



## GOVERNANCE AND INSTITUTIONS

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### **Abstract**

*This paper argues the main determinants of differences in development of countries and well-being of people across the world are due to differences in functioning and composition of political and economic structures, that is governance. Across the world, countries with good governance have shown considerable progress in their economic and social life and it is, good governance is responsible for development of a country and reason for changes in socioeconomic structure and bad governance is responsible for underdevelopment. This paper states that good governance is a association of commitment, coordination and cooperation among the different stakeholders of a nation and weak governance is responsible for a large scale breakdown of the administration, economic and social life of the people, morbidity and mortality, crime and most importantly extremism and it concludes governance and economic development have tended to go hand in hand. There is a positive relationship between good governance and economic growth.*

**Keywords:** *Good Governance, Institutional Failure, Development, Health, Globalisation.*

### **1. Introduction**

Governance issues have played a significant role in countries' progress towards achieving overall economic growth and sustainability. An effective governance structure must be in place as a foundation for the implementation of development policy. Corruption poses one of the most important governance challenges. Combating it has become an urgent priority as countries strive to mobilize more public and private resources and ensure their equitable and efficient use in pursuing development goals. There is compelling evidence that corruption undermines development. It is also the case that underdevelopment breeds corruption. While increasing the cost of doing business, corruption discourages investment and reduces economic growth (UNO, 2015).

Globally, institutional participation, constructive and successive efforts made by various responsible nations of the world has reshaped economic and social well being of the most people in most countries of the world. Innovations and advances made in technology, education, incomes, and its proper utilisation at micro and macro level has held ever-greater promise for longer, healthier, more secure lives (Salian, 2015).

Importance given to good governance by the institutions working across the world has reshaped the lives of millions of people. World Bank, International Monetary Fund, United Nations Organisations, and many for its sister institutions namely, Food and Agricultural Organisations, UNDP, UNESCO, and many reports namely World Development Report, Human Development Report, Global Poverty Index, Global Hunger Index, Global Competitive Index, Global Innovative Index etc., have played a yeoman's role in bringing good governance across the world. The United Nations Millennium Development Goal helped many counties understand their areas of backwardness and requirements and helped them to uplift the people from various miseries, including poverty and hunger.

It is, rightly mentioned in *World Development Report* (2015) that "societies worldwide have made enormous progress in improving the socioeconomic conditions for large groups of people over the last century. Just in the last 20 years, more than 1.2 billion people have lifted out of poverty. Nobel Laureate Angus Deaton labels this achievement "the great escape": "the story of mankind's escaping from deprivation and early death, of how people have managed to make their lives better and led the way for others to follow" (Deaton 2013). Such a positive performance hides, however, great heterogeneity within and among countries and regions in important aspects of the quality of life. Extreme poverty is still a reality for about 1 billion people, or 14 percent of the total global population. Inequalities are striking—and in many cases increasing. This persistent disparity in social and economic achievement has long concerned policy makers, academics, and development practitioners, particularly in today's world, where the links among countries are stronger and technology diffusion can be fast and cheap (WDR, 2017).

### **2. What is Governance?**

***"In a country well governed, poverty is something to be ashamed of. In a country badly governed, wealth is something to be ashamed of"***. (Confucius Principle, quoted in HDR, 2014, p. 82). This quote nicely applies to many countries of the world. Bad governance is reason for turmoil that many countries of the world experiences now (for ex: Syria, Iraq, Libya, Turkey, Pakistan etc.). Globalization and access to worldwide market has brought countries together and provided new opportunities for their development and growth. Some countries effectively grabbed the opportunities provided by the



globalised world by reforming their political and economic institutions, where as some country does institutions stick to their age-old policies and remain vulnerable in economic and social development.

The developed world is the best example for good governance and less developed countries are for bad governance. incredible literatures proved the importance of good governance in well being of a nation. According to the World Banks flagship publication *World Development Report 2017*, “governance is the process through which state and non-state actors interact to design and implement policies within a given set of formal and informal rules that shape and are shaped by power”. WDR defines “power as the ability of groups and individuals to make others act in the interest of those groups and individuals and to bring about specific outcomes”. In addition, governance takes place at different levels, from international bodies, to national, state institutions, to local government agencies, to community or business associations. These dimensions often overlap, creating a complex network of actors and interests (WDR, 2001).

### 3. Institutional Functions for Better Governance

Douglass North (1990, p. 3) offers the following definition: “Institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction.” Three important features of institutions are apparent in this definition: (1) that they are “humanly devised,” which contrasts with other potential fundamental causes, like geographic factors, which are outside human control; (2) that they are “the rules of the game” setting “constraints” on human behavior; (3) that their major effect will be through incentives(Daron Acemoglu, et all, 2010).

Douglass North in his book *Institutions, Institutional Change and Economic Performance* (19190), develops an analytical framework for explaining the ways in which institutions and institutional change affect the performance of many economies of the world. According to him, “institutions exist to reduce uncertainty in the world. In a world without institutions, we would not know how to deal with each other. Institutions are the incentive systems that structure human interaction. They can make predictable our dealings with each other every day in all kinds of forms and shapes. They thereby not only reduce uncertainty in the world but also allow us to get on with everyday business and solve problems effectively. He further argues, “Some economies develop institutions that produce growth and development, while another develops institutions that produce stagnations”. In his opinion, institutions create the incentive structure in an economy and organisations will be created to take advantages of the opportunities provided within a given institutional framework (Douglas North, 1990 p. 1).

**Table 1: Institutional Functions for Better Governance**

Functions	Examples of why these functions matter
Commitment	<ul style="list-style-type: none"> <li>Decision makers may want to spend windfall revenues now instead of saving them for others to spend in the future.</li> <li>Politicians may resist continuing policies that have been working and prefer to pursue others that are associated with their political group</li> <li>Public service providers may push to renegotiate the terms of their contracts to their benefit when they know that the political cost of suspending service is high.</li> </ul>
Coordination	<ul style="list-style-type: none"> <li>Investment and innovation are induced when individuals believe others will also invest.</li> <li>Financial stability depends on beliefs about the credibility of the policies; failures involve, for example, bank runs, where everyone believes the rest will rush to withdraw deposits</li> <li>Laws serve as a focal point for individuals to behave in certain ways, such as the convention of driving on the right side of the road.</li> </ul>
Cooperation	<ul style="list-style-type: none"> <li>People have incentives to free-ride or to behave opportunistically—for example, by not paying taxes while enjoying the public services that other (tax-paying) individuals are funding</li> <li>Some actors potentially affected by policies may be excluded from their design, which weakens compliance and leads to fragmentation.</li> </ul>

Source: WDR, 2017

It is, commitment, coordination, and cooperation are essential institutional functions for making policies effective and thereby able to achieve development outcomes. Yet, they are effectively fulfilled under only certain conditions. The World Development Report 2017 proposes an institutional function for better governance. The role of institutions in providing good governance is also highly emphasised in the World Development Report, 2017. The report provided three principles for rethinking governance for development, which shown in the below table.



**Table 2: Three Principles for Rethinking Governance for Development**

Traditional approach	Principles for rethinking governance for development
Invest in designing the right form of institutions.	Think not only about the form of institutions, but also about their functions.
Build the capacity of institutions to implement policies.	Think not only about capacity building, but also about power asymmetries.
Focus on strengthening the rule of law to ensure that those policies and rules are applied impersonally.	Think not only about the rule of law, but also about the role of law

Source: WDR, 2017

#### 4. Governance for What?

Without effective governance, poor people and poor countries are excluded from the benefit of globalisation and rapid innovations taking place in the world. Institutional breakdown is the major cause for human depression and sufferings. Globalisation has brought countries together and provided new opportunities. Many institutions enjoyed the fruits of the globalisation. However, there is also a widespread sense of unevenness in the world today—in livelihoods, personal security, obtaining good infrastructure, education, in the environment and in global politics due to the institutional failure in some countries of the world. Complex and inefficient institutions are a common problem, especially for poor people in poor countries.

The following painful and disastrous, heartbreaking data obtained from World Development Report, 2014 and 2015, World Health Statistics, 2014 and 2015, AND 2016, Millenniums Development Goal, 2014 and Report of the Global Competitiveness Index, 2014, 2015, 2016 for the purpose of analysis. The below analysis clearly shows the weak governance and institutional failure in many countries have made the people's lives disastrous and gives insights to the policy makers and global stakeholders to stress the need for an effective, constructive, responsible institution for the betterment of the human beings.

Human Development Report 2014 estimated that more than 1.5 billion people (about a fifth of the world's population) live in countries affected by conflict. About 45 million people were forcibly displaced due to conflict or persecution by the end of 2012—the higher in 18 years—more than 15 million of them refugees. Today, only 20 percent of people worldwide have adequate social security coverage, and over 50 percent lack any type of social security. Globally, 1.2 billion people (22 percent) live on less than \$1.25 a day. Increasing the income poverty line to \$2.50, a day raises the global income poverty rate to about 50 percent, or 2.7 billion people. Moving the poverty line in this way draws in a large number of people who are potentially vulnerable to poverty and reduced circumstances. In South Asia, 44.4 percent of the population, around 730 million people, live on \$1.25–\$2.50 a day (HDR 2014).

Despite recent progress in poverty reduction, more than 2.2 billion people are near or living in multidimensional poverty. That means more than 15 percent of the world's people remain vulnerable to multidimensional poverty. At the same time, nearly 80 percent of the global population lacks comprehensive social protection. About 12 percent (842 million) suffer from chronic hunger, and nearly half of all workers—more than 1.5 billion—are in informal or precarious employment (HDR, 2014).

The report of the World Health Organisations (2016) provides data on disastrous health condition of the people living in the developing and underdeveloped regions of the world. Bad governance and institutional inefficiency is directly responsible for this turmoil. In 2015, the maternal mortality ratio (MMR) – defined as the number of maternal deaths per 100 000 live births – was estimated at 216 globally.(WHO) This translates into approximately 830 women dying every single day due to the complications of pregnancy and childbirth. (WHO, 2016). An estimated 5.9 million children under 5 years of age died in 2015, with a global under-five mortality rate of 42.5 per 1000 live births. Of those deaths, 45% were newborns, with a neonatal mortality rate of 19 per 1000 live births. Levels of child mortality are highest in sub-Saharan Africa, where one child in 12 dies before their fifth birthday, followed by South Asia where 1 in 19 dies before age five. The major causes of neonatal mortality in 2015 were prematurity, birth-related complications and neonatal sepsis, while leading causes of child death in the post-neonatal period were pneumonia, diarrhoea, injuries and malaria (UNO, WHO, WB, 2015).

In 2014, the global HIV incidence rate among adults aged 15–49 years was 0.5 per 1000 uninfected population, with 2 million people becoming infected that year.<sup>1</sup> HIV incidence is highest in the WHO African Region (2.6 per 1000 uninfected population in 2014) compared to other WHO regions where incidence among adults aged 15–49 years ranges from 0.1 to 0.4 per 1000 uninfected population.<sup>2</sup> Incidence rates are much higher in key populations. For example, in 2014 the incidence rate was 17 per 1000 among people who inject drugs, 8 per 1000 among men who have sex with men and 5 per 1000 among female sex workers (MDG, UNAIDS, WHO, 2015).



The curable and treatable Tuberculosis (TB) is another serious health problem. In 2014, there were 9.6 million new TB cases (133 per 100 000 population) and 1.5 million TB deaths, including 0.4 million deaths among HIV-positive people. (GTR, 2015). In 2015, the malaria incidence rate was 91 per 1000 persons at risk, with an estimated 214 million cases and 438 000 deaths – more than two thirds of these deaths occurring in children under 5 years of age. Sub-Saharan Africa bears the highest burden with an incidence rate of 246 per 1000 persons at risk, accounting for roughly 90% of cases and deaths globally (WMR, 2015, WHO 2015).

Viral hepatitis is caused by five different viruses with transmission occurring either through contaminated food or water (hepatitis A and E) or through exposure to blood or body fluids (hepatitis B, C and D). Viral hepatitis infection kills an estimated 1.45 million people per year (GBS, 2013). Approximately 90% of deaths are due to chronic HBV and HCV infections that cause cirrhosis and hepatocellular carcinoma. The majority (85%) of viral hepatitis deaths occur in Asia, East Africa, North Africa and West Africa. Despite the high disease burden and available prevention and treatment interventions, hepatitis has not received the same attention as other diseases with a comparable burden of disease, such as HIV, TB or malaria. (WHO, 2016).

In 2012, Non Communicable Diseases (NCDs) were responsible for around 38 million deaths per year, accounting for 68% of all deaths worldwide (GHE, 2013). Of deaths under the age of 70 (commonly referred to as premature deaths), an estimated 52% were due to NCDs. Over three quarters of those premature deaths were caused by cardiovascular disease (CVD), cancer, diabetes and chronic respiratory disease (CRD). In terms of mortality the leading NCD is CVD which claimed 17.5 million lives in 2012 (46% of all NCD deaths) – 6 million of which were under age 70. Of the 17.5 million deaths, 7.4 million were due to coronary heart disease and 6.7 million to stroke. Cancers kill around half as many people as CVD (8.2 million, with 4.3 million under age 70), while CRD and diabetes account for 4.0 million and 1.5 million deaths, respectively. Diabetes is also a risk factor for CVD, with about 10% of cardiovascular deaths caused by higher-than-optimal blood glucose (WHO, 2016).

A mental disorder is type morbidity. The most prevalent of these disorders are depression and anxiety, which are estimated to affect nearly one in 10 (676 million) people. At its worst, depression can lead to suicide. Other key risk factors for suicide include previous attempts and easy access to means of suicide, such as pesticides or firearms. In 2012, there were over 800 000-estimated suicide deaths worldwide, with 86% of these occurring in people under 70 years of age. Globally, among young adults aged 15–29 years, suicide accounts for 8.5% of all deaths and is ranked as the second leading cause of death, after road traffic injuries. In high-income countries, three times as many men die by suicide than women, while globally the corresponding figure is 1.8 times as many (GHE, 2013).

Substance use and substance use disorders cause a significant public health burden. In 2012, 3.3 million deaths – 5.9% of all deaths worldwide – were attributable to alcohol consumption, with a significant proportion of alcohol-attributable deaths from NCDs and injuries. Worldwide alcohol consumption in 2015 was projected to be 6.3 litres of pure alcohol per person aged 15 or older. In 2010, 38% of the world population aged 15 or older had drunk alcohol in the past 12 months, with 16% of them engaged in heavy episodic drinking. There is considerable global variation in alcohol use. Consumption is increasing in the WHO Western Pacific Region and WHO South-East Asia Region, while remaining stable or slightly decreasing in other WHO regions (World Health Organization; 2014).

According to the latest WHO estimates, around 1.25 million people died from road traffic injuries in 2013, (UNDP/SA, 2015) with another 20–50 million people sustaining non-fatal injuries because of road traffic collisions or crashes.

Globally, more than 700 million women alive in 2014 had been married before their 18th birthday (World Health Organization; 2015) About 250 million of these had entered into union before the age of 15.2 Early childbearing poses increased health risks to adolescent mothers. Maternal causes are a leading cause of death among girls aged 15–19 years globally. Globally, the adolescent birth rate (ABR) in 2015 was 44 per 1000 women aged 15–19 years. The ABR in low-income countries (97 per 1000 women aged 15–19 years) were five times higher than in high-income countries (19 per 1000 women aged 15–19 years) (World Population Prospects: The 2015 Revision).

Globally, in 2012, household air pollution from cooking with unclean fuels or inefficient technologies caused 4.3 million deaths. Ambient (or outdoor) air pollution (for example, from traffic, industrial sources, waste burning or residential fuel combustion) caused 3.0 million deaths during the same year (Jointly, air pollution caused an estimated 6.5 million deaths, or 11.6% of all global deaths in 2012, making it the largest single environmental health risk (GHO, 2015).



Worldwide in 2012, an estimated 871 000 deaths were caused by contamination of drinking water, water bodies and soil, inadequate hand washing facilities, and by practices resulting from inappropriate or inadequate services. Unsafe water, sanitation and hygiene (WASH) services mainly cause deaths from diarrhoeal diseases, but also from protein-energy malnutrition, intestinal nematode infections, and schistosomiasis. Almost half (45%) of the deaths in 2012 occurred in the WHO African Region where 13% of the global population lived (WHO 2015). In 2012, an estimated 193 000 deaths were caused by unintentional poisonings. (GHE, 2013). In LMIC, pesticides, kerosene, household chemicals, carbon monoxide and drugs are common causes of poisoning. In high-income countries, substances involved mainly include drugs, carbon monoxide, and personal care and cleaning products in the home. Poisoning can also arise from environmental contamination, for example mass lead poisoning resulting from informal recycling or gold extraction, or from industrial emissions. Occupational exposures to heavy metals, pesticides, solvents, paints, cleaning substances, various vapours and gases, and other chemicals used in industrial production may also occur (WHO, 2016).

Worldwide in 2012, an estimated 3.0 million deaths were caused by exposure to outdoor pollution, specifically ambient particulate matter. Globally, 331 natural disasters were registered in 2015, causing 22 662 deaths and affecting 90.2 million people. Technological disasters, including industrial and transport disasters, accounted for one third of all types of disaster in 2015 but affect smaller numbers of people as they tend to be more localized. Homicide and collective violence account for around 10% of global injury-related deaths. In 2012, there were an estimated 475 000 murders. Four fifths of homicide victims are men, and 65% are men aged 15–49 years. One of the main drivers of homicide rates is access to guns, with approximately half of all homicides committed with a firearm. Among women, intimate partner homicide accounts for almost 38% of all murders compared to 6% of all murders among men (WHO, 2016).

Majority of these deaths and morbidity occurring in poor or underdeveloped counties of the world, mainly in Sub-Saharan Africa and South Asia, which is a home for more number of poor, undernourished people in the world. In these regions, the governance is weak and it failed to reach its citizens. As mentioned above, inclusive governance associated with coordination, commitment and efficiency would definitely lead these regions to overcome from its disastrous status. The World Development Report 2017: *Governance and the Law* explore why some policies fail to achieve desired outcomes and what makes other policies work. The main messages of the WDR 2017 are;

- **Successful Reforms are not just about “Best Practice.”** To be effective, policies must guarantee credible commitment, support coordination, and promote cooperation.
- **Power Asymmetries can undermine Policy Effectiveness.** The unequal distribution of power in the policy arena can lead to exclusion, capture, and clientelism.
- **Change is Possible.** Elites, citizens, and international actors can promote change by shifting incentives, reshaping preferences and beliefs, and enhancing the contestability of the decision making process.

Three guiding principles for rethinking governance for development are:

- Think not only about the form of institutions, but also about their functions.
- Think not only about capacity building, but also about power asymmetries.
- Think not only about the rule of law, but also about the role of law (Also see World Development Report, 2017)

## 5. Conclusion

United Nations Sustainable Development goals and Millennium Development Goals brought some changes in the system of governance in underdeveloped regions of the world. However, it is not enough. More efforts needed to strengthen the pattern of governance across the nations. Good governance and efficient, committed institutions have proved highly beneficial to the humankind. Many developing countries possess weak institutional characteristics. The reason for poor institutional characteristics is political choice, political power and economic decision-making. There are examples in the analysis that Institutional equilibrium that comprises economic institutions and political institutions definitely empower the nations and eradicate it is its grass root level problems.

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