay, A. (2002). "Growth without Governance." World Bank Policy Research Working Paper No. 2928. Washington, D.C.: World Bank.

Kaufmann, D., Kraay, A. and Zoido-Lobaton, P. (1999). "Governance Matters." World Bank Policy Research Working Paper Series 2196.

Keefer, P. (2004). "A Review of the Political Economy of Governance: From Property Rights to Voice." World Bank Policy Research Working Paper No. 3315. Washington, D.C.: World Bank.

Keefer, P. (2006). 'Governance and economic growth in China and India.' Chapter 7, in Winters, L.A. & Shahid Yusuf (2006) (eds.) *Dancing with Giants: China, India and the Global Economy*. The World Bank and the Institute of Policy Studies: Washington, D.C.

Kelsall, T. (2011). "Rethinking the relationship between neo-patrimonialism and economic development in Africa." *IDS Bulletin 42* (2), pp. 76-87

Khan, M. (2004) 'What is a "Good Investment Climate"?' In: Kochendörfer-Lucius, G and Pleskovic, B, (eds.), *Investment Climate, Growth, and Poverty.* World Bank (USA), pp. 77-83.

Khan, M.H. (2003). 'State Failure in Developing Countries and Institutional Reform Strategies.' In Tungodden, B., Stern, N. and Kolstad, I. (eds.), *Toward Pro-Poor Policies. Aid, Institutions and Globalization. Annual World Bank Conference on Development Economics, Europe* (pp. 165-195). Oxford and Washington, D.C.: Oxford University Press and World Bank.

Khan, M. (2006). *Governance and Development*. In 'Workshop on Governance and Development', organized by the World Bank and DFID, 11-12 November, Dhaka, Bangladesh. (Unpublished).

Khan, M. (2007) 'Governance, Economic Growth and Development since the 1960s.' In: Ocampo, José Antonio and Jomo, Kwame S. and Vos, Rob, (eds.), *Growth Divergences: Explaining Differences in Economic Performance.* Hyderabad, London and Penang: Orient Longman, Zed Books and Third World Network, pp. 285-323.

Khan, M. (2009). "Governance Capabilities and the Property Rights Transition in Developing Countries." DFID Working Paper: http://eprints.soas.ac.uk/9966/

Khan, M. (2010) 'Bangladesh: Economic Growth in a Vulnerable LAO.' In: North, Douglass and Wallis, John and Webb, Steven and Weingast, Barry, (eds.), *In the Shadow of Violence: The Problem of Development in Limited Access Societies.* Cambridge: Cambridge University Press.

Khan, M.H. (2012). 'Governance and Growth; History, Ideology and Methods of Proof.' In: *Good growth and governance in Africa. Rethinking development strategies*, edited by Akbar Noman, Kwesi Botchwey, Howard Stein and Joseph Stiglitz. Oxford: Oxford University Press.

Khemani, S. (2008). "Does Community Monitoring Improve Public Services? Diverging evidence from Uganda and India." Research Brief, September 16, 2008. Human Development and Public Services Research, World Bank, Washington, D.C.

King, R. & Levine, R. (1993). "Finance, Entrepreneurship and Growth: Theory and Evidence." *Journal of Monetary Economics*, *32,* 513-42.

Kluve, J. (2006). "The Effectiveness of European Active Labor Market Policy." Paper prepared for the European Commission, DG Employment, Social Affairs and Equal Opportunities.

Knack, Stephen (2006) 'Measuring Corruption in Eastern Europe and Central Asia: A Critique of the Cross-country Indicators.' World Bank Policy Research Working Paper.

Knack, S. & Keefer, P. (1995). "Institutions and Economic Performance: Cross-Country Tests Using Alternative Institutional Indicators." *Economics & Politics*, *7*(3), 207-227.

Kohli, R. (2004). "Capital Account Liberalisation: Empirical Evidence and Policy Issues (I + II)." *International Finance* Papers 0405008, 0405009. EconWPA.

Kraay (2006). "When is growth pro-poor? Evidence from a panel of countries," *Journal of Development Economics*, *80*(1), 198-227.

Lambsdorff, J. (1999). "Corruption in empirical research – a review." Transparency International Working Paper.

Lambsdorff, J., Taube, M. & Schramm, M. (2005). *The New Institutional Economics of Corruption*. Psychology Press.

Laeven, L. & Majnoni, G. (2005) "Does judicial efficiency lower the cost of credit?" *Journal of Banking & Finance, 29*(7), 1791-1812.

Leeson, P. and Williamson, C. (2009) "Anarchy and Development: An Application of the Theory of Second Best." *Law and Development Review 2*(1), 49–69.

Leftwich, A. (2010). "Beyond Institutions: rethinking the role of leaders, elites and coalitions in the institutional formation of developmental states and strategies. *Forum for Development Studies, 37* (1), pp. 93-111.

Leftwich, A., Sen, K. (2011) "'Don't mourn, organize.' Institutions and Organizations in the politics and economics of growth and poverty reduction." *Journal of International Development, 23* (3), 319-337.

Levy, B. & Fukuyama, F. (2010). "Development Strategies - Integrating Governance and Growth." Policy Research Working Paper WPS5196. The World Bank.

Li, X. & Liu, X. (2005). "Foreign Direct Investment and Economic Growth: An Increasing Endogenous Relationship." *World Development 33*(3), 393-407.

Lin, J.Y. (2009). *Economic Development and Transition: Thought, Strategy, and Viability*. Cambridge: Cambridge University Press

Lin, J.Y., and Li, F. (2009). "Development Strategy, Viability, and Economic Distortions in Developing Countries." Policy Research Working Paper 4906. Washington, D.C.: The World Bank.

Lin, J. Y. (2011). "New Structural Economics: A Framework for Rethinking Development." *The World Bank Research Observer 26*(1), 193-221.

Lin, J.Y., & C. Monga. (2011). "DPR Debate: Growth Identification and Facilitation: The Role of the State in the Dynamics of Structural Change." *Development Policy Review 29*(3), 259–310.

Lipset, S. M (1959). "Some Social Requisites of Democracy: Economic Development and Political Legitimacy." *American Political Science Review*, *53*, 69-105.

Louw, A. & Shaw, M. (1997). "Stolen Opportunities: The Impact of Crime on South Africa's Poor. Part 2: State Responses." *Institute for Security Studies Monograph Series, 14*.

Mansuri, G. & Rao, V. (2004). "Community-based and –driven development: a critical review." *World Bank Research Observer*, *19* (1).

Martin, P., Mayer, T. and Mathias, T. (2008) "Make Trade Not War?" *Review of Economic Studies 75*(3), 865-900.

Martin, P. Mayer, T. and Mathias, T. (2008). "Civil Wars and International Trade," *Journal of the European Economic Association, 6*(3), 541-550.

Mauro, P. (1995). "Corruption and Growth." *The Quarterly Journal of Economics, 110*(3), 681-712.

McGee, R., and Gaventa, J. (2010). "Review of Impact & Effectiveness of Transparency and Accountability Initiatives: Synthesis Report". Paper prepared for the Transparency & Accountability Initiative Workshop, October 14-15, 2010. Institute of Development Studies.

McGee, R. & Gaventa, J. (2011). "Shifting Power? Assessing the Impact of Transparency and Accountability Initiatives." IDS Working Paper 383. Brighton: IDS.

Moore, M. & Putzel, J. (1999). "Politics and Poverty: a background paper for the World Development Report 2000/1."

Moore, M. and Schmitz, H. (2007). "Can We Capture the Spirit of Capitalism? The Investment Climate Debate." Draft Paper. Brighton: Institute of Development Studies.

Messick, R. (1999). "Judicial Reform and Economic Development: A Survey of the Issues." *The World Bank Research Observer*, vol. 14, no. 1, February 1999, 117-36, p. 123.

Mukhopadhyay, Dipali (2009). "Disguised Warlordism and combatanthood in Balkh: the persistence of informal power in the formal Afghan state," *Conflict, Security, and Development* 9/4, 536-63.

Narayan, D. (1995). "The Contribution of People's Participation: Evidence from 121 Rural Water Supply Projects." ESD Occasional Paper Series 1. World Bank, Environmentally Sustainable Development Department, Washington, D.C.

Nickell, S.J. (1996). "Competition and corporate performance," *Journal of Political Economy 104*(4), 724-746.

Noman, A. & Stiglitz, J. (2012). "Strategies for African development." In *Good growth and governance in Africa. Rethinking development strategies*, edited by Akbar Noman, Kwesi Botchwey, Howard Stein and Joseph Stiglitz, pp. 3-50. Oxford: Oxford University Press.

North, D. (1990). *Institutions, Institutional Change and Economic Performance*. Cambridge: Cambridge University Press.

North, D.C. (1993). Nobel Prize Lecture, December 9, 1993. Available at: http://www.nobelprize.org/nobel_prizes/economics/laureates/1993/north-lecture.html. Accessed on 8 April 2012.

North, D., Wallis, J.J., Webb, S.B., Weingast. B. (2007). 'Limited Access Orders in the Developing World: A New Approach to the Problems of Development.' World Bank Policy Research Working Paper #4359.

North, D., John Joseph Wallis, and Barry Weingast (2009). *Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History*, Cambridge: Cambridge University Press.

Nurkse, R. (1953). *Problems of Capital Formation in Underdeveloped Countries*. New York: Oxford University Press

Obstfield, M. (2008). "International Finance and Growth in Developing Countries: What Have We Learned?" *IMF Staff Papers 56*, 63-111.

OECD (2011). *Perspectives on Global Development 2012: Social Cohesion in a Shifting World*.

Olken, B. "Monitoring Corruption: Evidence from a Field Experiment in Indonesia." *Journal of Political Economy, 115*(2).

Oxford Policy Management (2012) Multi-Stakeholder Evaluation of Public Sector Governance Reform – Draft Synthesis Report.

Pande, R., Beaman, L., Duflo, E. & Topalova, P. 'Political Reservation and Substantive Representation: Evidence from Indian Village Councils.' In: *India Policy Forum, 2010*, Ed. Suman Bery, Barry Bosworth and Arvind Panagariya, Brookings Institution Press and The National Council of Applied Economic Research: Washington, DC and New Delhi, forthcoming, Vol. 7.

Pandey, P., Goyal, S. and Sundararaman, V. (2009). "Community Participation in Public Schools: Impact of Information Campaigns in three Indian states." *Education Economics, 17*(3).

Persson, A., Rothstein, B & Teorell, J. (2010). "The Failure of Anti-Corruption Policies: A Theoretical Mischaracterization of the Problem" QoG Working Paper 2010: 19. Gothenburg: Quality of Government Institute, University of Gothenburg.

Persson, T. & Tabellini, G. (2009). "Democratic Capital: The Nexus of Political and Economic Change," *American Economic Journal: Macroeconomics, American Economic Association, 1*(2): 88-126.

Prasad, E., Rajan, R.G. & Subramanian, A. (2007). "Foreign Capital and Economic Growth." Brookings Papers on Economic Activity, Economic Studies Program, The Brookings Institution, vol. 38, 153-230.

Pritchett, L., Woolcock, M. & Andrews, M. (2010) 'Capability Traps? The Mechanisms of Persistent Implementation Failure.' Working Paper 234. Washington, DC: Center for Global Development.

Przeworski, A., Alvarez, M., Cheibub, J. & Limongi, F. (2000). *Democracy and Development: Political Institutions and* Well-Being in the World 1950-1900. Cambridge University Press.

Putnam, R. (1993). Making Democracy Work: Civic Traditions in Modern Italy. Princeton University Press; Coffé, H. & Geys, B. (2005). "Institutional Performance And Social Capital: An Application To The Local Government Level." *Journal of Urban Affairs, 27*(5).

Putzel, J. & Di John, J. (2012). *Meeting the Challenges of Crisis States*. Crisis States Research Centre Report. London School of Economics.

Radelet, S. (2010). *Emerging Africa: How 17 Countries Are Leading the Way*. Centre for Global Development.

Ravallion, M. (2001). "Growth, Inequality and Poverty: Looking Beyond Averages," *World Development*, *29*(11), 1803-1815.

Ravallion, M. (2007). 'Inequality is bad for the poor.' In: Jenkins, S.P. & Micklewright, J. (eds.) (2007). *Inequality and Poverty Re-examined*. Oxford: Oxford University Press.

Reno, W. (2011). 'Anti-corruption efforts in Liberia: Are they aimed at the right targets?', in C. Cheng and D. Zaum (eds.), *Corruption and Post-Conflict Peacebuilding: Selling the Peace?* Abingdon: Routledge, 127-43.

Resnick, D. & Birner, R. (2006). "Does Good Governance Contribute to Pro-Poor Growth? A Review of the Evidence from Cross Country Studies." DGSD Discussion Paper, 30. Washington, D.C.: International Food Policy Institute.

Restrepo, J., Ferguson, B., Zúñiga, J.M. & Villamarin, V. (2008). *Estimating Lost Product Due to*
Shelley, L. (2002). "Crime as the Defining Problem: Voices of Another Criminology." *International Annals of Criminology, 39*(1), 73-88.

Rocha Menocal, A. and Sharma, B. (2008). *Joint Evaluation of Citizen's Voice and Accountability: Synthesis Report*. London: DFID.

Rocha Menocal, A. (2011). "Analysing the relationship between democracy and development: defining basic concepts and assessing key linkages.' In: Commonwealth Secretariat (ed.). *Commonwealth Good Governance 2011/12*. London: Nexus Strategic Partnerships: 17-27.

Rodrik, D. (2003). 'Introduction: what do we learn from country narratives.' In: Dani Rodrik (ed.), *In Search of Prosperity: Analytic Narratives on Economic Growth* (Princeton: Princeton UP, 2003), pp. 9-10

Rodrik, D. (2003). "Growth Strategies." CEPR Discussion Papers 4100. C.E.P.R. Discussion Papers.

Rodrik, D. (2004). "Industrial Policy for the Twenty-First Century." Center for Economic Policy Research, Discussion Paper DP4767. Available at: http://www.cepr.org/pubs/new-dps/dplist.asp?dpno=4767

Rodrik, D. (2004). "Getting Institutions Right." Unpublished. Available at: http://rjverbrugge.net/development/RodrikInstitutions.pdf . Accessed on 6 April 2012.

Rodrik, D. (2005). "Why We Learn Nothing from Regressing Economic Growth on Policies."

Rodrik, D. (2006) "Goodbye Washington Consensus, Hello Washington Confusion?" *Journal of Economic Literature, XLIV*, 973–987.

Rodrik, D. (2008). "Second-Best Institutions." *American Economic Review, American Economic Association*, Vol. 98(2), pp. 100-104.

Rodrik, D. (2010). "Why we learn nothing from regressing economic growth on policies." *Seoul Journal of Economics, 25* (2), pp. 137-151.

Rodrik, D., Subramanian, A. & Trebbi, F. (2004). "Institutions Rule: The Primacy of Institutions Over Geography and Integration in Economic Development." *Journal of Economic Growth, 9*(2), 131-165.

Roll, R. and Talbott, J.R. (2003). "Political Freedom, Economic Liberty and Prosperity." *Journal of Democracy 14*(3), 75-89.

Rosenstein-Rodan, P. (1943). "Problems of Industrialization of Eastern and South Eastern Europe." *Economic Journal, 111*(210–11), 202–11.

Ross, M. (2006). "Is Democracy Good for the Poor?" *American Journal of Political Science, 50*(4), 860-874.

Rudra, N. & Haggard, S. (2005). "Globalization, Democracy, and Effective Welfare Spending in the Developing World." *Comparative Political Studies, 28* (9), pp. 1015-1049.

Sachs, J. (2005). *The End of Poverty: How we can make it happen in our lifetime*. Penguin.

Sachs, J.D., McArthur, J.W., Schimdt-Traub, G., Kruk, M., Bahadur, C., Faye, M. & McCord, G. (2004). *Ending Africa's poverty trap*. Brookings Papers on Economic Activity Vol. 1, pp. 117–240. Washington: The Brookings Institution.

Sandbrook, R., Edelman, M., Heller, P., Teichman, J. (2007). Social Democracy in the Global Periphery: Origins, Challenges, Prospects. Cambridge: Cambridge University Press.

Sen, A. (1999). *Development as Freedom*. Oxford: Oxford University Press.

Sen, K. (2012). "The Political Dynamics of Economic Growth." Effective States and Inclusive Development, Working Paper 05.

Shivakumar, S. (2005). *The Constitution of Development: Crafting Capabilities for Self-Governance.* New York: Palgrave Macmillan.

Singh, R.J., and Huang, Y. (2011). "Financial deepening, property rights and poverty: Evidence from Sub-Saharan Africa." IMF working paper WP/11/196.

Skaperdas, S., Soares, R., Willman, A. and Millar, S.C. (2009). *The Costs of Violence*. World Bank Report. Washington, D.C: World Bank.

Small Arms Survey. (2005). *Violent Deaths in 2004*. Unpublished background paper for the Small Arms Survey. Geneva/Bogota: Small Arms Survey/CERAC.

Smith, A. (1776). *The Wealth of Nations*. London: Penguin Classics (1982 edition).

Snyder, J. (2000) *From Voting to Violence: Democratization and Nationalist Conflict*. WW Norton.

Sprogard, R. and James, M. (2000). "Governance and Democracy: The People's View. A Global Opinion Poll." Presented at the U.N. University's Millennium Conference, Tokyo, January 19-21.

Thomas, M. A. (2010). 'What do the Worldwide Governance Indicators Measure?' European Journal of Development Research, 22 (1): 31-54.

Tracking Development (2012). "The Political Economy of Development in Africa: a joint statement from five research programmes." Paper presented at the Political Economy of Development in Africa, Copenhagen.

Trubek, D. and Galanter, M. (1974). "Scholars in Self-Estrangement : Some Reflections on the Crisis in Law and Development Studies in the United States," *Wisconsin Law Review*, 1974, 1062-1102

Van Donge, Jan Kees, David Henley and Peter Lewis (2012). "Tracking Development in Southeast Asia and sub-Saharan Africa: The Primacy of Policy." *Development Policy Review* 30(S1).

Wallace, J. & Williamson, I. (2006). "Building Land Markets." *Land Use Policy, 23*(2), 123-135.

Ward, J., Lee, B., Baptist, S. & Jackson, H. (2010). 'Evidence for Action: Gender Equality and Economic Growth.' Vivid Economics and Chatham House. Report funded by DFID.

Whitfield, L. (2011a) "How Countries Become Rich and Reduce Poverty: A Review of Heterodox Explanations of Economic Development." DIIS Working Paper 2011:13. Copenhagen: Danish Institute of International Studies

Whitfield, L. (2011b) "Growth without Economic Transformation: Economic Impacts of Ghana's Political Settlement." DIIS Working Paper 2011:28. Copenhagen: Danish Institute for International Studies.

Williams, G. and others (2011). "Politics and Growth." *Development Policy Review*, *27*(1); International Monetary Fund (2003). *World Economic Outlook*. Washington, D,C.: International Monetary Fund.

Williamson, J. 'What Washington Means by Policy Reform'. In: Williamson, J. (ed) (1990). *Latin American Adjustment: How Much Has Happened?* Washington D.C.: Institute of Economics.

Woo-Cummings, M. (2006). The rule of law, legal traditions, and economic growth in East Asia , UNU Research Paper No. 2006/53, May 2006.

World Bank (1990). *World Development Report: Poverty*. Washington, D.C.: World Bank.

World Bank (2004). *World Development Report 2005: A Better Investment Climate for Everyone*. Washington, D.C.: World Bank.

World Bank (2006). *World Development Report 2007: Development and the Next Generation*. Washington, D.C., World Bank.

World Bank (2010). *World Development Report 2011: Conflict, Security & Development*. Washington, D.C.: The World Bank.

World Economic Forum (2003). *The Global Competitiveness Report*. Geneva: World Economic Forum.